Exposure Draft

Financial Reporting Council

October 2017

FRED 69

FRS 101 *Reduced Disclosure Framework*

2017/18 cycle

The Financial Reporting Council (FRC) is responsible for promoting 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.

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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.

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(iii) After considering the 2017/18 annual review of FRS 101 this FRED proposes no amendments to FRS 101.

Invitation to comment

1 The FRC is requesting comments on FRED 69 by 2 February 2018. 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 no amendments are required to FRS 101 in this cycle? If not, why not?
>
> **Question 2**
>
> 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.

2 Information on how to submit comments and the FRC's policy in relation to responses is set out on page 9.

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1 This FRED does not propose to make any amendments to FRS 101 *Reduced Disclosure Framework.*

Basis for Conclusions
FRED 69 *FRS 101 Reduced Disclosure Framework – 2017/18 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 69 – FRS 101 Reduced Disclosure Framework – 2017/18 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, entities should bear in mind the need to ensure that disclosures are relevant and targeted to meet the needs of users when deciding which disclosure exemptions to take advantage of.

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 make contractual payments when due.

IASB projects completed since the 2017/18 cycle

7 The IASB has completed six projects since those considered in the review for the 2016/17 cycle, which was performed in August 2016.

	IASB project	Date issued	Date effective	Date endorsed in the EU
1	Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* – Amendments to IFRS 4	Sep 2016	1 Jan 2018	Expected Q4 2017
2	IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	Dec 2016	1 Jan 2018	Expected Q4 2017
3	Annual Improvements to IFRS Standards 2014–2016 Cycle	Dec 2016	1 Jan 2018 / 2017	Expected Q4 2017
4	Transfers of Investment Property – Amendments to IAS 40	Dec 2016	1 Jan 2018	Expected Q4 2017
5	IFRS 17 *Insurance Contracts*	May 2017	1 Jan 2021	Unknown
6	IFRIC 23 *Uncertainty over Income Tax Treatments*	Jun 2017	1 Jan 2019	Expected 2018

8 The amendments[1] resulting from these six projects except for IFRS 17 *Insurance Contracts* 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.

9 The FRC proposes that no amendments are required to FRS 101 as a result of the changes to IFRS arising from projects numbered 1 to 4 and 6. More detailed consideration of IFRS 17 *Insurance Contracts* will be required. However, this work should be deferred until a clearer picture of the progress with the endorsement of the standard is known.

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

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.

Draft amendments to FRS 101

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.

4 The FRC is not proposing to make any amendments to FRS 101 given the nature of the amendments issued by the IASB.

Conclusion

5 Overall, the FRC believes that FRS 101 will continue to have a positive impact on the quality of information provided in 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
8th Floor
125 London Wall
London
EC2Y 5AS

Comments should be despatched so as to be received no later than 2 February 2018.

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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