Report

Financial Reporting Council

April 2014

Impact assessment and Feedback statement

Amendments to:

- the Financial Reporting Standard for Smaller Entities (effective April 2008); and
- the Financial Reporting Standard for Smaller Entities (effective January 2015)

Micro-entities

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.

The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered Office: 5th Floor, Aldwych House, 71-91 Aldwych, London WC2B 4HN.

Financial Reporting Council

April 2014

Impact assessment and Feedback statement

Amendments to:

- the Financial Reporting Standard for Smaller Entities (effective April 2008); and
- the Financial Reporting Standard for Smaller Entities (effective January 2015)

Micro-entities

Contents

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 The Amendments to the Financial Reporting Standard for Smaller Entities (effective April 2008) and the Financial Reporting Standard for Smaller Entities (effective January 2015) (FRSSE) are made in order that the FRSSE remains consistent with legislation. The Department for Business, Innovation and Skills (BIS) has prepared an impact assessment for the legislation and hence no further impact assessment has been prepared by the FRC.

Feedback statement

1 In December 2013 the FRC issued FRED 52: *Draft Amendments to the Financial Reporting Standard for Smaller Entities (effective April 2008) – Micro-entities*. The comment deadline was 12 February 2014, giving respondents two months to provide their feedback. The purpose of this feedback statement is to summarise the comments received. The Accounting Council's Advice to the FRC sets out how the comments received have been taken into account in finalising the amendments to the FRSSE.

2 The FRC received 9 comment letters, which were from the following stakeholder groups:

Table 1: Respondents by category

	No. of respondents
Accountancy firms	5
Accounting bodies	4
Total	**9**

3 FRED 52 posed one question, and in addition respondents were invited to comment on any other aspect of the draft amendments to the FRSSE.

4 The feedback to FRED 52 is summarised below.

Question 1

> Do you agree with the proposed amendments to the FRSSE for micro-entities? If not, why not?

Table 2: Respondents' views on question 1

	No. of respondents
Agreed	8
Disagreed	–
Other	1
Total respondents	9
Did not comment	–
	9

5 Overall the respondents agree that the proposed amendments to the FRSSE for micro-entities are necessary and appropriate, although almost all respondents suggested areas where the clarity of certain aspects could be improved, or where practical implementation considerations could be addressed.

6 The respondent providing the 'other' view was concerned that the accounts produced by an entity following the micro-entity regime will fail to meet the needs of external users of the financial statements, as they will fail to give a true and fair view, and additional costs will be incurred in providing non-statutory information to stakeholders. However, this is an observation on the changes to the law rather than a disagreement with the proposals in the FRED.

7 Areas where respondents suggested improvements include:

(a) Definition of a micro-entity – whether a fuller definition could be included in Part C *Definitions* rather than including a cross-reference to the Act, or whether the discussion in Appendix I *Note on legal requirements for companies* should be enhanced. This was particularly to address the entities that are excluded from the micro-entities regime. The discussion in Appendix I has been enhanced (see also paragraph 11 of the Accounting Council's Advice).

(b) Whether the layout, with a few paragraphs for micro-entities giving exemptions from certain requirements of the FRSSE, is the most user-friendly for identifying the requirements that are applicable to micro-entities. This has been reconsidered, see paragraphs 11 and 12 of the Accounting Council's Advice, and the disclosure requirements have been included in the FRSSE in full.

(c) Transitional provisions for entities that previously revalued either investment property, or property, plant and equipment – there was general support for a 'deemed cost' transitional provision. The Accounting Council reflected on this, but considered that it was not compatible with the legal framework for micro-entities, see paragraph 13 of the Accounting Council's Advice.

Financial Reporting Council
5th Floor, Aldwych House
71-91 Aldwych
London WC2B 4HN

+44 (0)20 7492 2300

www.frc.org.uk