Exposure Draft

Financial Reporting Council

January 2019

FRED 70

Draft amendments to FRS 101 *Reduced Disclosure Framework*

2018/19 cycle

The FRC's mission is to promote transparency and integrity in business. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the Competent Authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

The Financial Reporting Council Limited is a company limited by guarantee.
Registered in England number 2486368. Registered Office:
8th Floor, 125 London Wall, London EC2Y 5AS

Financial Reporting Council

January 2019

FRED 70

Draft amendments to FRS 101 *Reduced Disclosure Framework*

2018/19 cycle

Contents

	Page
Overview	3
Invitation to comment	4
Draft amendments to FRS 101 ***Reduced Disclosure Framework***	5
Draft consequential amendments to FRS 100 ***Application of Financial Reporting Requirements***	6
Basis for Conclusions **FRED 70** ***Draft amendments to FRS 101 Reduced Disclosure Framework – 2018/19 cycle***	7
Consultation stage impact assessment	12

Overview

(i) 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.

(ii) The FRC carries out an annual review of FRS 101 *Reduced Disclosure Framework* to provide additional disclosure exemptions as IFRS evolves and to respond to stakeholder feedback about other possible improvements.

FRS 101 *Reduced Disclosure Framework* – 2018/19 cycle

(iii) This FRED proposes amendments to the definition of a 'qualifying entity' such that entities that are both required to comply with Schedule 3 to the Regulations (or similar) and have contracts that are within the scope of IFRS 17 *Insurance Contracts* may not be qualifying entities. This means that these entities cannot apply FRS 101.

(iv) For entities not preparing IAS accounts, certain requirements of IFRS 17 conflict with requirements of company law that apply to non-IAS accounts. The primary conflict is in relation to the Schedule 3 formats of the primary statements; the approach and methodology that underpins IFRS 17 is so fundamentally different that presenting amounts determined in accordance with that standard, within the formats laid down in law for non-IAS accounts, is not possible. The proposed amendment is necessary to ensure that insurance companies that are not required to, and choose not to, prepare IAS accounts, continue to comply with company law requirements by only applying FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* with FRS 103 *Insurance Contracts*.

(v) No other amendments are proposed.

Invitation to comment

1 The FRC is requesting comments on FRED 70 by 30 April 2019. 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 that the approach and methodology that underpins IFRS 17 is so fundamentally different to the one that underpins the formats of Schedule 3 (see paragraph 12 of the Basis for Conclusions) that for Companies Act accounts (but not IAS accounts) it is not possible to apply IFRS 17 whilst continuing to maintain compliance with the law? If not, why not?

Question 2

Do you agree with the proposed amendments?

Question 3

Do you agree that no other amendments to FRS 101 are required for the other five IASB projects outlined in paragraph 7 of the Basis for Conclusions?

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.

2 Information on how to submit comments and the FRC's policy in relation to responses is set out on page 14.

Draft amendments to FRS 101 *Reduced Disclosure Framework*

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

Draft amendments to FRS 101

2 Paragraph 15 is inserted as follows:

15 In [July 2019] amendments were made to this FRS to change the definition of a qualifying entity to exclude entities that are both required to apply Schedule 3 to the Regulations (or similar) and have contracts that are within the scope of IFRS 17 *Insurance Contracts*. This amendment is effective for accounting periods beginning on or after 1 January 2021.

If an entity early adopts the recognition, measurement and disclosure requirements of IFRS 17, these amendments to FRS 101 shall be adopted at the same time.

Draft amendments to Appendix I *Glossary*

3 The glossary is amended as follows (footnote 6 is not amended and is not reproduced here):

qualifying entity (for the purposes of this FRS)	A member of a group where the parent of that group prepares publicly available consolidated financial statements which are intended to give a true and fair view (of the assets, liabilities, financial position and profit or loss) and that member is included in the consolidation[6]. ~~A charity~~ The following entities may not be a qualifying entity~~.~~: (a) charities; (b) entities that are both required to apply Schedule 3 to the **Regulations** and have contracts that are within the scope of IFRS 17 *Insurance Contracts*; and (c) entities that are not companies but are both required to apply requirements similar to those in Schedule 3 to the Regulations and have contracts that are within the scope of IFRS 17.

Draft consequential amendments to FRS 100 *Application of Financial Reporting Requirements*

4 The following paragraphs set out the draft consequential amendments to FRS 100 *Application of Financial Reporting Requirements* (inserted text is underlined, deleted text is struck-through).

Draft amendments to FRS 100

5 Paragraph 10B is inserted as follows:

10B In [July 2019] amendments were made to this FRS as a result of the 2018/19 cycle of amendments to FRS 101 to change the definition of a qualifying entity for the purposes of FRS 100 and FRS 101 to exclude entities that are both required to apply Schedule 3 to the Regulations (or similar) and have contracts that are within the scope of IFRS 17 *Insurance Contracts*. This amendment is effective for accounting periods beginning on or after 1 January 2021.

If an entity early adopts the recognition, measurement and disclosure requirements of IFRS 17 *Insurance Contracts*, these amendments to FRS 100 shall be adopted at the same time.

Draft amendments to Appendix I *Glossary*

6 The glossary is amended as follows (footnote 10 is not amended and is not reproduced here):

qualifying entity (for the purposes of FRS 100 and FRS 101)	A member of a group where the parent of that group prepares publicly available consolidated financial statements which are intended to give a true and fair view (of the assets, liabilities, financial position and profit or loss) and that member is included in the consolidation[10]. ~~A charity~~ The following entities may not be a qualifying entity~~.~~: (a) charities; (b) entities that are both required to apply Schedule 3 to the **Regulations** and have contracts that are within the scope of IFRS 17 *Insurance Contracts*; and (c) entities that are not companies but are both required to apply requirements similar to those in Schedule 3 to the Regulations and have contracts that are within the scope of IFRS 17.

Basis for Conclusions
FRED 70 *Draft amendments to FRS 101 Reduced Disclosure Framework – 2018/19 cycle*

This Basis for Conclusions accompanies, but is not part of, this Financial Reporting Exposure Draft and summarises the main issues considered by the Financial Reporting Council (FRC) in developing FRED 70 Draft amendments to FRS 101 Reduced Disclosure Framework – 2018/19 cycle.

When these proposals are finalised, the Basis for Conclusions accompanying FRS 101 will be updated.

1 FRS 101 sets out an optional reduced disclosure framework which addresses the financial reporting requirements for individual financial statements of subsidiaries and ultimate parents that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS. Disclosure exemptions are available to a qualifying entity in its individual financial statements.

2 When applying FRS 101 and deciding which disclosure exemptions to take advantage of, entities should bear in mind the need to ensure that disclosures are relevant and targeted to meet the needs of users.

Objective

3 In developing financial reporting standards, the overriding objective of the FRC 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.

4 In achieving this objective, the FRC aims to provide succinct financial reporting standards that:

(a) have consistency with global accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective;

(b) balance improvement, through reflecting up-to-date thinking and developments in the way businesses operate and the transactions they undertake, with stability;

(c) balance consistent principles for accounting by all UK and Republic of Ireland entities with proportionate and practical solutions, based on size, complexity, public interest and users' information needs;

(d) promote efficiency within groups; and

(e) are cost-effective to apply.

5 In respect of FRS 101, the following principles have been applied in determining which of the disclosure requirements in EU-adopted IFRS should be required by qualifying entities:

(1) Relevance:

Does the disclosure requirement provide information that is capable of making a difference to the decisions made by the users of the financial statements of a qualifying entity?

(2) Cost constraint on useful financial reporting:

Does the disclosure requirement impose costs on the preparers of the financial statements of a qualifying entity that are not justified by the benefits to the users of those financial statements?

(3) Avoid gold plating:

Does the disclosure requirement override an existing exemption provided by company law in the UK?

6 In the 2015/16 cycle, further consideration was given to how the principle of 'relevance' should be applied in the context of disclosure by qualifying entities. It was noted that qualifying entities usually have few users of their financial statements, and particularly few users that would be external to the group that the qualifying entity is part of. Any external users are likely to be providers of credit to the qualifying entity whose interest is generally likely to be focused on information about the liquidity and solvency of the qualifying entity. This is because that information might be relevant to the ability of the qualifying entity to pay (or repay) any credit advanced.

IASB projects completed since the 2017/18 cycle

7 The 2018/19 cycle considered IASB projects completed by August 2018. The IASB has completed five projects since those considered in the review for the 2017/18 cycle, which was performed in August 2017.

	IASB project	**Date issued**	**Date effective**	**Date endorsed in the EU**
1	*Prepayment Features with Negative Compensation* (Amendments to IFRS 9)	Oct 2017	1 Jan 2019	Mar 2018
2	*Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28)	Oct 2017	1 Jan 2019	Expected Q1 2019
3	*Annual Improvements to IFRS Standards 2015-2017 Cycle*	Dec 2017	1 Jan 2019	Expected Q1 2019
4	*Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19)	Feb 2018	1 Jan 2019	Expected Q1 2019
5	*Amendments to References to the Conceptual Framework in IFRS Standards*	Mar 2018	1 Jan 2020	Expected 2019

8 In addition to the IASB projects above, as noted in paragraph 61A of the Basis for Conclusions accompanying FRS 101, IFRS 17 *Insurance Contracts* has also been considered in more detail in this cycle.

9 The amendments[1] resulting from these six projects were reviewed in the context of the reduced disclosure framework for any amendments that:

(a) alter disclosure requirements, as consideration will need to be given to whether changes should be made to the disclosure exemptions permitted in FRS 101; and/or

(b) are inconsistent with current UK legal requirements, as consideration will need to be given to whether changes should be made to the Application Guidance: *Amendments to International Financial Reporting Standards as adopted in the European Union for compliance with the Act and the Regulations* to FRS 101.

[1] The full IASB documents setting out the amendments for each project are available on the IASB website (www.ifrs.org).

IFRS 17 *Insurance Contracts*

Conflicts with company law – Companies Act accounts only

Presentation – primary statements

10 As noted in paragraph 4A of FRS 101, individual financial statements prepared by companies in accordance with FRS 101 are Companies Act accounts and not IAS accounts and therefore must comply with the requirements of the Act and any relevant regulations, such as SI 2008/410, the *Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008* (the Regulations).

11 For Companies Act accounts (but not IAS accounts), the form and content of individual accounts of insurance companies are required to comply with Schedule 3 to the Regulations. Unlike companies preparing accounts under Schedule 1 to the Regulations, the formats and content of accounts under Schedule 3 cannot be adapted[2].

12 The approaches to accounting for insurance contracts that underpin IFRS 17 and Schedule 3 are fundamentally different. For example, IFRS 17 requires the presentation of revenue, which is measured by reference to the profit earned in respect of insurance services provided during the period and released from the contractual service margin. Income and expenditure relating to reinsurance is separately measured and presented. Schedule 3, however, requires the presentation of earned premiums net of reinsurance, which is measured by reference to the gross premiums written in the period (irrespective of the period of insurance cover) less reinsurance premiums paid, adjusted for changes in the provision for unearned premiums, net of insurance.

13 The FRC explored the possibility of developing formats (for example by inserting additional line items, sub-totals or columns) that would be compliant with Schedule 3 whilst also being compatible with the reporting requirements of IFRS 17. However, it concluded that the approach and methodology that underpins IFRS 17 is so fundamentally different to the one that underpins the formats of Schedule 3 that for Companies Act accounts (but not IAS accounts) it is not possible to apply IFRS 17 whilst continuing to maintain compliance with company law. Preliminary informal outreach with stakeholders has supported this conclusion.

Measurement

14 Other conflicts between IFRS 17 and company law exist in respect of measurement. The most notable is the IFRS 17 requirement to apply discounting techniques to all fulfilment cash flows arising from insurance contracts, whilst Schedule 3 to the Regulations only permits discounting of provisions for general business claims outstanding under specific circumstances.

Proposed amendments

15 This FRED proposes amendments to the definition of a 'qualifying entity' such that:

(a) entities that are both required to comply with Schedule 3 to the Regulations and have contracts that are within the scope of IFRS 17; and

(b) entities that are not companies but are both required to apply requirements that are similar to those in Schedule 3 to the Regulations and have contracts that are within the scope of IFRS 17,

---

[2] Paragraphs 1A(1) and 1A(2) of Schedule 1 to the Regulations.

may not be qualifying entities. This means that these entities, namely insurers, cannot apply FRS 101.

16 The latter part of the amendment is intended to capture entities such as friendly societies which would encounter similar conflicts in applying IFRS 17 in conjunction with applicable legislation.

17 The FRC believes that the proposed amendments are necessary to ensure that insurance companies that are not required to, and choose not to, prepare IAS accounts, continue to comply with company law by only applying FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* with FRS 103 *Insurance Contracts*.

Proposed effective date and early adoption of IFRS 17

18 It is proposed that the amendment will become effective for accounting periods beginning on or after 1 January 2021. This effective date has been chosen to align with the effective date of IFRS 17. This will enable insurance companies that currently apply FRS 101 to continue to do so until IFRS 17 becomes effective. The FRC is aware that the IASB is considering changes to IFRS 17, including a change to its effective date. The FRC will continue to monitor this activity and changes to the effective date of this proposed amendment will be made should the effective date of IFRS 17 change.

19 If an entity applying FRS 101 chooses to early adopt IFRS 17, it must adopt these amendments to FRS 101 at the same time.

Available financial reporting frameworks

20 Insurance companies that are qualifying entities currently have the choice between three possible financial reporting options – EU-adopted IFRS, FRS 101, or FRS 102 with FRS 103. Under these proposed amendments, these entities will have to choose between only two options, either EU-adopted IFRS or FRS 102 with FRS 103, for the preparation of their individual financial statements.

IFRS 17

21 The principal benefit of selecting EU-adopted IFRS, including IFRS 17, for the preparation of individual financial statements is that there will be no additional costs incurred in preparing the consolidated financial statements as all financial statements will be prepared on the same basis.

22 The principal disadvantage is that there are no disclosure exemptions available and additional costs will be incurred in preparing full IFRS disclosures for all group entities. However, groups that are mandatorily required to apply IFRS 17 will be undertaking implementation projects and incurring costs in advance of the standard’s effective date, and cost efficiencies may be achievable if implementation projects are rolled out across group entities simultaneously.

FRS 102 with FRS 103

23 The principal benefit of selecting FRS 102 with FRS 103 is that it is less complex when compared to IFRS 17, and some disclosure exemptions are available. FRS 102 permits entities to take certain reduced disclosure exemptions which will result in cost efficiencies. Insurance companies that are qualifying entities are not required to provide a statement of cash flows and certain disclosures in relation to share-based payments and related party transactions in their individual financial statements.

24 The principal disadvantage of choosing FRS 102 with FRS 103 is that a secondary set of financial statements will need to be prepared for consolidation purposes for all group entities. This may require two accounting systems to be run in parallel to ensure relevant and accurate information is captured.

25 For an insurance company currently applying FRS 101, one of the main advantages of moving to FRS 102 with FRS 103 is that it will largely be able to continue to apply its existing accounting in respect of insurance contracts. The trade-off is that the entity will need to transition to FRS 102 and incur costs in undertaking a transition exercise to ensure consistency with the standard. However, as FRS 102 is IFRS-based, the changes required may be limited.

Selecting a framework

26 Regardless of the amendments to FRS 101 proposed in this FRED, insurance groups that are required to apply EU-adopted IFRS will be incurring implementation costs in transitioning from IFRS 4 *Insurance Contracts* to IFRS 17 for the preparation of their consolidated financial statements.

27 In selecting which framework to apply to individual financial statements of the entities within the group, entities will need to consider:

(a) the number and type of entities that make up the group (which may include both insurance and non-insurance companies); in conjunction with

(b) the relative costs and benefits of each framework – weighing up the principal benefit of applying IFRS 17 (being that all individual financial statements of group entities will be prepared on the same basis as the consolidated financial statements so additional costs on consolidation will be minimised) against the principal benefit of applying FRS 102 with FRS 103 (being the cost savings arising from the availability of certain disclosure exemptions).

28 Groups that currently apply FRS 101, which include both insurance and non-insurance companies, will need to take into account the costs associated with moving any non-insurance companies off FRS 101 (ie the additional costs of losing certain disclosure exemptions and transitional costs), if considered necessary, for compliance with company law requirements regarding consistency within groups, and weigh these up against the principal benefits of each framework.

Other IASB projects

29 The FRC proposes that no amendments are required to FRS 101 for the changes to IFRS arising from the five projects listed in the table in paragraph 7.

Consultation stage 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 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 any new IFRS or amendments to existing standards issued.

Draft amendments to FRS 101

4 The IASB issued IFRS 17 *Insurance Contracts* in May 2017 with an effective date of annual reporting periods beginning on or after 1 January 2021.

5 Financial statements prepared under FRS 101 are Companies Act accounts (not IAS accounts) and therefore must comply with the requirements of the Act and relevant regulations. For insurance companies, Schedule 3 to the Regulations applies.

6 In considering the requirements of IFRS 17 in the context of Companies Act accounts (not IAS accounts), it is clear that the approach and methodology that underpins IFRS 17 is fundamentally different to the one that underpins Schedule 3 to the Regulations and conflicts exist in respect of the required formats and certain measurement bases.

7 In the context of FRS 101, the FRC considered the following four options in how to deal with these conflicts:

(a) Do nothing.

(b) Amend the requirements of IFRS 17 within FRS 101 so the requirements comply with Schedule 3 to the Regulations.

(c) Adapt the Schedule 3 formats to accommodate the requirements of IFRS 17.

(d) Scope relevant entities out of FRS 101.

8 Option (a) ‘do nothing’ is not an option as insurance companies applying FRS 101 would not be able to comply simultaneously with both the Companies Act accounts requirements of company law and the requirements of IFRS 17.

9 With options (b) and (c), it is felt that any attempt to align the requirements of IFRS 17 and Schedule 3 would not be possible. The approaches are so fundamentally different that it would be challenging to find a solution that would result in clear and useful reporting whilst still complying with both sets of requirements.

10 Leaving no other feasible option, the FRC is proposing option (d). FRED 70 proposes amendments to the defined term ‘qualifying entity’ such that insurance companies that are both required to apply Schedule 3 to the Regulations and have contracts that are within the scope of IFRS 17 cannot be qualifying entities, and therefore cannot apply FRS 101.

This proposed amendment will have the same effective date as IFRS 17, which is currently accounting periods beginning on or after 1 January 2021.

11 The FRC believes that the proposed amendments are the only feasible option. It ensures that insurance companies that are not required to, and choose not to, prepare IAS accounts, continue to comply with company law by applying FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* with FRS 103 *Insurance Contracts*.

12 In deciding which framework to apply to the individual financial statements of the entities within a group, an entity will need to weigh up the relative costs and benefits of choosing either EU-adopted IFRS or FRS 102, taking into account its own individual circumstances (for example, which framework is currently being applied and the number and type of entities within the group).

13 Entities will need to weigh up the principal benefit of applying EU-adopted IFRS (being that all individual financial statements of group entities will be prepared on the same basis as the consolidated financial statements so additional costs on consolidation will be minimised) against the principal benefit of applying FRS 102 with FRS 103 (being the cost savings arising from the availability of certain disclosure exemptions). See paragraphs 20 to 28 of the Basis for Conclusions that accompanies FRED 70 for more detailed explanations of the costs and benefits of each framework.

14 The total costs incurred as a result of this choice will depend on which reporting framework(s) is/are currently being applied and the number and type of entities within the group. Entities that currently apply either EU-adopted IFRS or FRS 102 with FRS 103 will not incur any additional costs as a result of this proposed amendment. Entities that currently apply FRS 101 will incur additional costs regardless of which framework they move to as systems and processes will need to be changed to ensure accurate and compliant information is captured, although much of this will be required for group compliance with IFRS 17. However, these costs will be offset by the respective cost savings associated with each framework as outlined above.

Conclusion

15 FRS 101 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. The FRC believes that the proposed amendments to FRS 101 reflect the necessary amendments required to ensure compliance with company law for entities preparing Companies Act accounts (not IAS accounts).

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

Comments may also be sent in hard copy to:

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

Comments should be despatched so as to be received no later than 30 April 2019.

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.

Further copies, £14.00 (post-free) can be obtained from
FRC Publications
Lexis House
30 Farringdon Street
London
EC4A 4HH

Tel: **0845 370 1234**
Email: **customer.services@lexisnexis.co.uk**
Or order online at: **www.frcpublications.com**

ISBN 978-0-7545-5662-6

9 780754 556626