

# CONSULTATION

## FINANCIAL REPORTING COUNCIL

### FRED 59: DRAFT AMENDMENTS TO FRS 102 THE FINANCIAL REPORTING STANDARD APPLICABLE IN THE UK AND REPUBLIC OF IRELAND

#### ABOUT AIA

The Association of International Accountants (AIA) was founded in the UK in 1928 as a professional accountancy body and from conception has promoted the concept of 'international accounting' to create a global network of accountants in over 85 countries worldwide.

AIA is recognised by the UK government as a Recognised Qualifying Body for statutory auditors under the Companies Act 2006, across the European Union under the mutual recognition of professional qualifications directive and as a Prescribed Body under the Companies (Auditing and Accounting) Act 2003 in the Republic of Ireland. AIA also has supervisory status for its members in the UK under the Money Laundering Regulations 2007.

AIA promotes and supports the advancement of the accountancy profession both in the UK and internationally. The AIA exams are based on international financial reporting and international auditing standards and are complemented by a range of variant papers applicable to local tax and company law in key jurisdictions together with an optional paper in Islamic accounting.

AIA members are fully professionally qualified to undertake accountancy employment in the public and private sectors.

## SUMMARY

AIA is pleased to respond to the FRC's request for comment on its Exposure Draft FRED 59 which will apply to small entities (other than micro-entities applying the micro-entities legislation) for accounting periods commencing on or after 1 January 2016. Financial reporting in the UK and Republic of Ireland is undergoing a significant period of change due to the introduction of an IFRS-based financial reporting framework, namely FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland. It is envisaged that all entities in the UK and Republic of Ireland will report under the full recognition and measurement principles contained in FRS 102, although the disclosure and accounting requirements will become more comprehensive and complex the further up the suite of standards reporting entities go.

Small companies reporting under FRS 102 for small entities will have disclosure requirements which are proportionate to their size and nature. However, company directors must still ensure that the financial statements prepared under FRS 102 for small entities give a true and fair view and therefore the new small companies' regime will place more onus on the part of the directors of small entities to ensure that, where the legally required minimum disclosures do not result in a true and fair view being achieved, additional disclosures are made to ensure the true and fair concept is maintained. AIA supports the FRC's proposal to withdraw the FRSSE (effective January 2015) and to move small entities under the scope of FRS 102.

AIA have responded to the specific questions laid down in the FRED as follows:

### **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 USE?**

AIA agrees that the proposed section 1A Small Entities does adequately reflect the new small companies' regime which is set out in company law. The disclosure requirements set out in the amended FRS 102 for small companies are clear and the AIA also agrees with the FRC's approach of giving additional guidance as to the mandatory disclosures which are to be made in the financial statements. This will help small company directors to fully discharge their obligations under the Companies Act 2006 by spelling out exactly what is needed to be disclosed within the statutory financial statements.

However, AIA has concerns that the burden on directors of small companies to ensure financial statements give a true and fair view by including additional disclosures (where the application of the minimum legal requirements does not achieve such a true and fair view) would be excessive. However, AIA does agree with the inclusion of the additional encouraged disclosures (together with cross-references to FRS 102) shown in paragraph 1A.12.

### **2. IN DEVELOPING THESE PROPOSALS THE FRC HAS APPLIED THE PRINCIPLE THAT THERE SHOULD NOT BE DIFFERENCES BETWEEN THE RECOGNITION AND MEASUREMENT REQUIREMENTS APPLICABLE TO SMALL ENTITIES AND THOSE APPLICABLE TO LARGE 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 THIS PRINCIPLE WOULD YOU PROPOSE?**

AIA is of the opinion that consistency in financial reporting is crucially important – not only for entities themselves, but also for investors and potential investors. Having the ability to compare entities' financial performance and financial position is important and comparability can only be achieved with consistency.

Reporting entities incur additional costs in moving from one financial reporting framework to another where the recognition and measurement principles differ. These costs are primarily in the form of the time spent in training and educating staff in the accounting methodologies inherent in a new financial reporting regime.

AIA also believes that many companies start off their life with the intention of growing – whether that pace of growth is relatively slow or rapid. The need for consistent recognition and measurement principles is important for such businesses as they move up the suite of standards.

**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.**

Section 35 Transition to this FRS is considered by AIA to be comprehensive. It offers clarity to reporting entities moving under the scope of FRS 102 and also outlines the methods by which a transition should be undertaken. AIA believes that the transitional provisions contained in Section 35 are sufficient for small entities and that they adequately provide for all eventualities in recognition of the fact that all businesses are different.

**4. DO YOU AGREE WITH THE OTHER AMENDMENTS PROPOSED TO FRS 102 FOR COMPLIANCE WITH COMPANY LAW? IF NOT, WHY NOT?**

AIA agrees with the other proposed amendments in FRS 102 for consistency with company law. AIA strongly believes that directors of companies must appreciate that the financial statements they prepare for a reporting entity must achieve a true and fair view; a concept which has remained unchanged in the Companies Act 2006. AIA also understands that the FRC are restricted as to the types of disclosures which they can mandate small entities in the UK and Republic of Ireland to make in their financial statements.

AIA agrees with the FRC's encouraged disclosures contained in paragraph 14.15 (a) to (e) of FRED 59. However, surprisingly the FRC have not encouraged directors' remuneration and other benefits provided to directors to be disclosed and as all transactions with directors are implicitly classed as a material transaction, AIA believes that such disclosures should be encouraged in small entities' financial statements.

**5. THE FRED IS ACCOMPANIED BY A CONSULTATION STAGE IMPACT ASSESSMENT. DO YOU HAVE ANY COMMENTS ON THE COSTS OR BENEFITS DISCUSSED IN THAT ASSESSMENT?**

AIA supports the withdrawal of the FRSSE (effective January 2015) on the grounds that it is unsustainable in its current format and given the impact of the EU Accounting Directive on small companies' financial statements, it is sensible to withdraw the FRSSE.

AIA also supports the proposal to bring all small companies that are not eligible, or choose not, to report under the micro-entities legislation under the scope of FRS 102. AIA believes that mandating FRS 102 principles on small entities will increase transparency, consistency and comparability for the users of the financial statements. Costs of moving up the suite of standards will also reduce because the recognition and measurement principles will all be consistent.

## FURTHER INFORMATION

The above replies represent our comments upon this consultation document. We hope that our comments will be helpful and seen as constructive. AIA will be pleased to learn of feedback, and to assist further in this discussion process if requested.

If you require any further information, please contact:

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