



By email to: ukfrs@frc.org.uk

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26 November 2014

Dear Jenny

Consultation on Accounting standards for small entities – Implementation of the EU Accounting Directive

We welcome the opportunity to respond, on behalf of PricewaterhouseCoopers LLP, to the consultation document on Accounting standards for small entities – Implementation of the EU Accounting Directive (the 'Directive'). Our overall comments are given below, with more detailed responses to the specific questions in appendix 1 to this letter.

Our comments below are consistent with our response to the Department of Business, Innovation and Skills ('BIS') on its Consultation on UK implementation of the EU Accounting Directive. A copy of our response to BIS can be provided on request.

Overall

We agree with the proposal to develop a separate accounting standard for micro-entities and believe that the FRC should consider incorporating the relevant legal requirements in this standard to create a 'one-stop shop' for those entities.

In general, we agree with the proposed recognition and measurement simplifications that are being proposed for the FRSME. See our response to question 2 for some comments on the initial proposals.

We agree that the accounting standard for small entities should continue to be applicable to all entities meeting the relevant criteria (and not just companies).

We agree with the proposal to withdraw the current accounting standard for small entities (the FRSSE) and to bring small entities within the scope of FRS 102 (with separate specific disclosure requirements). But we have concerns as to how the requirement for a true and fair view will be applied in practice, given the minimal mandatory disclosure requirements for small entities.

We agree that if company law permits it, FRS 101 should be amended to permit use of the presentation requirements of IAS 1. But if company law is amended to allow flexibility in the use of formats, the implications for FRS 102 (which refers to those formats) will need to be considered.

We do not believe that a new sub-section should be added to FRS 102 to deal with residential management companies.

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Other

We note that the FRC expects the new and amended accounting standards to be effective from the same date as the changes in legislation are effective, which is expected to be accounting periods beginning on or after 1 January 2016. If the law permits early adoption then we would support this for the changes to the accounting standards also.

If you have any questions, please do not hesitate to contact Peter Hogarth on 020 7213 1654.

Yours sincerely

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Appendix 1 to letter dated 26 November 2014

Micro-entities

Question 1

Do you agree with the proposal to develop a new accounting standard, the Financial Reporting Standard for Micro-entities (FRSME), for entities taking advantage of the micro-entities regime (see paragraph 2.4)? If not, why not?

Yes. We agree with the proposal to develop a new accounting standard (FRSME) for micro-entities. This is consistent with our response to BIS that there should be a separate set of Regulations for micro-entities. These are the smallest of entities so they have the least resources available for studying the law and accounting standards. It will, therefore, be helpful for them to have an accounting standard dealing only with the requirements applicable to micro-entities, and which is uncluttered by the requirements for other entities.

We also noted in our response to BIS that it would be useful for BIS to liaise with the FRC to create a 'one-stop shop' combining the new FRSME and the legal requirements for micro-entities.

Question 2

Do you agree with the proposed recognition and measurement simplifications that are being considered for the FRSME (see paragraph 2.6(b))? If not, why not? Are there any further areas where you consider simplifications could be proposed for micro-entities?

Yes. In principle, we agree with the recognition and measurement simplifications that are being proposed for the FRSME. As noted in the consultation document, recognition and measurement will be based on the requirements of FRS 102 with simplifications for financial instruments, deferred tax, equity-settled share-based payments and defined benefit pension plans. We note that the revaluation model for property, plant and equipment will have to be removed as financial statements prepared under the regulations for micro-entities are not permitted to use this. Some further simplifications may be considered appropriate when the detailed standard is drafted.

We agree with the removal of the option to capitalise borrowing costs, on the grounds of simplicity. The FRC could also consider whether it would also be simpler to remove the accounting policy choice for intangible assets arising from development (that was added in to FRS 102).

We agree with deletion of the sections that are unlikely to be applicable to micro-entities and believe that a cross-reference to section 19 of FRS 102 will be sufficient if a micro-entity has undertaken a trade and asset acquisition.

Small entities

Question 3

The accounting standard that is applicable to small entities (not just small companies) (ie currently the FRSSE) is being revised following changes to company law. Company law, which will limit the disclosures that can be made mandatory, may not apply to entities that are not companies. Do you agree that the accounting standard for small entities should continue to be applicable to all entities meeting the relevant criteria, not just companies? This will have the effect of reducing the number of mandatory disclosures for all small entities, not just small companies (see paragraph 3.11). If not, why not?

Yes. We agree that the accounting standard for small entities should continue to be applicable to all entities meeting the relevant criteria (and not just companies). Although the legal restriction on mandating additional disclosures does not apply to entities that are not companies, we agree with the FRC that it would be confusing to have different disclosure requirements for different types of entities and so, in the interest of simplification, we support one disclosure regime for all types of small entity.

We comment below on the lack of clarity for small entities in determining whether their financial statements give a true and fair view.

Question 4

Do you agree that the FRSSE should be withdrawn and small entities should be brought within the scope of FRS 102, so that they apply recognition and measurement requirements that are consistent with larger entities, but with fewer mandatory disclosures (see paragraph 3.15)? If not, are there any areas where you consider there should be recognition and measurement differences for small entities and why?

Yes. We agree that the FRSSE should be withdrawn and that small entities should be brought within the scope of FRS 102. This will reinstate the consistency in accounting policies between small entities and those larger ones using UK GAAP – which applied when the FRSSE was first developed but which have moved apart as a result of changes to UK GAAP since then. Bringing small entities into the scope of FRS 102 avoids the need to make changes on an ongoing basis to maintain consistency of accounting policies.

We do not consider that there need to be recognition and measurement differences for small entities. Whilst this is appropriate for the smallest class of entities (that is, micro-entities – which will be covered by a separate standard), we do not believe that it is necessary for small entities. If small entities enter into more complicated transactions (such as defined benefit pension plans, equity-settled share-based payments or complex financial instruments), they should account for these in a similar way to other entities.

We note that the FRC will have limited ability to mandate disclosures for small companies. In our response to BIS we said that we would keep detailed accounting disclosure requirements in company law to a minimum, so we supported the requirement for the additional notes (above the eight required

by the Directive) being included in accounting standards, rather than in regulations – but this will depend on what BIS decides to include in legislation.

We note that a small entity is still required to consider if its financial statements give a true and fair view of its financial position. This means that a small entity may have to include additional notes in its financial statements in order to provide a true and fair view, if the mandatory notes are insufficient for this purpose. We have concerns as to how this will be applied in practice, given the minimal mandatory disclosure requirements for such entities. We agree that FRS 102's disclosure requirements relating to larger entities may be helpful guidance for small entities in determining the additional disclosures that are necessary for a true and fair view. But we note that the judgemental nature of this could lead to small entities giving more disclosure than at present. We consider that the FRC should develop guidance to help small entities determine the additional disclosures needed for a true and fair view.

Residential management companies

Question 5

FRED 50 Draft FRC Abstract 1 – Residential Management Companies' Financial Statements was issued in August 2013. After considering the comments received, the FRC publicised its intention to roll this project into the work required to implement the new EU Accounting Directive. Do you agree, in principle, with adding a new subsection to Section 34 Specialised Activities of FRS 102 to address the principles of accounting by residential management companies (RMCs) (see paragraph 3.27)? If not, do you consider this unnecessary, or would you address the issue in an alternative way?

No. We do not agree that a new sub-section should be added to FRS 102 to deal with residential management companies. FRS 102 is not intended to be an industry-specific standard and this would seem to represent 'scope-creep', which could lead to future requests for guidance in new areas, which will over-complicate the standard and was not the original intention.

FRS 102

Question 6

FRS 102 does not currently include all of the disclosures specified in company law. Other than in relation to the new small companies regime within FRS 102, it is not proposed that this will change. Do you agree that FRS 102 should not include all the disclosure requirements for medium and large companies from company law (see paragraph 4.6)? If not, why not?

No. We think it would be helpful for companies if the disclosures required by company law were included in FRS 102. This could be done by means of an appendix to the standard, giving details of the additional disclosures required by company law.

FRS 101

Question 7

Do you agree that, if UK and Irish company law is sufficiently flexible, FRS 101 should be amended to permit the application of the presentation requirements of IAS 1 Presentation of Financial Statements, rather than the formats of the profit and loss account and balance sheet that are otherwise specified in company law (see paragraph 5.4)? Do you agree that this will increase efficiency of financial reporting within groups? If not, why not? Do you foresee any downsides to this approach?

Yes. We agree that if company law permits it, FRS 101 should be amended to permit use of the presentation requirements of IAS 1. This means that companies using IFRS for group reporting will not need to amend their formats for the purpose of FRS 101.

However, if company law is amended to allow flexibility in the use of formats, the FRC will need to consider if this also has implications for FRS 102 because at present the standard does not specify formats itself but refers to those in the regulations.

In our response to BIS, our view was that all the flexibility allowed to Member States for both the balance sheet and profit and loss account formats should be taken into UK law, without any attempt to add detail into law. The detail can, where necessary or desirable, be developed in accounting standards. We noted that the FRC can also consider whether to add constraints.