Exposure Draft

Financial Reporting Council

December 2021

FRED 79

FRS 101
Reduced Disclosure Framework

2021/22 cycle

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8th Floor, 125 London Wall, London EC2Y 5AS

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Overview

(i) The FRC's overriding objective in setting accounting standards is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

(ii) The FRC carries out an annual review of FRS 101 *Reduced Disclosure Framework* to provide additional disclosure exemptions as IFRS evolves and to respond to stakeholder feedback about other possible improvements.

FRS 101 *Reduced Disclosure Framework*

(iii) After considering the 2021/22 annual review of FRS 101 this Financial Reporting Exposure Draft (FRED) proposes no amendments to FRS 101.

Invitation to comment

1 The FRC is requesting comments on FRED 79 by 1 March 2022. The FRC is committed to developing standards based on evidence from consultation with users, preparers and others. Comments are invited in writing on all aspects of the draft standard. In particular, comments are sought in relation to the questions below.

> **Question 1**
>
> Do you agree that no amendments are required to FRS 101 in this cycle? If not, why not?
>
> **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.

2 Information on how to submit comments and the FRC's policy in relation to responses is set out on page 9.

FRS 101 *Reduced Disclosure Framework*

1 This FRED does not propose to make any amendments to FRS 101 *Reduced Disclosure Framework*.

Basis for Conclusions
FRED 79 *FRS 101 Reduced Disclosure Framework – 2021/22 cycle*

This Basis for Conclusions accompanies, but is not part of, this Financial Reporting Exposure Draft and summarises the main issues considered by the Financial Reporting Council (FRC) in developing FRED 79 FRS 101 Reduced Disclosure Framework – 2021/22 cycle.

When these proposals are finalised, the Basis for Conclusions accompanying FRS 101 will be updated.

1 FRS 101 sets out an optional reduced disclosure framework which addresses the financial reporting requirements for individual financial statements of subsidiaries and ultimate parents that otherwise apply the recognition, measurement and disclosure requirements of adopted IFRS. Disclosure exemptions are available to a qualifying entity in its individual financial statements.

2 When applying FRS 101 and deciding which disclosure exemptions to take advantage of, entities should bear in mind the need to ensure that disclosures are relevant and targeted to meet the needs of users.

Objective

3 In developing financial reporting standards, the overriding objective of the FRC is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

4 In achieving this objective, the FRC aims to provide succinct financial reporting standards that:

(a) have consistency with global accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective;

(b) balance improvement, through reflecting up-to-date thinking and developments in the way businesses operate and the transactions they undertake, with stability;

(c) balance consistent principles for accounting by all UK and Republic of Ireland entities with proportionate and practical solutions, based on size, complexity, public interest and users' information needs;

(d) promote efficiency within groups; and

(e) are cost-effective to apply.

5 In respect of FRS 101, the following principles have been applied in determining which of the disclosure requirements in adopted IFRS should be required by qualifying entities:

(1) Relevance:

Does the disclosure requirement provide information that is capable of making a difference to the decisions made by the users of the financial statements of a qualifying entity?

(2) Cost constraints on useful financial reporting:

Does the disclosure requirement impose costs on the preparers of the financial statements of a qualifying entity that are not justified by the benefits to the users of those financial statements?

(3) Avoid gold plating:

Does the disclosure requirement override an existing exemption provided by company law in the UK?

6 In the 2015/16 cycle, further consideration was given to how the principle of 'relevance' should be applied in the context of disclosure by qualifying entities. It was noted that qualifying entities usually have few users of their financial statements, and particularly few users that would be external to the group that the qualifying entity is part of. Any external users are likely to be providers of credit to the qualifying entity whose interest is generally likely to be focused on information about the liquidity and solvency of the qualifying entity. This is because that information might be relevant to the ability of the qualifying entity to pay (or repay) any credit advanced.

IASB projects completed since the 2020/21 cycle

7 The 2021/22 cycle considered IASB projects completed by August 2021. The IASB has completed four projects since those considered in the review for the 2020/21 cycle, which considered IASB projects completed by August 2020.

	IASB project	Date issued	Date effective	Date endorsed in the EU	Date adopted in the UK
1	Disclosure of Accounting Policies (Amendments to IAS 1)	Feb 2021	1 Jan 2023	TBD	TBD
2	Definition of Accounting Estimates (Amendments to IAS 8)	Feb 2021	1 Jan 2023	TBD	TBD
3	Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)	Mar 2021	1 Apr 2021	Aug 2021	May 2021
4	Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	May 2021	1 Jan 2023	TBD	TBD

8 The amendments[1] resulting from these four projects were reviewed in the context of the reduced disclosure framework for any amendments that:

(a) alter disclosure requirements, as consideration will need to be given to whether changes should be made to the disclosure exemptions permitted in FRS 101; and/or

(b) are inconsistent with current UK legal requirements, as consideration will need to be given to whether changes should be made to the Application Guidance: *Amendments to adopted IFRS for compliance with the Act and the Regulations* to FRS 101.

9 This FRED does not propose to make any amendments to FRS 101 for the changes to IFRS arising from these amendments.

[1] The full IASB documents setting out the amendments for each project are available on the IASB website (www.ifrs.org).

Consultation stage impact assessment

Introduction

1 The Financial Reporting Council (FRC) is committed to a proportionate approach to the use of its powers, making effective use of impact assessments and having regard to the impact of regulation on small enterprises.

2 FRS 101 *Reduced Disclosure Framework* is an optional standard that is intended to enable cost-efficient financial reporting within groups, particularly those applying adopted IFRS in their consolidated financial statements. Therefore, it is only applied by those qualifying entities that consider it a cost-effective option for the preparation of their individual financial statements.

3 FRS 101 requires an entity to apply adopted IFRS subject to specified disclosure exemptions. Therefore, without intervention to amend FRS 101, an entity applying FRS 101 would need to provide all the disclosures required by any new IFRS or amendments to existing standards issued.

No amendments proposed to FRS 101

4 Given the nature of the amendments issued by the IASB, the FRC is not proposing to make any amendments to FRS 101.

Conclusion

5 Overall, the FRC believes that FRS 101 will continue to have a positive impact on the cost-effectiveness of the preparation of the financial statements.

This draft is issued by the Financial Reporting Council for comment. It should be noted that the draft may be modified in the light of comments received before being issued in final form.

For ease of handling, we prefer comments to be sent by e-mail to:

ukfrs@frc.org.uk

Comments may also be sent in hard copy to:

Merrik Bousfield
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

Comments should be despatched so as to be received no later than 1 March 2022. If you have sent a copy of your response electronically, there is no need to send an additional hard copy.

The FRC's usual policy is to publish on its website all responses to formal consultations issued by the FRC, unless the respondent explicitly requests otherwise. An automatic confidentiality statement in an e-mail message will not be regarded by us as a request for non-disclosure. Please be aware that we cannot guarantee confidentiality of consultation responses in all circumstances.

The FRC may not edit (but may redact) personal information (such as telephone numbers or postal or e-mail addresses) from submissions; therefore, only information that you wish to be published should be submitted.

We will process your personal data in accordance with applicable UK data protection laws. Please see our privacy policy.[1]

The FRC aims to publish responses within 10 working days of receipt.

The FRC will publish a summary of the consultation responses, either as part of, or alongside, its final decision.

[1] https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc.

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