Financial Reporting Council

July 2016

Impact Assessment and Feedback Statement

Amendments to FRS 101 *Reduced Disclosure Framework*

2015/16 cycle

The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent disciplinary arrangements for accountants and actuaries, and oversee the regulatory activities of the accountancy and actuarial professional bodies.

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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.

Amendments to FRS 101 – 2015/16 cycle

2 FRS 101 *Reduced Disclosure Framework* is an optional standard that is intended to enable cost-efficient financial reporting within groups, particularly those applying EU-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 EU-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 IFRS 15 *Revenue from Contracts with Customers* from the date that it applies that standard.

4 The amendments to FRS 101 provide disclosure exemptions from certain of the disclosures that would otherwise be required by IFRS 15, and are therefore expected to reduce the cost of compliance with FRS 101. Those respondents to FRED 63 *Draft amendments to FRS 101 – 2015/16 cycle* that commented on the consultation stage impact assessment generally agreed with this.

Conclusion

5 The FRC believes that the amendments to FRS 101 will have a positive impact on financial reporting and reduce the costs of compliance.

Feedback Statement

6 The purpose of this Feedback Statement is to summarise the comments received to FRED 63 *Draft amendments to FRS 101 – 2015/16 cycle*. FRED 63 was issued in December 2015 and the comment period closed on 31 March 2016.

7 The Corporate Reporting Council's Advice to the FRC included with the amendments to FRS 101 *Reduced Disclosure Framework* sets out how the key comments have been taken into account in finalising those amendments.

8 The table below shows the number of respondents to the consultation and analyses the respondents by category.

Table 1: Respondents by category

	No. of respondents
Accountancy firms	9
Accounting bodies	3
Preparers	1
Representative bodies of preparers	1
	14

FRED 63 *Draft amendments to FRS 101 – 2015/16 cycle*

9 FRED 63 posed four questions, and the feedback and FRC response to it is summarised below.

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?

Table 2: Respondents' views on Question 1

	No. of respondents
Agreed	8
Agreed with reservations	3
Disagreed	1
Other comments	1
	14

10 A majority of the respondents agreed with the suggestion that there are limited external users of the financial statements of a qualifying entity, and that those external users are likely to focus on information supporting the statement of financial position. One respondent noted that there may be other users, such as employees or customers, but they are unlikely to be disadvantaged by the reduced disclosures.

11 The reservations expressed included:

(a) that the interests of providers of credit are unlikely to be limited to the statement of financial position, but will be focused on liquidity and solvency, and therefore on the quality of the entity's cash flows, which may influence whether certain exemptions should be given;

(b) that some qualifying entities (such as banks and insurers) may have significant external users of their financial statements such as policyholders or depositors, in addition to providers of credit; and

(c) that the nature of the entity, the period over which credit is provided and terms on which it is provided will affect the information users are interested in, and for example where there are no intra-group guarantees the providers of credit may be more interested in the quality of the earnings of the entity.

12 One respondent was unconvinced that the limited number of external users of the financial statements is relevant to whether or not reduced disclosures can be justified.

FRC response

13 The FRC considered that the existing principles for determining whether disclosure exemptions should be available in FRS 101 continue to be suitable and did not require

amendment. However, the issues raised by respondents are factors that might be taken into account when considering relevance. Indeed, in finalising the disclosure exemptions from IFRS 15, the FRC has had regard to information about liquidity and solvency and reduced some of the disclosure exemptions (see paragraph 25).

14 In addition, the Corporate Reporting Council's Advice now notes that in applying the exemptions an entity shall bear in mind the need to ensure that disclosures are relevant and targeted to meet the needs of users.

Other issue raised

15 One respondent raised an issue about the legal requirement to disclose the amount of turnover attributable to each class of business and market (geographical), and that this should be discussed in Appendix II: *Note on legal requirements* because a similar requirement of IFRS 15 is proposed for exemption. Two other respondents raised this in relation to question 3 (see paragraph 26).

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?

Table 3: Respondents' views on Question 2

	No. of respondents
Yes	2
No	11
	13
Did not comment	1
	14

16 Almost all respondents agreed with the existing principles for determining whether disclosure exemptions should be provided.

17 Those respondents who felt that the principles could be improved raised the following points:

(a) the principles by themselves would rarely explain why an individual exemption had been given, and that the information needs of the principal external users of the financial statements is the key factor, yet this is not brought out in the principles;

(b) providers of credit are more likely to be interested in information supporting the statement of financial position, rather than information supporting the income statement, but consider that their interests will extend to liquidity and quality of cash flows, and this may not be consistent with providing an exemption from presenting a cash flow statement;

(c) that a practical consideration might be the fact that qualifying subsidiaries may be making a choice between applying FRS 101 and FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

18 Two respondents used this question as an opportunity to raise the issue about the notification of shareholders not being cost-effective (see paragraphs 30 to 33).

FRC response

19 As noted above (see paragraphs 13 and 14), the existing principles have been retained without further refinement.

20 In addition, the Corporate Reporting Council's Advice to the FRC Board to issue *Amendments to FRS 101 – 2015/16 cycle* includes greater explanation of the factors that influenced the exemptions that have been given.

21 In relation to the cash flow statement, the FRC notes that the exemption replicates a long-standing exemption that was available in FRS 1 (Revised 1996) *Cash Flow Statements*. It was consulted on as part of the development of FRS 101 and there is no evidence that users of financial statements consider that this should be required of qualifying entities.

Question 3

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

Table 4: Respondents' views on Question 3

	No. of respondents
Agreed	7
Agreed with reservations	6
Disagreed	1
	14

22 There was general agreement with the proposed amendments, being exemptions from many of the disclosure requirements in IFRS 15 and the note about the legal requirement to present the notes to the financial statements in a particular order.

23 The reservations expressed related to:

(a) The interaction with the legal requirement in the Regulations for disclosure of a disaggregation of turnover. Three respondents felt this should be included in Appendix II. Further, one respondent considered that Appendix II should be expanded to explain more about the interaction between company law and the requirements of FRS 101, in the same way that the similar appendix to FRS 102 is drafted.

(b) Three respondents identified specific disclosures in IFRS 15 that they felt should be reviewed again to determine whether exemption should be permitted.

(c) One respondent highlighted an issue relating to entities applying Schedule 2 or Schedule 3 to the Regulations.

24 One respondent disagreed with the proposals because they felt that there are very few situations where the exemptions would not conflict with the requirement to disclose relevant information, as set out in the principles for determining exemptions.

FRC response

25 The disclosure exemptions from IFRS 15 have been reviewed again, specifically those highlighted by respondents. As a result, a small number of the exemptions proposed in FRED 63 have been removed, when this is expected to provide relevant information to users of the financial statements.

26 Appendix II has been expanded to refer to the legal requirement concerning disclosure of turnover and to note that the equity method is not available in the individual financial statements of entities applying Schedule 2 or 3 to the Regulations.

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.

27 A number of respondents noted that they did not have any comments on the costs and benefits identified and most of those respondents who did comment agreed that the proposals will have a positive impact on financial reporting and should reduce the costs of compliance with IFRS 15 for entities applying FRS 101.

28 However, one respondent considered that cost savings would be insignificant and there could even be an increase in costs through greater need for entities applying FRS 101 to consider whether additional disclosures should be provided in order to give a true and fair view.

FRC response

29 The FRC believes that the amendments to FRS 101 will have a positive impact on financial reporting and reduce the costs of compliance.

Notification of shareholders

30 Seven respondents raised a concern about the requirement that an entity must notify its shareholders that it intends to take advantage of reduced disclosures, giving them an opportunity to object. This issue affects FRS 102 as well as FRS 101.

31 Two main issues were raised:

(a) insufficient guidance is available on how the requirement should be applied in practice, which is leading to uncertainty and diversity in practice – this particularly relates to the frequency (eg once or annually), timing and the manner of notification, and the time allowed for objections to be raised; and

(b) whether the requirement is cost-effective, particularly in relation to ultimate parents and wholly-owned subsidiaries.

32 Respondents were encouraging the FRC to remove the requirement to notify shareholders, particularly in relation to parent entities (when the parent's own financial statements are presented in a document containing the consolidated financial statements) and wholly-owned subsidiaries.

FRC response

33 In FRED 65 *Draft amendments to FRS 101 – Notification of shareholders* the FRC is proposing to remove the requirement to notify shareholders prior to taking advantage of the disclosure exemptions in FRS 101 and FRS 102.

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

+44 (0)20 7492 2300

www.frc.org.uk