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Dear Jenny,

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

We are pleased to have the opportunity to comment on *FRED 63: Draft amendments to FRS 101 Reduced Disclosure Framework 2015/16 cycle* (the Exposure Draft).

We agree with the assertion set out in question 1 to the Exposure Draft that the external users of financial statements prepared by a Qualifying Entity are likely to be predominantly providers of credit. In our view, the key factor that would lead to differing views on the necessity for a particular disclosure requirement in an accounting standard is the specific information needs of these principal external users of the financial statements in question. We note, however, that this matter is not addressed in paragraph 9 of the Accounting Council's Advice in FRS 101 or elsewhere in the standard and is only alluded to in paragraph 17 of the Accounting Council's Advice in the Exposure Draft.

Given the on-going importance of the principles in paragraph 9 of the Accounting Council's Advice in FRS 101, we consider it to be worthwhile for the FRC to seek to expand on them in order to clarify how the information needs of a typical user of a Qualifying Entity's financial statements differ from those of a typical user of financial statements prepared by other entities. In our view, the importance of this analysis is such that it should be the subject of a more in-depth analysis and, potentially, a separate consultation exercise.

Our detailed responses to the questions asked in the Exposure Draft are set out in an appendix to this letter.

If you wish to discuss any of the points further, please do not hesitate in contacting me.

Yours sincerely,

Nicole Kissun  
Partner  
For and on behalf of BDO LLP





*Appendix: Responses to the questions asked in the Exposure Draft***Question 1**

The principles for determining whether disclosure exemptions from EU-adopted IFRS should be available in FRS 101 are set out in paragraph 9 of the Accounting Council's Advice. These are relevance, cost considerations and avoiding gold plating.

Qualifying entities have limited external users of the financial statements. These external users are likely to be providers of credit with a greater focus on information that supports the statement of financial position of the qualifying entity, when compared with detailed analysis of performance as required by some of the disclosures in IFRS 15 *Revenue from Contracts with Customers*. Do you agree?

In general terms, we agree that providers of credit are likely to have a greater focus on information that supports the statement of financial position than on that which is exclusively a detailed analysis of performance. We do not, however, think that their interests will be limited to that information. In our view, consistent with the view expressed in paragraph 17 of the Accounting Council's Advice in FRED 63, the interests of providers of credit are likely to be focused on the liquidity and solvency of the Qualifying Entity, and on the quality of its cash flows more generally. Such information may not, however, always be associated with a recognised asset or liability.

The disclosure objective set out in IFRS 15.110 is to "...disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of [...] cash flows arising from contracts with customers..."; this objective is consistent with the view set out in paragraph 17 of the Accounting Council's Advice in FRED 63. We note, however, that several of the more detailed disclosure requirements set out in IFRS 15, which would provide a user of the financial statements with information about cash flows arising from contracts with customers, are not related to amounts recognised in the statement of financial position. In the context of IFRS 15 in particular, performance and the statement of financial position are highly interrelated.

In consequence, we consider the assertion in this question (that external users of financial statements prepared by Qualifying Entities are likely to have a greater focus on information that supports the statement of financial position) to be too narrow. We include further comment on this matter in our response to question 3.

As described in more detail in our response to question 2 below, however, we do not consider paragraph 9 of the Accounting Council's Advice, on its own, to be sufficient for the purposes of determining whether disclosure exemptions from EU-adopted IFRSs should be available in FRS 101.

**Question 2**

Do you consider that additional refinements could be made to the principles set out in paragraph 9 of the Accounting Council's Advice that, when applied, would help to increase further the cost-effectiveness of FRS 101?

As noted in our response to question 1 above, we do not consider paragraph 9 of the Accounting Council's Advice, on its own, to be sufficient for the purposes of determining whether disclosure exemptions from EU-adopted IFRSs should be available in FRS 101. Whilst all of the principles set out in that paragraph are qualities that should be reflected in a disclosure requirement, they would rarely explain why a particular disclosure should be required under EU-adopted IFRSs but not under FRS 101.

In our view, the key factor that would lead to differing views on the necessity for a particular disclosure requirement in an accounting standard is the specific information needs of the principal external users of the financial statements in question. Whilst this is alluded to in question 1 above (ie providers of credit), it is not addressed in the Exposure Draft or elsewhere in FRS 101.

We agree with the assertion set out in question 1, that the external users of financial statements prepared by a Qualifying Entity are likely to be predominantly providers of credit and, as minority shareholders in such entities will have the right (individually or in combination with others) to object to the use of FRS 101 if the disclosure requirements do not meet their information needs, attention should be focussed on credit providers' needs. However, we note that an approach that considers the needs of providers of credit in the first instance might be seen as a departure from the focus on the needs of shareholders generally encouraged by the FRC and under company law applicable to the annual report.

As we set out in our response to question 1, whilst we also agree that providers of credit are likely to have greater focus on information that supports the statement of financial position, when compared with detailed analysis of performance, we do not think that their interests will be limited to that aspect of the financial statements. We consider that providers of credit would be as, if not more, interested in information on the liquidity of the Qualifying Entity and of the quality of its cash flows. We acknowledge, however, that this view may be seen as inconsistent with the exemption from cash flow statement disclosures offered under FRS 101.

In light of the above, given the on-going importance of the principles in paragraph 9 of the Accounting Council's Advice in FRS 101, we consider it to be worthwhile for the FRC to seek to expand on them in order to clarify how the information needs of a typical user of a Qualifying Entity's financial statements differ from those of a typical user of financial statements prepared by other entities. Doing this would not only enable the FRC to make consistent judgements when deciding on which disclosure exemptions should be made available in FRS 101 but would also provide guidance for preparers of a Qualifying Entity's financial statements when they are considering which, if any, additional voluntary disclosures may be needed order for those financial statements to provide a true and fair view of the assets, liabilities, financial position and profit or loss of the company, as required under s393 of the Companies Act 2006.

In our view, the importance of this analysis is such that it should be the subject of a more in-depth analysis and, potentially, a separate consultation exercise.

**Question 3**

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

In addition to the points we have highlighted in our responses to questions 1 and 2, we have the following more detailed observations on the proposed amendments to FRS 101:

- It is proposed that a Qualifying Entity should apply the first sentence of IFRS 15.110 (“The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers...”) in its entirety. In the context of the assertion made in question 1, however, we consider that the disclosure objective should be restricted to the nature, amount, timing and uncertainty of [only] cash flows arising from contracts with customers (ie the reference to “...revenue and...” should be deleted).
- It is proposed that a Qualifying Entity be exempted from the disclosure requirement in IFRS 15.113(b) (“...any impairment losses recognised (in accordance with IFRS 9) on any receivables or contract assets arising from an entity’s contracts with customers, which the entity shall disclose separately from impairment losses from other contracts”). In our view, this disclosure requirement provides information on the credit quality of items in the statement of financial position and, in consequence, may be of relevance to providers of credit.
- It is proposed that a Qualifying Entity be exempted from the disclosure requirement in IFRS 15.114 (“An entity shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors”). In the context of the assertion made in question 1 we consider that the disclosure of information that depicts how the nature, amount, timing and uncertainty of cash flows is affected by economic factors may be of relevance to providers of credit.
- It is proposed that a Qualifying Entity be exempted from the disclosure requirement in IFRS 15.118 (“An entity shall provide an explanation of the significant changes in the contract asset and the contract liability balances during the reporting period. The explanation shall include qualitative and quantitative information...”). In our view, this disclosure requirement provides information that supports the statement of financial position and, as such, should be disclosed in accordance with the principles set out in question 1.
- It is proposed that a Qualifying Entity be exempted from the disclosure requirement in IFRS 15.119 but not paragraph IFRS 15.117 which refers to IFRS 15.119(a) and (b). In addition, IFRS 15.119(d) and (e) relate to matters (obligations for returns, refunds and other similar obligations, and types of warranties and related obligations, respectively) and, in our view, these disclosure requirements provide information on items in the statement of financial position and, in consequence, may be of relevance to providers of credit in accordance with the principles set out in question 1.

**Question 4**

In relation to the Consultation stage impact assessment do you have any comments on the costs and benefits identified? Please provide evidence to support your views of the quantifiable costs or benefits of these proposals.

We have no comments on the costs and benefits identified in the Consultation Stage Impact Assessment.

