



February 2015

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## FRED 60

# Draft Amendments to FRS 100 *Application of Financial Reporting Requirements and FRS 101 Reduced Disclosure Framework*

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February 2015

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## FRED 60

Draft amendments to FRS 100

*Application of Financial Reporting*

*Requirements* and FRS 101

*Reduced Disclosure Framework*



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## Summary

- (i) In 2012, 2013 and 2014 the Financial Reporting Council (FRC) revised financial reporting standards in the United Kingdom and Republic of Ireland. The revisions fundamentally reformed financial reporting, replacing the extant standards with four Financial Reporting Standards:
  - (a) FRS 100 *Application of Financial Reporting Requirements*;
  - (b) FRS 101 *Reduced Disclosure Framework*;
  - (c) FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
  - (d) FRS 103 *Insurance Contracts*.

As a result of the implementation of the new Accounting Directive this Financial Reporting Exposure Draft (FRED) proposes amendments to FRS 100 and FRS 101 to:

- (a) make changes to the financial reporting framework to reflect the new financial reporting standard for micro-entities; and
  - (b) make limited other amendments for compliance with company law.
- (ii) The FRC's overriding objective in setting accounting standards is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.
  - (iii) In meeting this objective, the FRC aims to provide succinct financial reporting standards that:
    - (a) have consistency with international accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective;
    - (b) reflect up-to-date thinking and developments in the way entities operate and the transactions they undertake;
    - (c) balance consistent principles for accounting by all UK and Republic of Ireland entities with practical solutions, based on size, complexity, public interest and users' information needs;
    - (d) promote efficiency within groups; and
    - (e) are cost-effective to apply.

### **Draft amendments to FRS 100 and FRS 101**

- (iv) The FRC issued a Consultation Document *Accounting Standards for small entities – Implementation of the EU Accounting Directive* in September 2014 which, inter alia, consulted on the future of accounting standards for small entities and other amendments likely to be necessary to accounting standards as a result of the implementation of the Accounting Directive. This FRED takes into account the feedback from that consultation.
- (v) This FRED proposes amendments to FRS 100 to reflect the revised framework of accounting standards, in particular the proposed withdrawal of the *Financial Reporting Standard for Smaller Entities (effective January 2015)* (FRSSE) and the proposed introduction of a new accounting standard for micro-entities, draft FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*.
- (vi) This FRED proposes amendments to FRS 101 to maintain consistency between FRS 101 and company law.

- (vii) This FRED has been developed on the basis of the draft *The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015* which were laid before Parliament in January 2015. The final amendments to FRS 100 and FRS 101 will not be issued until the legislation has been made and will take into account any relevant developments in the intervening period.
- (viii) In December 2014 the FRC issued FRED 57 *Draft amendments to FRS 101 Reduced Disclosure Framework (2014/15 Cycle)*. The FRC expects that both the amendments proposed in FRED 57 and those in this FRED will be finalised at the same time.



## Invitation to comment

- 1 The FRC is requesting comments on FRED 60 by 30 April 2015. The FRC is committed to developing standards based on evidence from consultation with users, preparers and others. Comments are invited in writing on all aspects of the draft standard. In particular, comments are sought in relation to the questions below.

### **Question 1**

Do you agree with the amendments proposed to FRS 100 and FRS 101? If not, why not?

### **Question 2**

This FRED is accompanied by a *Consultation Stage Impact Assessment*. Do you have any comments on the costs or benefits discussed in that assessment?

- 2 Information on how to submit comments and the FRC's policy in relation to responses is set out on page 24.

**[Draft] Amendments to FRS 100 *Application of Financial Reporting Requirements***

## [Draft] Amendments to FRS 100

- 1 The following paragraphs set out the [draft] amendments to FRS 100 *Application of Financial Reporting Requirements* (deleted text is struck through, inserted text is underlined).
- 2 Paragraph 3 is amended as follows:
  - 3 The terms **Act**, **date of transition**, **EU-adopted IFRS**, **financial institution**, **FRS 100**, **FRS 101**, **FRS 102**, ~~FRSSE~~ [draft] FRS 105, **IAS Regulation**, **IFRS**, **individual financial statements**, **public benefit entity**, **qualifying entity**, ~~Regulations~~ **small entity** and **SORP** are defined in the glossary included as Appendix I to this FRS.
- 3 Paragraph 4 and footnotes 2 and 5 are amended as follows (footnotes 3 and 4 are not amended and are not reproduced here):
  - 4 Financial statements (whether consolidated financial statements or individual financial statements) that are within the scope of this FRS, and that are not required by the IAS Regulation or other legislation or regulation to be prepared in accordance with EU-adopted IFRS, must be prepared in accordance with the following requirements:
    - (a) If the financial statements are those of an entity that is eligible to apply [draft] FRS 105 ~~the FRSSE~~<sup>2</sup>, they may be prepared in accordance with that standard.
    - (b) If the financial statements are those of an entity that is not eligible to apply [draft] FRS 105 ~~the FRSSE~~, or of an entity that is eligible to apply [draft] FRS 105 ~~the FRSSE~~ but chooses not to do so, they must<sup>3</sup> be prepared in accordance with FRS 102, EU-adopted IFRS<sup>4</sup> or, if the financial statements are the individual financial statements of a qualifying entity, FRS 101<sup>5</sup>.
  - 2 The eligibility criteria for applying [draft] FRS 105 ~~the FRSSE~~ are set out in legislation and paragraph 1.28 of [draft] FRS 105 ~~the FRSSE~~. In establishing whether the eligibility One of the criteria have been met is that the entity must be 'small' as defined in company law. Turnover and balance sheet total shall ~~should~~ be measured in accordance with [draft] FRS 105 ~~the FRSSE~~ for the purposes of establishing whether ~~the entity is 'small'~~; the measurement of turnover and balance sheet total in accordance with FRS 101 or FRS 102 need not be considered.
  - 5 Individual accounts that are prepared by a company in accordance with FRS 101, ~~or~~ FRS 102 or [draft] FRS 105 are Companies Act individual accounts (section 395(1)(a) of the Act), whereas individual accounts that are prepared by a company in accordance with EU-adopted IFRS are IAS individual accounts (section 395(1)(b) of the Act).
- 4 Paragraph 5 is amended as follows:
  - 5 If an entity's financial statements are prepared in accordance with ~~the FRSSE or FRS 102~~, SORPs will apply in the circumstances set out in that FRS ~~these standards~~.

- 5 Paragraph 6 is amended as follows (footnote 6 is not amended and is not repeated here):
- 6 When a SORP applies, the an entity, other than a small entity applying the small entities regime in FRS 102, should shall state in its financial statements the title of the SORP and whether its financial statements have been prepared in accordance with the SORP's provisions that are currently in effect<sup>6</sup>. In the event of a departure from those provisions, the entity ~~should~~ shall give a brief description of how the financial statements depart from the recommended practice set out in the SORP, which shall include:
- (a) for any treatment that is not in accordance with the SORP, the reasons why the treatment adopted is judged more appropriate to the entity's particular circumstances; and
  - (b) brief details of any disclosures recommended by the SORP that have not been provided, and the reasons why they have not been provided.
- A small entity applying the small entities regime in FRS 102 is encouraged to provide these disclosures.
- 6 Paragraph 9 is amended as follows:
- 9 Where an entity prepares its financial statements in accordance with FRS 101, ~~or FRS 102 or the FRSSE,~~ it shall include a statement of compliance in the notes to the financial statements in accordance with the requirements set out in the relevant standard unless it is a small entity applying the small entities regime in FRS 102, in which case it is encouraged to include a statement of compliance in the notes to the financial statements.
- 7 Paragraph 10A is inserted as follows:
- 10A In [month] 2015 amendments were made to this FRS. An entity shall apply [these amendments] for accounting periods beginning on or after 1 January 2016. Early application is permitted subject to the early application provisions set out in FRS 101, FRS 102 and [draft] FRS 105.
- 8 Paragraph 15A is inserted as follows:
- 15A The Financial Reporting Standard for Smaller Entities (effective January 2015) (FRSSE) is superseded on the early application of [these amendments] and will be withdrawn for accounting periods beginning on or after 1 January 2016.
- 9 Paragraph 16 and the sub-heading *Consequential amendments to the FRSSE* preceding it are deleted.

## [Draft] Amendments to Application Guidance: The Interpretation of Equivalence

10 The following paragraphs set out the [draft] amendments to *Application Guidance: The Interpretation of Equivalence* (deleted text is struck through, inserted text is underlined).

11 Paragraph AG1 is amended as follows:

AG1 Section 401 of the Act exempts, subject to certain conditions, an intermediate parent from the requirement to prepare consolidated financial statements where its parent is not established under the law of an EEA state. The exemption is conditional on the company and all of its subsidiaries being included in consolidated financial statements for a larger group and those financial statements must be drawn up:

- (a) in accordance with, or in a manner that is equivalent to, the Accounting Directive;
- (b) in accordance with EU-adopted IFRS; or
- (c) in accordance with the accounting standards of third countries that have been determined to be equivalent to EU-adopted IFRS in accordance with the EU mechanism.

Section 401 states that:

~~(2) Exemption is conditional upon compliance with all of the following conditions—~~

~~(a) the company and all of its subsidiary undertakings must be included in consolidated accounts for a larger group drawn up to the same date, or to an earlier date in the same financial year, by a parent undertaking;~~

~~(b) those accounts and, where appropriate, the group's annual report, must be drawn up—~~

~~(i) in accordance with the provisions of the Seventh Directive (83/349/EEC) (as modified, where relevant, by the provisions of the Bank Accounts Directive (86/635/EEC) or the Insurance Accounts Directive (91/674/EEC)), or~~

~~(ii) in a manner **equivalent** to consolidated accounts and consolidated annual reports so drawn up; ... (emphasis added)~~

12 Paragraph AG4 is amended as follows and footnote 10 is deleted (subsequent footnotes are renumbered):

AG4 Use of the exemption in section 401(2)(b)(ii) requires an analysis of a particular set of consolidated financial statements to determine whether they are drawn up in a manner equivalent to consolidated financial statements that are drawn up in accordance with the Seventh Accounting Directive<sup>40</sup>. This Application Guidance aims to assist entities in adopting a consistent approach to this issue. In the absence of this guidance, companies and their auditors might feel obliged to take an overly cautious approach in response to uncertainty about whether exemptions can be used.

13 Paragraph AG5 is amended as follows:

AG5 It is generally accepted that the reference to equivalence in section 401 of the Act does not mean compliance with every detail of the Seventh Accounting Directive. When assessing whether consolidated financial statements of a higher non-EEA parent are drawn up in a manner equivalent to consolidated financial statements drawn up in accordance with the Seventh Accounting Directive, it is necessary to

consider whether they meet the basic requirements of the ~~Fourth and Seventh Accounting Directives~~; in particular the requirement to give a true and fair view, without implying strict conformity with each and every provision. A qualitative approach is more in keeping with the deregulatory nature of the exemption than a requirement to consider the detailed requirements on a checklist basis.

14 Paragraph AG6 is amended as follows:

AG6 The consequences of the exemptions in section 401(2)(b) and adopting the principle in paragraph AG5 are that consolidated financial statements of the higher parent will meet the exemption or the test of equivalence in the ~~Seventh Accounting Directive~~ if they:

- (a) give a true and fair view and comply with FRS 102;
- (b) are prepared in accordance with EU-adopted IFRS;
- (c) are prepared in accordance with IFRS, subject to the consideration of the reasons for any failure by the European Commission to adopt a standard or interpretation; and
- (d) are prepared using other GAAPs which are closely related to IFRS, subject to consideration of the effect of any differences from EU-adopted IFRS.

Consolidated financial statements of the higher parent prepared using:

- (e) other GAAPs should be assessed for equivalence with the ~~Seventh Accounting Directive~~ based on the particular facts, including the similarities to and differences from the ~~Seventh Accounting Directive~~ (see paragraph AG7); and
- (f) the IFRS for SMEs shall be assessed for equivalence with the ~~Seventh Accounting Directive~~ where the following factors are considered:
  - ~~(i) applying the disclosure requirements for extraordinary items;~~
  - (ii) requiring additional disclosures for financial liabilities that were held at fair value but were neither held as part of a trading portfolio nor a derivative;
  - ~~(iii) shortening the presumed life of goodwill from 10 to not exceeding five years, where an entity is unable to make a reliable estimate of the useful life;~~
  - (iv) recognising negative goodwill in the income statement only when it meets the definition of a realised profit;
  - ~~(v) replacing the prohibition on reversal of impairment losses of goodwill with a requirement to reverse the loss if, and only if, the reasons for the impairment cease to apply; and~~
  - (vi) removing the requirement for unpaid called-up share capital to be recognised as an offset to equity.

## [Draft] Amendments to Appendix I: Glossary

- 15 The following glossary terms and definitions, and footnote 18 (subsequent footnotes will be renumbered sequentially), are deleted:

<b>FRSSE</b>	<del>The extant version<sup>48</sup> of the <i>Financial Reporting Standard for Smaller Entities</i>.</del>
<b>Regulations</b>	<del>The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410)</del>

<sup>48</sup> ~~At the date of issue of this FRS, the extant version of the FRSSE is the *Financial Reporting Standard for Smaller Entities* (effective April 2008). The *Financial Reporting Standard for Smaller Entities* (effective January 2015) will replace it as the extant standard from 1 January 2015.~~

- 16 The following glossary terms and definitions are inserted in alphabetical order:

<b><u>[Draft] FRS 105</u></b>	<u>[Draft] FRS 105 <i>The Financial Reporting Standard applicable to the Micro-entities Regime</i></u>
<b><u>small entity</u></b>	(a) <u>A company meeting the definition of a small company as set out in section 382 or 383 of the <b>Act</b> and not excluded from the small companies regime by section 384;</u> (b) <u>an LLP qualifying as small and not excluded from the small LLPs regime, as set out in the LLP Regulations; or</u> (c) <u>any other entity that would have met the criteria in (a) had it been a company incorporated under company law.</u>

## [Draft] Amendments to Appendix II: Note on Legal Requirements

- 17 The following paragraphs set out the [draft] amendments to Appendix II: *Note on Legal Requirements* (deleted text is struck through, inserted text is underlined).
- 18 Paragraph A2.5 is amended as follows (footnote 21 is not amended and is not reproduced here):
- A2.5 All other entities, except those that are eligible to apply [draft] FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* ~~the *Financial Reporting Standard for Smaller Entities* (effective January 2015) (FRSSE)~~, must apply either FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, EU-adopted IFRS or, for financial statements that are the individual financial statements of a qualifying entity, FRS 101 *Reduced Disclosure Framework*<sup>21</sup>.
- 19 Paragraphs A2.8 to A2.12 and footnotes 22, 23 and 24 are deleted. Subsequent footnotes will be renumbered sequentially.
- 20 A new paragraph A2.8 is inserted as follows:
- A2.8 Small companies apply the *Small Companies and Groups (Accounts and Directors' Report) Regulations 2008* (SI 2008/409), which set out both the micro-entities regime and the small companies regime. [Draft] FRS 105 and FRS 102 contain notes on legal requirements applicable to small entities.



## **[Draft] Amendments to Appendix IV: Republic of Ireland (RoI) Legal References**

- 21 Appendix IV: *Republic of Ireland (RoI) Legal References* will be updated as appropriate when the Irish legislation implementing the EU Accounting Directive has been made.

**[Draft] Amendments to FRS 101 *Reduced Disclosure Framework***

## [Draft] Amendments to FRS 101

22 The following paragraphs set out the [draft] amendments to FRS 101 *Reduced Disclosure Framework* (deleted text is struck through, inserted text is underlined).

23 Paragraph 4 is amended as follows:

4 The terms **Act**, **date of transition**, **EU-adopted IFRS**, **financial institution**, **FRS 100**, **FRS 101**, **FRS 102**, ~~FRSSE~~, **IAS Regulation**, **IFRS**, **individual financial statements**, **public benefit entity**, **qualifying entity** and **Regulations** are defined in the glossary included as Appendix I to this FRS.

24 Footnote 4 to paragraphs 8(d) and 8(e) is amended as follows:

4 It should be noted that companies which are subject to the requirements of the Act and Regulations are legally required to provide disclosures related to financial instruments, including those measured at fair value. Further guidance in relation to financial instruments measured at fair value is provided in Appendix II *Note on legal requirements*.

25 Paragraph 12 is inserted as follows:

12 In [month] 2015 amendments were made to this FRS. An entity shall apply [these amendments] for accounting periods beginning on or after 1 January 2016. Early application is permitted for accounting periods beginning on or after 1 January 2015. If an entity applies [these amendments] before 1 January 2016 it shall disclose that fact.

26 Paragraphs AG1(d) and AG1(e) are deleted. New paragraph AG1(d) is inserted as follows:

AG1(d) Paragraph 65A of IFRS 3 *Business Combinations* shall be read as relating to business combinations whose acquisition dates preceded the date when a qualifying entity first applied these [draft] amendments to FRS 101.

27 Paragraph AG1(h) is deleted and replaced<sup>1</sup> with the following:

AG1(h) Paragraph 53A and corresponding footnote are inserted into IAS 1 *Presentation of Financial Statements* as follows:

### **Statement of financial position**

#### **Information to be presented in the statement of financial position**

53A A qualifying entity choosing to apply paragraph 1A(1) of Schedule 1 to the Regulations and adapt one of the balance sheet formats shall apply the relevant presentation requirements of IAS 1 *Presentation of Financial Statements*. A qualifying entity not choosing to apply paragraph 1A(1) of Schedule 1 to the Regulations shall comply with the balance sheet format requirements of the Act\* instead of paragraphs 54 to 76 of IAS 1.

[Footnote text]

\* An entity shall apply, as required by company law, either Part 1 *General Rules and Formats* of Schedule 1 to the Regulations; Part 1 *General Rules and Formats* of Schedule 2 to the Regulations; Part 1 *General Rules and Formats* of Schedule 3 to the Regulations; or Part 1 *General Rules and Formats* of Schedule 1 to the LLP Regulations.

<sup>1</sup> The amendments made to paragraph 53A are as a result of the proposed insertion of paragraph 1A(1) into Schedule 1 to the Regulations.

28 Paragraph AG1(i) is deleted and replaced<sup>2</sup> with the following:

AG1(i) Paragraph 81C and corresponding footnote are inserted into IAS 1 *Presentation of Financial Statements* as follows:

**Information to be presented in profit or loss**

81C A qualifying entity choosing to apply paragraph 1A(2) of Schedule 1 to the Regulations and adapt one of the profit and loss account formats shall apply the relevant presentation requirements of IAS 1 *Presentation of Financial Statements*. A qualifying entity not choosing to apply paragraph 1A(2) of Schedule 1 to the Regulations shall present the components of profit or loss in the statement of comprehensive income (in either the single statement or two statement approach) in accordance with the profit and loss account format requirements of the Act\* instead of paragraphs 82 and 84 to 86 of IAS 1.

[Footnote text]

\* An entity shall apply, as required by company law, either Part 1 *General Rules and Formats* of Schedule 1 to the Regulations; Part 1 *General Rules and Formats* of Schedule 2 to the Regulations; Part 1 *General Rules and Formats* of Schedule 3 to the Regulations; or Part 1 *General Rules and Formats* of Schedule 1 to the LLP Regulations.

29 Paragraph AG1(j) is deleted and replaced<sup>3</sup> with the following:

AG1(j) Paragraph 87 of IAS 1 *Presentation of Financial Statements* is amended and paragraphs 87A and 87B are inserted into IAS 1 as follows:

87 A ~~qualifying~~ entity applying Schedule 1 to the Regulations shall not present or describe any items of income and expense as 'extraordinary items' in the statement of comprehensive income (or in the income statement, if presented) or in the notes.

A qualifying entity applying Schedule 2 or Schedule 3 to the Regulations or Schedule 1 to the LLP Regulations shall apply paragraphs 87A and 87B.

87A Ordinary activities are any activities which are undertaken by a reporting entity as part of its business and such related activities in which the reporting entity engages in furtherance of, incidental to, or arising from, these activities. Ordinary activities include any effects on the reporting entity of any event in the various environments in which it operates, including the political, regulatory, economic and geographical environments, irrespective of the frequency or unusual nature of the events.

87B Extraordinary items are material items possessing a high degree of abnormality which arise from events or transactions that fall outside the ordinary activities of the reporting entity and which are not expected to recur. They do not include items occurring within the entity's ordinary activities that are required to be disclosed by IAS 1.97, nor do they include prior period items merely because they relate to a prior period.

30 Paragraph AG1(s) is deleted<sup>4</sup>.

<sup>2</sup> The amendments made to paragraph 81C are as a result of the proposed insertion of paragraph 1A(2) into Schedule 1 to the Regulations.

<sup>3</sup> The amendments to paragraphs 87, 87A and 87B reflect the proposed deletion of extraordinary items from the profit and loss account formats in Schedule 1 to the Regulations.

<sup>4</sup> Subject to additional changes that are expected to be made to the legislation.

## [Draft] Amendments to Appendix I: Glossary

- 31 The following glossary term and definition, and footnote 18 (subsequent footnotes will be renumbered sequentially), is deleted:

<b>FRSSE</b>	<del>The extant version<sup>18</sup> of the <i>Financial Reporting Standard for Smaller Entities</i>.</del>
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<sup>18</sup> ~~At the date of issue of this FRS, the extant version of the FRSSE is the *Financial Reporting Standard for Smaller Entities* (effective April 2008). The *Financial Reporting Standard for Smaller Entities* (effective January 2015) will replace it as the extant standard from 1 January 2015.~~

## [Draft] Amendments to Appendix II: Note on Legal Requirements

32 The following paragraphs set out the [draft] amendments to Appendix II: *Note on Legal Requirements* (deleted text is struck through, inserted text is underlined).

33 Paragraph A2.6 is amended as follows:

A2.6 Paragraph 36 of Schedule 1 to the Regulations states that:

‘...

- (4) *Financial instruments that ~~may be included in accounts at fair value, under international accounting standards adopted by the European Commission on or before 5<sup>th</sup> September 2006~~ in accordance with the IAS Regulation, may be included in accounts at fair value, may be so included, provided that the disclosures required by such accounting standards are made.*

[...]

34 Paragraph A2.9A is inserted as follows:

A2.9A A qualifying entity choosing to apply paragraphs 1A(1) and 1A(2) of Schedule 1 to the Regulations, which permit a company to adapt the formats providing that the information given is at least equivalent to that which would have been required by the formats set out in the Regulations shall apply the relevant presentation requirements of IAS 1, subject to the amendment to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* set out in paragraph AG1(g) of this FRS.

35 Paragraph A2.11 is amended as follows:

A2.11 The Schedule 2 and Schedule 3 to the Regulations and the LLP Regulations require the separate disclosure of extraordinary items in the profit and loss account. A qualifying entity preparing financial statements in accordance with FRS 101 must therefore disclose items that are deemed to be extraordinary items separately in the statement of comprehensive income. Entities should note that extraordinary items are extremely rare as they relate to highly abnormal events or transactions.

36 Table I *Areas for consideration by a qualifying entity preparing accounts in accordance with FRS 101 Reduced Disclosure Framework, in order to ensure compliance with the Act* is amended as follows:

- (a) In relation to IFRS 3 the discussion of contingent consideration is deleted.
- (b) In relation to IAS 1 the amendments below are made.
- (c) The row relating to IAS 36 is deleted.

IFRS	Explanation/potential issues	Amendment to EU-adopted IFRS
IAS 1	<p><i>Formats</i> The format requirements applicable under IAS 1 and those under the Regulations may be incompatible.</p> <p><i>Extraordinary items</i> IAS 1 does not permit the presentation of extraordinary items (IAS 1.87) however, <u>for some companies the Regulations</u> require it.</p> <p><i>Realised profits</i> IAS 1 requires the recognition of all income and expenses in profit or loss, unless otherwise required or permitted by an IFRS (IAS 1.88). The Regulations require that only profits realised at the balance sheet date are included in the profit and loss account (see paragraphs A2.12 to A2.15 above.)</p>	<p>IAS 1.53A and IAS 1.81C are inserted to disapply IAS 1.54 to IAS 1.76, IAS 1.82 and IAS 1.84 to IAS 1.86, unless the <u>application of these requirements complies with the Regulations</u> certain options in Schedule 1 to the Regulations are chosen.</p> <p>Amended IAS 1.87 <u>to remove the prohibition</u> and inserted IAS 1.87A and IAS 1.87B to include the definition of extraordinary items consistent with that in FRS 102, Section 5 <i>Statement of comprehensive income and income statement</i>, paragraphs 5.10A and 5.10B.</p> <p>Amended IAS 1.88 to clarify the precedence of the Act.</p>

## **[Draft] Amendments to Appendix IV: Republic of Ireland (RoI) legal references**

- 37 Appendix IV: *Republic of Ireland (RoI) legal references* will be updated as appropriate when the Irish legislation implementing the EU Accounting Directive has been made.



# The Accounting Council's Advice to the FRC to issue FRED 60: Draft Amendments to FRS 100 and FRS 101

## Introduction

- 1 This report provides an overview of the main issues that have been considered by the Accounting Council in advising the Financial Reporting Council (FRC) to issue FRED 60 *Draft Amendments to FRS 100 Application of Financial Reporting Requirements and FRS 101 Reduced Disclosure Framework* incorporating the Council's advice following the Consultation Document *Accounting standards for small entities – Implementation of the EU Accounting Directive*.
- 2 The FRC, in accordance with the *Statutory Auditors (Amendment of Companies Act 2006 and Delegation of Functions etc) Order 2012* (SI 2012/1741), is a prescribed body for issuing accounting standards in the UK. The *Foreword to Accounting Standards* sets out the application of accounting standards in the Republic of Ireland.
- 3 In accordance with the *FRC Codes and Standards: procedures*, any proposal to issue, amend or withdraw a code or standard is put to the FRC Board with the full advice of the relevant Councils and/or the Codes & Standards Committee. Ordinarily, the FRC Board will only reject the advice put to it where:
  - (a) it is apparent that a significant group of stakeholders has not been adequately consulted;
  - (b) the necessary assessment of the impact of the proposal has not been completed, including an analysis of costs and benefits;
  - (c) insufficient consideration has been given to the timing or cost of implementation; or
  - (d) the cumulative impact of a number of proposals would make the adoption of an otherwise satisfactory proposal inappropriate.
- 4 The FRC has established the Accounting Council as the relevant Council to assist it in the setting of accounting standards.

## Advice

- 5 The Accounting Council is advising the FRC to issue FRED 60 *Draft Amendments to FRS 100 Application of Financial Reporting Requirements and FRS 101 Reduced Disclosure Framework*.
- 6 The Accounting Council advises that these proposals will update the framework of accounting standards and maintain consistency of accounting standards with company law.
- 7 When these draft amendments are finalised the Accounting Council's Advice to the FRC in respect of these amendments will be added into FRS 100 and FRS 101.

## Background

- 8 The new EU Accounting Directive (Directive 2013/34/EU of the European Parliament and of the Council of 26 July 2013) is being implemented in the UK and Republic of Ireland. In doing so there will be changes to company law to reflect new requirements and, where considered appropriate, to take advantage of new options that are available. Accounting standards are developed within the context of company law and amendments will also be required to accounting standards.

- 9 In September 2014, the FRC issued a Consultation Document *Accounting standards for small entities – Implementation of the EU Accounting Directive*<sup>5</sup> (the Consultation Document), outlining its proposal that the *Financial Reporting Standard for Smaller Entities* (FRSSE) would be withdrawn. A small number of amendments to FRS 101 *Reduced Disclosure Framework* would also be necessary to maintain consistency with company law. The Accounting Council has considered the responses to the Consultation Document in developing FRED 60.
- 10 The FRC will produce a comprehensive feedback statement encompassing responses received to FRED 50 *Draft FRC Abstract 1 Residential Management Companies' Financial Statements and Consequential Amendments to the FRSSE*, the Consultation Document, and to FRED 58 *Draft FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime*, FRED 59 *Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Small entities and other minor amendments* and FRED 60 when the final standards are issued.

## Objective

- 11 In developing its advice to the FRC, the Accounting Council was guided by the overriding objective to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.
- 12 In meeting this objective, the FRC aims to provide succinct financial reporting standards that:
- (a) have consistency with international accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective;
  - (b) reflect up-to-date thinking and developments in the way entities operate and the transactions they undertake;
  - (c) balance consistent principles for accounting by all UK and Republic of Ireland entities with practical solutions, based on size, complexity, public interest and users' information needs;
  - (d) promote efficiency within groups; and
  - (e) are cost-effective to apply.

## Small entities regime

- 13 In the Consultation Document the FRC proposed that the FRSSE should be withdrawn and that it should be replaced with:
- (a) a new standard for micro-entities, draft FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*; and
  - (b) for small entities ineligible for or choosing not to apply the micro-entities regime, it should be replaced with a new Section 1A *Small Entities* within FRS 102.

This proposal was supported by the majority of respondents and the Accounting Council advises that the FRSSE is withdrawn, with consequential amendments made to FRS 100 *Application of Financial Reporting Requirements* to set out the revised framework.

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<sup>5</sup> Available on the FRC website ([www.frc.org.uk](http://www.frc.org.uk)).

## **Amendments to FRS 101**

- 14 A small number of amendments, principally to the Application Guidance to FRS 101, are necessary to maintain consistency between FRS 101 and company law.
- 15 The amendments proposed include:
- (a) Greater flexibility in relation to the format of the profit and loss account and balance sheet, which will allow entities choosing this option to adopt a presentation that is closer to that applied by entities preparing 'IAS accounts'.
  - (b) Revisions to certain requirements relating to financial instruments that are, or may be, measured at fair value. The new Accounting Directive permits measurement of certain financial instruments at fair value where it is in accordance with EU-adopted IFRS; previously this was restricted to IFRS endorsed by 5 September 2006. The consequences of this change have been considered. As a result, there is no longer a prohibition on measuring contingent consideration at fair value<sup>6</sup> and the Accounting Council advises that the relevant amendment to IFRS can be deleted.
  - (c) Prohibiting the reversal of impairment losses for goodwill.

## **Future amendments to FRS 101**

- 16 The Accounting Council notes that IFRS 9 *Financial Instruments* has not yet been endorsed for use in the EU, and therefore is not yet applicable to an entity applying FRS 101. However, the Accounting Council notes that one aspect of its recognition and measurement requirements is inconsistent with company law. This relates to where changes in fair value shall be presented. Once IFRS 9 has been endorsed the Accounting Council intends to advise that, for entities applying FRS 101, recording fair value gains and losses attributable to changes in credit risk in other comprehensive income in accordance with IFRS 9 will usually be a departure from the requirement of paragraph 40 of Schedule 1 to the Regulations, for the overriding purpose of giving a true and fair view.
- 17 The Accounting Council notes that company law will permit the use of the equity method in an entity's individual financial statements and therefore when it considers the recent amendment to IAS 27 *Separate Financial Statements* as part of the next annual review of FRS 101, it expects to advise that amendments are not necessary to FRS 101 for compliance with company law.

## **Effective date**

- 18 The Accounting Council advises that the amendments set out in this FRED should be effective for accounting periods beginning on or after 1 January 2016, with early adoption permitted in line with the effective date of changes in relevant legislation.

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<sup>6</sup> Although paragraph 36(3) of the Regulations will continue to prohibit the measurement of contingent consideration at fair value through profit or loss (as required by IFRS 3 *Business Combinations*), this measurement will now be permitted through paragraph 36(4) of the Regulations.

This draft is issued by the Financial Reporting Council for comment. It should be noted that the draft may be modified in the light of comments received before being issued in final form.

For ease of handling, we prefer comments to be sent by e-mail to:

[ukfrs@frc.org.uk](mailto:ukfrs@frc.org.uk)

Comments may also be sent in hard copy to:

Jenny Carter  
Financial Reporting Council  
8<sup>th</sup> Floor  
125 London Wall  
London  
EC2Y 5AS

Comments should be despatched so as to be received no later than 30 April 2015.

The FRC's policy is to publish on its website all responses to formal consultations issued by the FRC unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. The FRC does not edit personal information (such as telephone numbers or postal or e-mail addresses) from submissions; therefore, only information that you wish to be published should be submitted.

The FRC aims to publish responses within 10 working days of receipt.

The FRC will publish a summary of the consultation responses, either as part of, or alongside, its final decision.





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