Exposure Draft

Financial Reporting Council

November 2020

FRED 77

Draft amendments to FRS 101 *Reduced Disclosure Framework*

2020/21 cycle

The FRC's purpose is to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those responsible for delivering them. 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.

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Contents

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*

(iii) After considering the 2020/21 annual review of FRS 101 this Financial Reporting Exposure Draft (FRED) proposes limited amendments to FRS 101 to provide certain disclosure exemptions in relation to IAS 16 *Property, Plant and Equipment* and for consistency with IAS 1 *Presentation of Financial Statements*.

(iv) This FRED also proposes an amendment to FRS 101 to remove a reference to paragraphs 39 and 40 of IAS 1. These paragraphs were deleted by *Annual Improvements to IFRSs 2009–2011 Cycle*, and therefore were only applicable to accounting periods beginning before 1 January 2013.

(v) No other amendments are proposed.

Invitation to comment

1 The FRC is requesting comments on FRED 77 by 28 February 2021. 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 proposed amendments to FRS 101? If not, why not?
>
> **Question 2**
>
> Do you agree that no other amendments to FRS 101 are required for the other IASB projects outlined in paragraph 7 of the Basis for Conclusions?
>
> In particular, do you agree that an exemption should not be provided from the disclosure requirements introduced by *Covid-19-Related Rent Concessions* (Amendments to IFRS 16)?
>
> **Question 3**
>
> 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 15.

Draft amendments to FRS 101 *Reduced Disclosure Framework*

Draft amendments to FRS 101

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

2 Paragraph 8(g) is amended as follows:

8(g) The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 *Presentation of Financial Statements*.

~~For accounting periods beginning before 1 January 2013, paragraphs 38A, 38B, 38C, 38D, 40A, 40B, 40C and 40D of IAS 1 (effective 1 January 2013) should be replaced with paragraphs 39 and 40 of IAS 1 (effective 1 January 2009).~~

3 Paragraph 8(iA) is inserted as follows:

8(iA) The requirements of paragraph 74A(b) of IAS 16 *Property, Plant and Equipment*.

Draft amendments to Application Guidance

4 The following paragraph sets out the draft amendments to Application Guidance: *Amendments to International Financial Reporting Standards as Adopted in the European Union for Compliance with the Act and the Regulations*.

5 Paragraph AG1(h) is deleted and replaced[1] 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 permitted or 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 76B 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.

[1] The amendment made to paragraph 53A is a result of the insertion of paragraphs 76A and 76B into IAS 1 *Presentation of Financial Statements*; the cross-reference to paragraphs 54 to 76 of IAS 1 is extended to include paragraphs 76A and 76B.

Draft amendments to Appendix II *Note on Legal Requirements*

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

7 Paragraph A2.9B(c) is amended and a sequentially numbered footnote is inserted (subsequent footnotes are renumbered sequentially) as follows:

A2.9B(c) Differences in the definition of ‘creditors falling due within or after one year’ (the terms used in the Regulations) and ‘current and non-current liabilities’ (the term used in EU-adopted IFRS). Under the Act a loan is treated as due for repayment on the earliest date on which a lender could require repayment, whilst under EU-adopted IFRS the due date is based on when the entity expects to settle the liability or has no ~~unconditional~~ right to defer ~~payment~~ settlement[*footnote].

[*footnote] For accounting periods beginning before 1 January 2023, the due date is based on when the entity expects to settle the liability or has no unconditional right to defer payment, unless the entity chooses to apply *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1) early.

8 The table **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:

IFRS	Explanation/potential issues	Amendment to EU-adopted IFRS
IAS 1	*Formats* The format requirements applicable under IAS 1 and those under the Regulations may be incompatible. ...	IAS 1.53A and IAS 1.81C are inserted to disapply IAS 1.54 to IAS 1.76B, IAS 1.82 ~~and~~, IAS 1.8~~4~~5 ~~to~~and IAS 1.86, unless certain options in Schedule 1 to the Regulations are chosen. ...

Basis for Conclusions
FRED 77 *FRS 101 Reduced Disclosure Framework – 2020/21 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 77 Draft amendments to FRS 101 Reduced Disclosure Framework – 2020/21 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 2019/20 cycle

7 The 2020/21 cycle considered IASB projects completed by August 2020. The IASB has completed 11 projects since those considered in the review for the 2019/20 cycle, which was performed in August 2019.

	IASB project	**Date issued**	**Date effective**	**Date endorsed in the EU**
1	*Interest Rate Benchmark Reform* (Amendments to IFRS 9, IAS 39 and IFRS 7)	Sep 2019	1 Jan 2020	Jan 2020
2	*Classification of Liabilities as Current or Non-current* (Amendments to IAS 1)	Jan 2020	1 Jan 2023	To be determined
3	*Reference to the Conceptual Framework* (Amendments to IFRS 3)	May 2020	1 Jan 2022	Expected H2 2021
4	*Onerous Contracts—Cost of Fulfilling a Contract* (Amendments to IAS 37)	May 2020	1 Jan 2022	Expected H2 2021
5	*Property, Plant and Equipment: Proceeds before Intended Use* (Amendments to IAS 16)	May 2020	1 Jan 2022	Expected H2 2021
6	Annual Improvements to IFRS Standards 2018–2020 Cycle	May 2020	1 Jan 2022	Expected H2 2021
7	*Covid-19-Related Rent Concessions* (Amendments to IFRS 16)	May 2020	1 Jun 2020	Oct 2020
8	*Extension of the Temporary Exemption from Applying IFRS 9* (Amendments to IFRS 4)	Jun 2020	1 Jan 2020	Expected Q4 2020
9	*Amendments to IFRS 17*	Jun 2020	1 Jan 2023	To be determined
10	*Classification of Liabilities as Current or Non-current—Deferral of Effective Date* (Amendments to IAS 1)	Jul 2020	1 Jan 2023	To be determined
11	*Interest Rate Benchmark Reform—Phase 2* (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	Aug 2020	1 Jan 2021	Expected Q4 2020

8 In October 2020, an amendment was made to FRS 101 for *Amendments to IFRS 17*[2]. Therefore, this project has not been considered as part of this annual review cycle.

9 The amendments[3] resulting from the remaining ten 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.

10 Five of the above projects listed in the table in paragraph 7 require consideration in this review. These are discussed in more detail below.

Classification of Liabilities as Current or Non-current – Amendments to IAS 1

11 The amendments to IAS 1 *Presentation of Financial Statements* clarify the criteria for the classification of liabilities as either current or non-current. These criteria are referenced in paragraph A2.9B(c) of Appendix II *Note on legal requirements*. Therefore, this FRED proposes an amendment to paragraph A2.9B(c) to ensure consistency with IAS 1.

12 The amendments to IAS 1 *Presentation of Financial Statements* also clarify aspects of the meaning of the term ‘settlement’ by inserting paragraphs 76A and 76B. These add to the requirements in IAS 1 that cover the structure and content of the statement of financial position. Paragraph AG1(h) of the Application Guidance to FRS 101 amends IAS 1 in order to disapply these requirements of the standard where a qualifying entity is preparing accounts when the format and contents cannot be adapted. Therefore, this FRED proposes an amendment to paragraph AG1(h) to reflect these additional paragraphs. An amendment to Table I of Appendix II is also proposed as a consequence of this change.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

13 The amendments to IAS 16 *Property, Plant and Equipment* insert paragraph 74A. Paragraph 74A(b) introduces a new requirement to disclose information about the sale of items that are not an output of the entity’s ordinary activities, which are produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management.

14 The disclosure requirement has been compared to the principles set out in paragraphs 5 and 6. As the information provided by the requirement supports items in the income statement, rather than the statement of financial position, it is not likely to be directly relevant to those users who are focused on an entity’s liquidity and solvency. Therefore, this FRED proposes an exemption from paragraph 74A(b) of IAS 16.

Covid-19-Related Rent Concessions – Amendments to IFRS 16

15 The amendments to IFRS 16 *Leases* provide lessees with a practical expedient that relieves them from assessing whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and from applying the lease modification requirements to those concessions. A lessee applying the practical expedient would generally account for a forgiveness or waiver of lease payments as a variable lease payment.

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[2] *Amendment to FRS 101 Reduced Disclosure Framework – Effective date of IFRS 17*

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

16 The amendments also introduce new requirements for lessees that apply the practical expedient to disclose that fact, as well as the amount recognised in profit or loss to reflect changes in lease payments that arise from rent concessions to which the practical expedient is applied.

17 FRS 101 does not currently provide an exemption from paragraph 53(e) of IFRS 16, which requires lessees to disclose the expense related to variable lease payments not included in the measurement of lease liabilities, which is considered useful to users. The requirement introduced by the amendments requires entities to disaggregate this expense in order to separately disclose the amount recognised in profit or loss relating to COVID-19-related rent concessions. A qualifying entity will be required to determine this amount for the equivalent disclosure included in the parent's consolidated financial statements. Therefore, providing an exemption from this new requirement would provide minimal cost savings for preparers of the financial statements of qualifying entities, and may limit the useful information available to users. As a result, this FRED does not propose to make any amendments to FRS 101 for the amendments to IFRS 16.

Interest Rate Benchmark Reform

18 The amendments issued as part of Phases 1 and 2 of the IASB's project to address the financial reporting issues that arise during interest rate benchmark reform were considered as part of this review. This FRED does not propose to make any amendments to FRS 101 for the changes to IFRS arising from this project.

19 The amendments introduced new disclosure requirements into IFRS 7 *Financial Instruments: Disclosures*. It should be noted that paragraph 8 of FRS 101 permits qualifying entities that are not financial institutions to take advantage of exemptions from the requirements of IFRS 7, provided equivalent disclosures are included in the consolidated financial statements of the group. This exemption includes the disclosure requirements introduced by these amendments to IFRS 7. However, a qualifying entity that is a financial institution is not exempt from the disclosure requirements of IFRS 7.

Effective date

20 Paragraph 8 of FRS 101 notes that the exemptions are available from when the relevant standard is applied. Therefore there is no need to amend the effective date for these proposed amendments.

Other issues arising

IAS 1 *Presentation of Financial Information*

21 Paragraph 8 of FRS 101 currently includes a reference to paragraphs 39 and 40 of IAS 1. These paragraphs were deleted and replaced by paragraphs 38A and 38B of IAS 1 by *Annual Improvements to IFRSs 2009–2011 Cycle*. As these amendments have been effective since 1 January 2013, this FRED proposes an amendment to remove this reference.

UK exit from the European Union

22 In January 2020, the UK exited the European Union. As a result, changes were required to UK company law to ensure that it continues to operate effectively. Some of these changes also lead to consequential amendments to FRS 101 so that the standard remains in line with the law. These amendments will be made to FRS 101 outside this annual review cycle.

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 draft amendments to FRS 101 provide exemptions from certain of the disclosures that would otherwise be required by IAS 16 *Property, Plant and Equipment*, and are therefore expected to reduce the cost of compliance with FRS 101.

Conclusion

5 Overall, the FRC believes that the proposed amendments to FRS 101 will have a positive impact on the cost-effectiveness of the preparation of the financial statements.

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:

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Financial Reporting Council
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125 London Wall
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Comments should be despatched so as to be received no later than 28 February 2021. If you have sent a copy of your response electronically, there is no need to send an additional hard copy.

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.

FRC

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