



Grant Thornton

An instinct for growth™

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Dear Ms Carter

FRED 60 Draft amendments to FRS 100 Application of Financial Reporting Requirements and FRS 101 Reduced Disclosure Framework

Grant Thornton UK LLP (Grant Thornton) welcomes the opportunity to comment on the Financial Reporting Council's (FRC) consultation 'FRED 60 Draft amendments to FRS 100 Application of Financial Reporting Requirements and FRS 101 Reduced Disclosure Framework'.

Grant Thornton UK LLP is a leading financial and business adviser with offices in 26 locations nationwide and more than 25,000 individual and 15,000 corporate and institutional clients. The Grant Thornton global organisation is one of the world's leading organisations of independent assurance, tax and advisory firms. Grant Thornton member firms operate in over 100 countries.

Grant Thornton supports the growth agenda and believes that the application of reason combined with instinct will allow dynamic businesses to unlock their potential for growth.

We support the overall proposals as set out in FRED 60 and believe that permitting the presentation requirements of IAS 1 Presentation of Financial Statements will make FRS 101 a much more attractive reporting option for group companies. This particular amendment will reduce the cost of reporting and will make the overall reporting process more efficient. In turn, group finance teams will be given more valuable time to focus on helping to run the business.

However, we set out in our response a small number of observations with suggested amendments to FRS 100 and FRS 101 that we believe are necessary and would further assist preparers of financial statements.

We set out our detailed responses to each of the questions raised in the attached Appendix. Please note that we have commented on FRED 58 and FRED 59 in separate letters.

Chartered Accountants

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If you have any questions on our response, or wish us to amplify our comments, please contact Neil Parsons (telephone: 0121 232 5385, email neil.b.parsons@uk.gt.com) or Robert Carroll (telephone: 020 7728 2210, email robert.w.carroll@uk.gt.com).

Yours sincerely



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Reponses to specific questions

Question 1

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

Draft Amendments to FRS 100

General observation

Although we are in general agreement with the amendments to FRS 100 as set out in FRED 60 (the FRED) we have specific observations as set out below where we believe additional amendments to FRS 100 are necessary.

We recommend that the first three-yearly review of FRS 102 which we understand is to be finalised for reporting periods commencing on or after 1 January 2018 should be expanded in scope to also include the application of FRS 100 and FRS 101.

Further, as noted in our comment letter of 20 March 2015 on FRED 57 'Draft amendments to FRS 101 Reduced Disclosure Framework (2014/15 Cycle)' we understand that the FRC plans to issue a single, revised version of FRS 101 incorporating both the changes arising from FRED 57 and those arising from this FRED. We recommend that the FRC should not restrict the changes to FRS 101 resulting from FRED 57 to financial years beginning on or after 1 January 2015 as early adopters of FRS 101 may wish to take advantage of the reliefs given in respect of IFRS 1 as soon as possible.

Interaction of application of FRSSSE and revised regulations

The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 (the revised regulations) came into force on 6 April 2015 and are applicable for financial years beginning on or after 1 January 2016. The revised regulations can be applied early for a financial year beginning on or after 1 January 2015 (but before 1 January 2016), if the directors of the company so decide.

Paragraph 15A of FRS 100 as drafted states that The Financial Reporting Standard for Smaller Entities (effective January 2015) (FRSSE (2015)) is superseded on the early application of the amendments to FRS 100 and for accounting periods beginning on or after 1 January 2016.

It is possible (but unlikely) that the directors of a small entity could seek to apply the FRSSSE (2015) and the revised regulations early by applying FRS 100 (as issued in November 2012) instead of the new version of FRS 100.

The amendments to FRS 100 are silent on this possibility. We recommend that this matter is clarified. For example it could be stated that if an entity is not applying the revised regulations early then an entity is required to apply FRS 100 (as issued in November 2012).

The interpretation of equivalence

Following an amendment to the wording of paragraph 2(b) of s401 of the Companies Act 2006 (the Act) FRED 60 proposes a consequential amendment to FRS 100.AG1. We recommend that FRS.100 AG 1 is amended in order to reflect the full wording of that particular paragraph of the Act.

We also note that AG1, AG4, AG5 and AG6 of FRS 100 all use the term “the Accounting Directive” and we recommend that this term is defined in the Appendix 1: Glossary to FRS 100.

Draft Amendments to FRS 101

General observation

We are in general agreement with the amendments to FRS 101 as set out in the FRED but we have specific observations as set out below where we believe additional amendments to FRS 101 are necessary and where additional guidance should be reflected in that standard.

Amendment regarding contingent consideration

We welcome the amendment to FRS 101 to require the movements in contingent consideration arising on a business combination to be reflected in profit or loss in accordance with IFRS 3 *Business Combinations* (as issued in 2008) (IFRS 3).

The proposed new paragraph AG1(d) of FRS 101 is drafted to require a preparer to read paragraph 65A of IFRS 3 as relating to business combinations whose acquisition dates preceded the date when a qualifying entity first applied the amendments to FRS 101. We do not believe that it is clear from which particular date these requirements apply.

We believe that these requirements should apply from the date of the beginning of the first accounting period to which the amendments are applied. We recommend that the revised wording of paragraph AG1(d) FRS 101 is clear on the date of application.

We also recommend that the full body of the text of IFRS 3 B65 is included in the body of FRS 101 and its wording is revised accordingly using the same drafting principle that has been applied to the current paragraph AG1(d) of FRS 101 (which is being replaced). If instead the current wording is retained, we recommend that it be clarified as the current wording includes the phrase “preceded the date when a qualifying entity first applied these [draft] amendments to FRS 101”. The expression “these amendments” may create ambiguity once the words are included in the final text of FRS 101 as the standard has been amended several times.

Choosing to apply the presentation requirements of IAS 1

We welcome the amendments to paragraph AG1(h) of FRS 101 to allow a company to apply the relevant presentation requirements of IAS 1 *Presentation of Financial Statements* (IAS 1) for the statement of financial position and for the profit or loss section of the statement of comprehensive income.

The new paragraphs 1A(1) and (2) of Schedule 1 to the Large and Medium-sized Companies Accounts Regulations (SI 2008/410 – (the regulations)) allow, as long as presentation is in accordance with generally accepted accounting practice or principles, a company’s directors to:

- adapt one of the balance sheet formats so as to distinguish between current and non-current items in a different way provided that the information given is at least equivalent to that which would have been required by the use of such format had it thus not been adapted; and
- adapt one of the profit and loss account formats provided that the information given is at least equivalent to that which would have been required by the use of such format had it not been thus adapted.

We believe that additional guidance is required in FRS 101 in order to help ensure that financial statements drawn up using the relevant presentation requirements of IAS 1 still comply with company law.

We recommend that additional guidance should cover the acceptability (or otherwise) of using the terminology contained in IAS 1 instead of the terminology used in the regulations (for example using ‘property, plant and equipment’ instead of ‘tangible assets’ and ‘inventories’ instead of ‘stocks’ and so on).

Further, IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (IFRS 5) requires that the non-current assets and the other assets of a disposal group are presented separately from other assets and requires liabilities of a disposal group to be presented separately from other liabilities. Attempting to comply with the requirements of IFRS 5 might conflict with the regulations.

We would therefore welcome additional guidance on the interaction of the line items required by the regulations and by IAS 1 with regard to the balance sheet presentation of non-current assets held for sale and disposal groups.

Provisions, contingent liabilities and contingent assets – seriously prejudicial disclosures

FRED 59 proposes to delete paragraph 21.17 of FRS 102. That paragraph currently permits, in extremely rare cases, an entity not to disclose some or all information required by Section 21 of FRS 102 in respect of contingent assets, contingent liabilities or provisions where such information can be expected to prejudice seriously the position of the entity in a dispute with other parties. Instead it allows disclosure of the general nature of a dispute, together with the fact, and the reason why, the information has not been disclosed.

The reason for the deletion of this paragraph is not addressed in the Accounting Council’s advice in FRED 59 but we understand that this deletion has been proposed as a result of the requirements of company law.

As noted in our response letter to FRED 59 we disagree with the deletion of the above paragraph from FRS 102 and have recommended an alternative course of action.

We believe that this matter is also relevant to FRS 101 and recommend that AG1 of FRS 101 be updated in order to reflect an amendment to the application of IAS 37 by amending paragraph 97 of IAS 37 to state:

“In extremely rare cases, disclosure of some or all of the information required by paragraphs 84–89 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, unless its disclosure is required by law, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.”

We also recommend that the appendix note on legal requirements to FRS 101 explains the legal basis for the above suggested amendment.

Following the above amendment, FRS 101 would contain a disclosure requirement that is consistent with paragraph 97 of FRS 12 *Provisions, Contingent Liabilities and Contingent Assets* as issued in September 1998.

Equivalent disclosures included in the consolidated financial statements of the group and intra-group balances and application under FRS 101

Paragraphs 7, 8(d) and 8(e) of FRS 101 exempt a qualifying entity that is not a financial institution from disclosing information on financial instruments provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated. However, where financial instruments are measured at fair value, disclosures are required by the Regulations.

Intra-group balances are financial instruments. Using the requirements of IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) intra-group balances are most often recorded as loans and receivables or as financial liabilities at amortised cost. A group company might enter into a derivative transaction with a fellow group company (for example as part of a group treasury arrangement) which is recorded at fair value.

FRS 100.AG8 provides guidance in determining whether the consolidated financial statements of a parent provide disclosures which are equivalent to IFRS.

On the basis that the consolidation process requires the full elimination of intra-group balances, a set of consolidated financial statements used to determine equivalence will not include disclosures that are relevant to intra-group balances under IFRS 7 *Financial Instruments: Disclosures* (IFRS 7) or IFRS 13 *Fair Value Measurement* (IFRS 13).

It therefore appears necessary in such cases for a set of financial statements prepared in accordance with FRS 101 to include the disclosures as required by IFRS 7 *Financial Instruments: Disclosures* (IFRS 7) and where relevant those of IFRS 13 *Fair Value Measurement* (IFRS 13) for intra-group balances that are eliminated on consolidation.

We believe that, unless the regulations require disclosure (for example in some instances where a qualifying entity is party to a transaction with fellow group company that is measured at fair value), FRS 100 and FRS 101 should be amended such that a qualifying entity is not required to disclose information otherwise required by IFRS 7 or IFRS 13 in respect of intra-group balances that have been eliminated in the consolidated financial statements of the group in which the parent is consolidated.

Whilst not directly relevant to this consultation, we believe that this is an important matter which requires clarification as a matter of urgency.

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?

We have no comments on the Consultation Stage Impact Assessment which accompanies FRED 60.