



Response to FRC FRED 59:
Draft Amendments to FRS 102
The Financial Reporting Standard applicable
in the UK and Republic of Ireland
Small entities and other minor amendments

30 April 2015

CA House 21 Haymarket Yards Edinburgh EH12 5BH
enquiries@icas.org.uk +44 (0)131 347 0100 icas.org.uk

Direct: +44 (0)131 347 0252 Email: ahutchinson@icas.org.uk

INTRODUCTION

ICAS welcomes the opportunity to comment on the FRC FRED 59 – Draft Amendments to FRS 102.

Our CA qualification is internationally recognised and respected. We are a professional body for over 20,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public sector. Almost two thirds of our working membership work in business, many leading some of the UK's and the world's great companies.

Our Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

The ICAS Accounting Standards Committee has considered FRED 59 and I am pleased to forward their comments.

Any enquiries should be addressed to Amy Hutchinson, Assistant Director, Technical Policy and Secretary to the Accounting Standards Committee.

GENERAL COMMENTS

We are supportive of the FRC's general approach to amending FRS 102 for small entities. Whilst we have concerns about the impact of the restriction in the number of disclosure notes on the overall quality of small company accounts, we support the FRC's approach to this issue, by emphasising the requirement to give a true and fair view. The change from existing UK GAAP to the recognition and measurement requirements of FRS 102 will represent a significant shift for small entities currently applying the FRSSE, particularly those at the smaller end of the market, therefore it is vital that the key requirements of FRS 102 are communicated effectively to this group. To this end, there is some useful material in the consultation overview document which should be included in the revised version of FRS 102 or a separate related document on the FRC's website, particularly the comparison between the FRSSE and section 1A of FRS 102.

RESPONSE TO THE CONSULTATION QUESTIONS

Question 1

Do you agree that the proposed Section 1A Small Entities adequately reflects the new small companies regime set out in company law and that the disclosure requirements for small entities are clear? If not, why not and what alternative approach would you propose?

Response:

We agree that the proposed Section 1A Small Entities adequately reflects the new small companies' regime set out in company law. We believe the FRC has found an effective way of addressing the problem of the restriction on the number of disclosures under company law by emphasising firstly the requirement that the financial statements give a true and fair view, and requiring entities to consider which other disclosures may be necessary. We also strongly support the FRC's proposed 'encouraged' disclosures in paragraph 1A.15.

Much of the initial publicity surrounding the implementation of the EU Accounting Directive (including the FRC's September 2014 consultation paper) has focussed on the fact that there are thirteen mandatory disclosure notes which the FRC cannot add to. In fact, there are additional required disclosures set out in paragraph 1A.14, which are mandated in other sections of the Directive. This may initially be confusing to users of the new standard who may expect to see only 13 disclosures – it would be helpful if the FRC explained the source of the disclosure requirements either in the introduction to the standard or in the note on legal requirements.

We believe that paragraph 1A.14 should also include a cross-reference to paragraph 3.5 – disclosures required when there has been a departure from FRS 102, as this is mandated in the Accounting Directive article 4 (paragraph 4).

We would ask the FRC to clarify the inclusion of point (i) in paragraph 1A.14 – particulars of fixed asset revaluations. We are unclear as to why this disclosure requirement remains in the Small Companies Accounts Regulations when it is not included in the EU Accounting Directive.

We are aware that there is a view that instead of including a separate section for small entity disclosures, the FRC should produce a separate version of FRS 102 for small entities. We are content with the proposed approach as we believe it is helpful for all of the small entity presentation and disclosure requirements to be presented in one section.

Question 2

In developing these proposals the FRC has applied the principle that there should not be a difference between the recognition and measurement requirements applicable to small entities and those applicable to larger entities. This principle has been determined after taking account of the generally positive response to a similar proposal in the Consultation Document.

Do you agree with this principle? If not, why not and what alternative principle or specific exceptions to the principle would you propose?

Response:

As stated in our response to the FRC's September 2014 small entities consultation, we agree with the principle that there should not be a difference between the recognition and measurement requirements applicable to small entities and those applicable to larger entities. With the introduction of the micro-entity regime, we believe there is no longer a role for a separate small entity standard, which would simply over-complicate the financial reporting structure.

Question 3

Do you agree that the transitional provisions in FRS 102 are sufficient for small entities, or have you identified any further areas where transitional provisions should be considered? If so, please provide details.

Response:

We agree that the existing transitional provisions in FRS 102 are sufficient for small entities.

Question 4

Do you agree with the other amendments proposed to FRS 102 for compliance with company law? If not, why not?

Response:

We request clarification on the proposal to delete paragraph 21.17 relating to prejudicial disclosures. This paragraph was generally consistent with IAS 37 and so deleting it appears to be contrary to seeking to align UK GAAP with IFRS.

We agree with the other amendments proposed to FRS 102 for compliance with company law. We agree with the FRC's proposal to provide guidance in sections 4 and 5 for entities taking the option to adapt the format of the profit and loss account or balance sheet.

Question 5

This FRED is accompanied by a Consultation Stage Impact Assessment. Do you have any comments on the costs or benefits discussed in that assessment?

Response:

We have no comments on this assessment.