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08 May 2017

Small entities are within the scope of [FRS 102](#)^[1] (PDF) for accounting periods beginning on or after 1 January 2016. Therefore, other than early adopters, the first small entities applying FRS 102 are those with accounting periods ending 31 December 2016. Small entities have nine months in which to file their financial statements.

[FRED 67](#)^[2] (PDF) proposes a number of amendments to FRS 102, in response to calls from stakeholders, intended to simplify it and make it more cost-effective. This includes permitting small entities to initially measure a loan from a director who is a natural person and a shareholder in the small entity (or a close member of the family of that person) at transaction price. FRS 102 currently requires such loans to be initially measured at present value, with the discount rate being a market rate of interest for a similar debt instrument.

If stakeholders agree with the proposals in FRED 67, the changes are expected to be available for early application; early indications are that the proposals relating to directors' loans are supported by stakeholders. With finalisation of the proposals expected in December 2017 it will be too late for the first FRS 102 financial statements of small entities reporting as at 31 December 2016 and monthly immediately thereafter. However, later reporters will be able to take advantage of this simplification on first-time adoption of FRS 102. The FRC is concerned about this inequity and understands the frustrations of many small entities that our proposals to address concerns about the accounting for directors' loans will be finalised too late to avoid implementation for one year only.

We have considered whether relief could be available, in order to avoid some small entities measuring directors' loans initially at present value for one year only, if the proposals in FRED 67 are confirmed. This could be achieved by deferring, for small entities only, the implementation of this aspect of FRS 102, pending the finalisation of the proposals in FRED 67.

Therefore, as an optional interim measure, the FRC is amending FRS 102 to insert the following (inserted text is underlined):

1.15A A small entity, as an exception to paragraph 11.13, may measure a basic financial liability that is a loan from a director who is a natural person and a shareholder in the small entity (or a close member of the family of that person) initially at transaction price. Subsequently, for the same financial liability, a small entity is also exempt from the final sentence of paragraph 11.14(a).

This amendment is effective immediately with retrospective application available; it shall not be applied directly, or by analogy, to any other transaction, event or condition.

As it is an interim measure, this amendment will be deleted as part of the finalisation of FRED 67. It will then be replaced with permanent requirements based on the proposals in FRED 67 after considering the outcome of the consultation process.

Some small entities will have issued financial statements that comply with FRS 102 prior to this optional interim measure being available. In these cases the exemption will be available in any subsequent financial statements, with full retrospective application required.

Whilst it is usual for the FRC to consult formally on amendments to an extant standard, the FRC has concluded that this is not essential in this case as the amendment is only an interim measure, it merely defers for many entities the first-time application of an accounting policy of measuring such loans initially at present value and the permanent removal of this policy is already subject to an on-going consultation. The FRC has, however, carried out informal stakeholder outreach which has indicated strong support for the proposal.

This is an amendment to an accounting standard. It is issued by the Financial Reporting Council in respect of its application in the United Kingdom and promulgated by the Institute of Chartered Accountants in Ireland in respect of its application in the Republic of Ireland.

^[1] FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

^[2] FRED 67 *Draft amendments to FRS 102 – Triennial review 2017 – Incremental improvements and clarifications*

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