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Financial Reporting Council
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16 August 2022

FRED 80: Draft amendments to FRS 100 Application of Financial Reporting Requirements - Application Guidance The Interpretation of Equivalence

Dear Madam,

We welcome the opportunity to comment, on behalf of PricewaterhouseCoopers LLP, on FRED 80 “Draft amendments to FRS 100 Application of Financial Reporting Requirements - Application Guidance The Interpretation of Equivalence”.

Overall we support the proposed amendments. However we do have some suggestions which are detailed in the Appendix to this letter in our responses to your specific questions.

If you have any questions or would like to discuss any of the comments we have made in this letter, please contact [REDACTED]

Yours faithfully

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers LLP'.

PricewaterhouseCoopers LLP

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Appendix

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 generally agree with the proposed amendments, however we have the following specific comments:

1. The proposed amendments to the Application Guidance make it clear in para AG9 that the UK Government has recognised the equivalence of EU-adopted IFRS to UK-adopted IFRS. Para AG10 further states that no such equivalence direction has been made in respect of any national GAAPs within the EEA.

National GAAPs of EEA states are consistent with the Accounting Directive and, for the time being, so are Companies Act group accounts prepared in accordance with section 404 of the Companies Act 2006. In this respect, the different GAAPs currently share a common framework. We accept that the UK may have made different choices in reflecting the Accounting Directive in UK law compared to other countries, but para AG6 makes clear that references to equivalence to another framework do not mean compliance with every detail of that framework.

Whilst we acknowledge that reference to the Accounting Directive has been removed from the section 401(b)(i) of the Act, we believe that such change to the Act should not result in an immediate implication that the UK GAAP and the national GAAPs of EEA states are no longer equivalent. Accordingly, we believe that until such time as the Companies Act accounts diverge from the Accounting Directive it might reasonably be concluded that the local GAAP consolidated financial statements of an EEA parent are equivalent for the purpose of section 401(b)(ii) of the Act.

We believe that it would be beneficial if either paras AG12, AG14 or the Basis for Conclusions made it clear that as of the date of the amendments to the Application Guidance, and until such time as UK statutory accounting rules diverge from the Directive, it may be assumed that the national accounting standards of EEA states are equivalent for the purpose of section 401 of the Act.

2. Para AG14 in the proposed amended Application Guidance states that the consolidated financial statements of the higher parent **may** meet the equivalence condition if they are prepared in accordance with FRS 102. Para AG6 of the Application Guidance that is currently effective states that the equivalence test **will** be met for the consolidated financial statements of the higher parent prepared in accordance with FRS 102. We suggest using the word “will” in the amended Application Guidance in line with the currently effective guidance as the word “may” provides less clarity and would be a step backwards rather than being an improvement. We believe replacing “may” with “will” would also be acceptable for AG14 (b) as it refers to the equivalence of the consolidated financial statements prepared using GAAPs which are closely related to IFRS subject to consideration of the effect of any differences from UK-adopted IFRS.

On the same basis we believe that for Irish entities para AG22 should state that the consolidated financial statements of the higher parent **will** be equivalent for the purpose of section 300(4) (b) (ii) if



they are prepared in accordance with the accounting rules described in subparagraphs (a), (b) and (c) of para AG22.

3. Para AG28 of the proposed amended Application Guidance describes the concept of “equivalence” in relation to the share-based payment expense in the group financial statements. Para AG28 refers to the principles set out in para AG6. We believe it would be beneficial if para AG28 explicitly stated whether, for the purposes of the para AG28 analysis, a preparer can assume the GAAPs listed in paras AG9 and AG17 for the UK and Irish entities respectively are equivalent.

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 benefits of the proposed amendments will outweigh any associated costs. We believe however that our proposals in response to Question 1 could further reduce the number of areas where exercise of judgment is required via providing more definitive guidance which in turn would reduce costs of preparing the financial statements.