

Accounting and Reporting Policy team
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

5 August 2022

Ref: DT/FRC
Your ref:

Direct line:

Email:

Dear Sir

FRED 80 – Draft amendments to FRS 100 – *Application of Financial Reporting Requirements – Application Guidance – Interpretation of Equivalence*

Ernst & Young LLP welcomes the opportunity to comment on FRED 80 ('the FRED') issued by the Financial Reporting Council ('the FRC').

We support the proposed amendment which is needed to update the Application Guidance for the changes to the Companies Act 2006 ('the Act') made as a consequence of the UK's exit from the European Union ('EU').

We believe the proposed amendment is consistent with the Act's requirements and would allow 'equivalence' for the purposes of section 401 of the Act to be interpreted in a way consistent with current practice (and practice before the UK's exit from the EU).

We also support the inclusion of guidance for Irish entities in relation to the interpretation of equivalence under section 300 of the Companies Act 2014 which addresses the impact of the UK's status as a third country rather than, as previously, an EEA State.

However, in our responses to the consultation, we highlight some areas where the Financial Reporting Council might consider providing further guidance when finalising the amendment.

Yours faithfully,

Danny Trotman
Partner – UK Head of the Financial Reporting Group
Ernst & Young LLP
United Kingdom

Responses to FRC questions

FRED 80 Draft amendments to FRS 100 – Application of Financial Reporting Requirements – Application Guidance – Interpretation of Equivalence

Question 1

Do you agree with the proposed amendments to the Application Guidance *The Interpretation of Equivalence to FRS 100*? If not, why not?

We support the proposed amendments, which are necessary. We consider that the proposed amendments are consistent with the changes to the Act and appropriately reflect the change in status of the UK as a third country for Irish entities applying section 300 of the Companies Act 2014 (subject to the comment made below). We believe the Application Guidance, as amended, would allow continuity in how 'equivalence' for the purposes of section 401 of the Act and section 300 of the Companies Act 2014 (in the Republic of Ireland) is interpreted.

Equivalence for the purposes of section 401 of the Act – consolidated financial statements prepared under national GAAP of an EEA State

The Financial Reporting Council could consider providing further guidance on consolidated financial statements prepared under national GAAP of an EEA State. Paragraph AG13 of the FRED requires an assessment of whether the financial statements meet the basic requirements of Part 15 of the Act, in particular the requirement to give a true and fair view. Paragraph AG14 explains that the assessment of equivalence with Part 15 of the Act is based on the particular facts, including the similarities to and differences from the requirements of Part 15 of the Act. This implies that an assessment needs to be made in each such case.

Consolidated financial statements prepared under national GAAP of an EEA State could contain material differences to consolidated financial statements prepared under Part 15 of the Act, which would apply FRS 102 or UK-adopted international accounting standards. However, the test under section 401 is that the consolidated financial statements are prepared in a manner that is equivalent to the requirements of Part 15 of the Act. Consolidated financial statements prepared under the national GAAP of an EEA State should be prepared in accordance with the EU Accounting Directive (including the requirement to give a true and fair view). Part 15 of the Act, at the current time, is also consistent with the EU Accounting Directive (although different Member States may have taken different options). Given the emphasis in paragraph AG13 of the FRED on 'an assessment of whether the financial statements meet the basic requirements of Part 15 of the Act', we believe that many entities, having performed an assessment, may conclude that consolidated financial statements prepared under Part 15 of the Act would often meet the equivalence test. However, it would be helpful if FRS 100 could provide guidance clarifying this is the case, absent significant changes in either the EU Accounting Directive or Part 15 of the Act. This would reduce uncertainty over this matter and costs to preparers and auditors.

Equivalence for the purposes of section 300 of the Companies Act 2014

In relation to the Companies Act 2014, we question why the list of GAAPs deemed equivalent in paragraph AG17 excludes IFRS as issued by the IASB. Based on article 1 of Commission Decision 2008/961/EC, we believe that IFRS as issued by the IASB should be included in this list rather than dealt with in paragraph AG22(b).ⁱ

Share-based payment transactions

We welcome inclusion of guidance on the meaning of ‘an equivalent basis’ for the purposes of paragraph 26.16 of FRS 102 and agree with the principle established for making this assessment, although perhaps this would be positioned better as an amendment to FRS 102, given that it only relates to that accounting standard.

In many cases, UK subsidiaries of US groups participate in US group schemes. The US GAAP treatment of schemes with ‘graded vesting’ differs from that under IFRS/FRS 102 and, in some cases, GAAP differences may be material. We would expect that paragraph 26.16 would allow allocation of the US GAAP share-based payment charge for the group scheme as an ‘equivalent basis’ given the focus on the ‘basic requirements’ of the relevant standards (even if there were material GAAP differences). However, further guidance on this issue, perhaps in the basis of conclusions to FRS 102, would be helpful.

Question 2

In relation to the Consultation stage impact assessment, do you have any comments on the costs and benefits identified? Please provide evidence to support your views.

We agree that the proposed amendments to FRS 100 are necessary for consistency with company law and jurisdictional decisions about equivalence. Guidance clarifying the position on consolidated financial statements prepared under national GAAP of an EEA State may also help reduce costs and uncertainty for some preparers and their auditors.

ⁱ Refer Article 1 of Commission Decision 2008/961/EC (consolidated version) [CL2008D0961EN0020010.0001_cp 1.1 \(europa.eu\)](https://eur-lex.europa.eu/eli/dec/2008/961/consolidated)