Exposure Draft

Financial Reporting Council

December 2019

FRED 73

Draft amendments to FRS 101 *Reduced Disclosure Framework*

2019/20 cycle

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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* – 2019/20 cycle

(iii) FRS 101 provides an exemption from the presentation of a statement of cash flows. Some other IFRSs include disclosures related to the statement of cash flows, which FRS 101 should also provide an exemption from, on a consistent basis.

(iv) This Financial Reporting Exposure Draft (FRED) sets out a proposed amendment to FRS 101 to provide an exemption from the disclosure of cash flows required by paragraph 24(b) of IFRS 6 *Exploration for and Evaluation of Mineral Resources*. A similar amendment is also proposed to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* for qualifying entities.

(v) This FRED also sets out a proposed amendment to the exemption from paragraph 33(c) of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, removing the condition that this exemption is only available when equivalent disclosures are made in the relevant consolidated financial statements of the group in which the entity is consolidated. This is for consistency with the exemption from the presentation of a statement of cash flows.

(vi) No other amendments are proposed.

Invitation to comment

1 The FRC is requesting comments on FRED 73 by 16 March 2020. 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 to FRS 101 are required for the two IASB projects outlined in paragraph 7 of the Basis for Conclusions?

Question 2

Do you agree with the proposed amendments to improve the consistency of the disclosure exemptions relating to the statement of cash flows?

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 13.

Draft amendments to FRS 101 *Reduced Disclosure Framework*

Draft amendments to FRS 101

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

2 Paragraph 8(c) is amended as follows:

8(c) The requirements of paragraph 33(c) of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* ~~provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated~~.

3 Paragraph 8(cA) is inserted as follows:

<u>8(cA) The requirements of paragraph 24(b) of IFRS 6 *Exploration for and Evaluation of Mineral Resources* to disclose the operating and investing cash flows arising from the exploration for and evaluation of mineral resources.</u>

Draft amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

Draft amendments to Section 1 *Scope*

4 The following paragraphs set out the draft amendments to Section 1 *Scope* (inserted text is underlined).

5 Paragraph 1.12(f) is inserted as follows:

1.12 (f) The requirements of paragraph 24(b) of IFRS 6 to disclose the operating and investing cash flows arising from the exploration for and evaluation of mineral resources (when an entity applies IFRS 6 in accordance with paragraph 34.11).

6 Paragraph 1.23 is inserted as follows:

1.23 In [May 2020] an amendment was made to this FRS as a result of the 2019/20 cycle of amendments to FRS 101 to insert paragraph 1.12(f). The amendment provides a disclosure exemption for qualifying entities (for the purposes of this FRS) from part of paragraph 24(b) of IFRS 6. A qualifying entity may take advantage of this disclosure exemption from when IFRS 6 is applied (in accordance with paragraph 34.11).

Basis for Conclusions
FRED 73 *FRS 101 Reduced Disclosure Framework – 2019/20 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 73 Draft amendments to FRS 101 Reduced Disclosure Framework – 2019/20 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 2018/19 cycle

7 The 2019/20 cycle considered IASB projects completed by August 2019. The IASB has completed two projects since those considered in the review for the 2018/19 cycle, which was performed in August 2018.

	IASB project	**Date issued**	**Date effective**	**Date endorsed in the EU**
1	*Definition of a Business* (Amendments to IFRS 3)	Oct 2018	1 Jan 2020	Expected Q4 2019
2	*Definition of Material* (Amendments to IAS 1 and IAS 8)	Oct 2018	1 Jan 2020	Expected Q4 2019

8 The amendments[1] resulting from these two 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.

9 The FRC proposes that no amendments are required to FRS 101 for the changes to IFRS arising from the two projects listed in the table in paragraph 7.

10 In September 2019, after the FRC's review was performed, the IASB issued *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)* that, inter alia, introduced requirements for information to be disclosed about hedging relationships affected by interest rate benchmark reform. The amendments are subject to EU endorsement but are otherwise effective for accounting periods beginning on or after 1 January 2020. Earlier application is permitted.

11 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

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

consolidated financial statements of the group, including these amendments to IFRS 7. However, a qualifying entity which is a financial institution is not exempt from the disclosure requirements of IFRS 7. On this basis, it was not considered necessary to extend the period of review to include these amendments, which will be considered formally as part the 2020/21 cycle.

Other issues arising

12 Following feedback from stakeholders on areas where FRS 101 can be improved, two issues were considered as part of this review. These are discussed in more detail below.

Cash flow disclosure requirements

IFRS 6 *Exploration for and Evaluation of Mineral Resources*

13 Paragraph 24(b) of IFRS 6 *Exploration for and Evaluation of Mineral Resources* requires entities to disclose the operating and investing cash flows arising from the exploration for and evaluation of mineral resources. FRS 101 currently provides an exemption from the requirements of IAS 7 *Statement of Cash Flows*. Stakeholder feedback was received indicating that it is not clear whether qualifying entities can also take an exemption from the disclosure of cash flows required by paragraph 24(b) of IFRS 6 by virtue of the exemption from the requirements of IAS 7.

14 The exemption from the requirements of IAS 7 was intended to include any disclosures relating to the statement of cash flows. The preparation of certain disclosures linked to the statement of cash flows could lead to costs that are similar to those associated with the preparation of the statement itself. An exemption from the disclosure of cash flows required by paragraph 24(b) of IFRS 6 is necessary to ensure that the cost savings which arise from the exemption from the requirements of IAS 7 are maintained. Therefore, this FRED proposes an exemption from the disclosure of cash flows required by paragraph 24(b) of IFRS 6.

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

15 Paragraph 33(c) of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* requires entities to disclose the net cash flows attributable to the operating, investing and financing activities of discontinued operations. FRS 101 currently provides an exemption from this requirement provided that equivalent disclosures are included in the consolidated financial statements of the group.

16 FRS 101 currently provides an exemption from the requirements of IAS 7. Unlike the exemption from paragraph 33(c) of IFRS 5, the exemption from the requirements of IAS 7 is not subject to equivalent disclosures being included in the consolidated financial statements of the group in which the entity is consolidated. The disclosure exemptions linked to the statement of cash flows should be based on the same conditions as the exemption from the preparation of the statement itself. Therefore, this FRED proposes an amendment to remove the condition from the exemption from paragraph 33(c) of IFRS 5.

Effective date

17 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, which will be available for financial statements approved after the amendments have been finalised.

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 FRC is proposing an exemption from the disclosure of cash flows that would otherwise be required by paragraph 24(b) of IFRS 6 *Exploration for and Evaluation of Mineral Resources*. This is to reflect the existing exemption from the presentation of a statement of cash flows provided in FRS 101. This amendment is expected to reduce the cost of compliance with FRS 101.

5 The FRC is also proposing to remove the current condition for the disclosure exemption from paragraph 33(c) of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Making this change will result in qualifying entities no longer having to meet any conditions to take advantage of this exemption, potentially reducing the cost of compliance with FRS 101.

Conclusion

6 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:

Easton Bilsborough
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

Comments should be despatched so as to be received no later than 16 March 2020.

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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ISBN 978-0-7545-5748-7

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