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Our ref ce/kad

For the attention of: Jenny Carter

29 March 2016

Dear Sirs

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

We welcome the opportunity to comment on FRED 63 *Draft amendments to FRS 101 Reduced Disclosure Framework 2015/16 Cycle*. We broadly agree with the proposals subject to the reservations set out in our responses to the questions raised in the FRED in the attached Appendix.

Whilst not addressed in FRED 63, we would like to take this opportunity to comment on the requirement of FRS 101.5(a) (and equally, FRS 102.1.11(a)) to notify shareholders of an entity's intention to apply the disclosure exemptions available to qualifying entities. A number of practical implementation issues have arisen in relation to this requirement, including uncertainty over the timing and form of the notification, resulting in a lack of clarity as to which interpretations may or may not be appropriate.

We suggest that the requirement be revisited as soon as possible, and at the latest as part of the 2016/17 review of FRS 101, on the following basis:

- Removal of the requirement to notify shareholders in the case of parent companies whose individual financial statements will be published together with the related consolidated financial statements, and for wholly-owned subsidiaries;
- Amendment of the current requirement to include a clear statement of when the notification must be made (eg annually or only when there is a change of shareholders); the form of the notification (for example, by making a statement in the prior year's accounts); and the period in which shareholders may object to the use of the disclosure exemptions.
- For all entities, whether or not the notification requirement is retained, we consider that shareholders (or their equivalent) should retain the right to object to the use of the disclosure exemptions. There are many instances in company law where shareholders can object without being formally notified.



- Clarification is needed as to whether the notification requirement applies only to entities with “shareholders” or whether, and to whom, other entities (such as partnerships and unincorporated charities) are required to give such notification.

Please contact Karen Duncan on 0121 232 3874 should you wish to discuss any of the above comments further.

Yours faithfully

KPMG LLP

### **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?*

We agree that the detailed analysis of performance as required by some of the disclosures in IFRS 15 will be of limited relevance to qualifying entities for the reasons set out in the Accounting Council’s Advice. However, please also see our response to question 3 below.

### **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?*

We are not aware of any additional refinements that could be made to the principles set out in paragraph 9 of the Accounting Council’s Advice.

### **Question 3**

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

We broadly agree with the proposed amendments to FRS 101, subject to the following observations:

- Providing an exemption from the disclosure requirements of IFRS 15.113 to 115, 118 to 127 and 129 may render the remaining requirement of IFRS 15.10 difficult to interpret. Consideration should be given to providing an exemption from the whole of IFRS 15.10.
- The FRC’s rationale for the proposed disclosure exemptions is that they are likely to be of limited relevance to the external users of the financial statements of qualifying entities (principally credit providers). IFRS 15.13(b) requires disclosure of information in relation to the impairment of contract balances; this is arguably relevant information to credit providers. Consideration should be given to retaining this disclosure requirement.
- The benefit of an exemption from providing an analysis of revenue under IFRS 15.14 is not clear given that the Companies Act (SI 2008/410 Sch 1 para 68) requires similar disclosure by large companies. We suggest that the legal appendix to FRS 101 should explain this if the exemption from IFRS 15.14 is to be given.
- No disclosure exemption is proposed in respect of IFRS 15.116 (contract balances) and 117 (disclosure in respect of timing of satisfaction of performance obligations and timing of

payments). The reason for this is not currently explained in the Accounting Council's Advice, although we assume it is because the information may be relevant to credit providers. Further, paragraph 117 cross-refers to paragraph 119, for which disclosure is proposed to be exempt; this may result in confusion in application. We suggest that the requirements be clarified in respect of paragraph 117 (if the exemption from paragraph 119 is applied).

**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.*

We have no comments on the costs and benefits identified.