



FRED 63 Draft amendments to FRS 101 Reduced Disclosure Framework 2015/16 Cycle

ICAEW welcomes the opportunity to comment on *FRED 63 Draft amendments to FRS 101 Reduced Disclosure Framework 2015/16 Cycle* published by the Financial Reporting Council (FRC) in December 2015, a copy of which is available from this [link](#).

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MAJOR POINTS

Support for the proposals

1. While we broadly support the proposed amendments to FRS 101, we believe it is important for the Accounting Council to ensure that a consistent approach is taken when decisions are made in future on which disclosure exemptions to make available. In addition, we believe there is scope for *Appendix II: Note to legal requirements* of FRS 101 to better explain the interaction between the standard and company law. These matters are discussed further in our responses to questions 1 and 3 below.

Notification to shareholders

2. We have also taken this opportunity to highlight ongoing confusion about the requirement for a qualifying entity to notify its shareholders in writing about its intention to apply the reduced disclosure regime in FRS 101. We believe this is an important matter which should be considered further by the FRC, for example as part of the 2016/17 review of FRS 101. Regardless of whether any amendments are made to the existing requirement, in our view the degree of uncertainty means that there is a strong case for the FRC developing some guidance in this area.

RESPONSES TO SPECIFIC QUESTIONS

Question 1:

The principles for determining whether disclosure exemptions from EU-adopted IFRS should be available in FRS 101 are set out in paragraph 9 of the Accounting Council's Advice. These are relevance, cost considerations and avoiding gold plating.

Qualifying entities have limited external users of the financial statements. These external users are likely to be providers of credit with a greater focus on information that supports the statement of financial position of the qualifying entity, when compared with detailed analysis of performance as required by some of the disclosures in IFRS 15 *Revenue from Contracts with Customers*. Do you agree?

3. We broadly agree with the Council's rationale for amending the application of the 'relevance' principle and the resulting disclosure exemptions from IFRS 15. We would emphasise the importance of the Accounting Council taking steps to ensure that a consistent approach is always taken when deciding, in future, the disclosure exemptions which should be made available to qualifying entities. Any lack of a clear and consistent logic would be confusing to users and preparers alike.

Question 2:

Do you consider that additional refinements could be made to the principles set out in paragraph 9 of the Accounting Council's Advice that, when applied, would help to increase further the cost-effectiveness of FRS 101?

4. No, we have not identified any additional refinements that could be made to the principles to be applied when determining which disclosure requirements in EU-adopted IFRS should be applied by qualifying entities.

Question 3:

Do you agree with the proposed amendments to FRS 101? If not, why not?

5. We broadly agree with the proposed amendments to FRS 101, although we have one comment regarding the proposed exemptions from IFRS 15, as noted below.
6. The FRC is proposing an exemption for qualifying entities from disclosing categories of revenue eg, by type of good or service, geographical markets, customer type (paragraph 114

of IFRS 15). However, the *Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations* require that large companies disclose the amount of turnover attributable to each class of business and market, where, in the opinion of the directors, these classes or markets are substantially different. In our view, it may be confusing for FRS 101 to provide an exemption that, in effect, many entities will not be able to apply. To address this matter, it may be helpful for the FRC to clarify in *Appendix II: Note on legal requirements* that while FRS 101 exempts an entity from the requirement to disclose categories of revenue, it may still be required by law to disclose, where applicable, additional information on revenue.

7. More generally, we would prefer more detail in *Appendix II: Note on legal requirements* to explain the interaction between FRS 101 and company law, along the lines of the approach and level of detail provided in FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Question 4:

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 of the quantifiable costs or benefits of these proposals.

8. We agree that the proposed amendments to FRS 101 should have a positive impact on financial reporting and reduce the costs of compliance.

OTHER COMMENTS

Notifications to shareholders

9. We would like to take this opportunity to highlight the degree of confusion over the current FRS 101 requirement (paragraph 5a) for a qualifying entity to notify its shareholders in writing about its intention to apply the reduced disclosure regime.
10. We are aware that there is widespread uncertainty over this requirement. In particular, it is not clear what constitutes a notification to shareholders of a qualifying entity's intention to apply FRS 101: would an RNS announcement be sufficient or is direct communication with shareholders required? It is also not clear what would be the appropriate frequency of this notification: is notification required once, every year, or only when there is a change in shareholder? As a result of this uncertainty, we understand that different interpretations of the requirement have emerged in practice and companies and their auditors are concerned as to whether there has been proper compliance with the standard.
11. More specifically, questions have also emerged as to whether the same requirement should apply to both parent and subsidiary undertakings, or whether a distinction should be made. We understand that the rationale for a subsidiary undertaking notifying its shareholders of its intention to apply FRS 101 is to protect any minority interests that may wish to be kept informed of plans to include only reduced information in the individual financial statements. However, it is debatable whether this same rationale can, or should, be applied to a parent company, given that its shareholders will also have access to the consolidated group accounts.
12. We believe this matter is important and should be considered further, for example as part of the 2016/17 review of FRS 101. Given that it is the notification aspect that is causing confusion, the FRC might assess whether there is scope to remove the requirement to notify shareholders but retain the right for shareholders to object. There are other occasions in company law where shareholders can object without being formally notified, for example, the right to object to the exemption from preparing consolidated accounts, or from the exemption from audit. It will also be important for the FRC to consider what guidance might usefully be provided. Indeed, regardless of whether, or how, the existing requirement is amended, in our

view the degree of uncertainty means that there is a strong case for the FRC developing some guidance in this area.

- 13.** We note that this discussion will also be relevant for FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* as the same requirement to notify shareholders applies to any qualifying entities choosing to take advantage of reduced disclosures in their individual financial statements as prepared under FRS 102.