Amendment to Standard

Accounting and Reporting

Financial Reporting Council

July 2016

Amendments to FRS 101 *Reduced Disclosure Framework*

2015/16 cycle

The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent disciplinary arrangements for accountants and actuaries, and oversee the regulatory activities of the accountancy and actuarial professional bodies.

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2015/16 cycle

Amendments to FRS 101 Reduced Disclosure Framework – 2015/16 cycle amends 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.

Contents

Summary

(i) With effect from 1 January 2015, the Financial Reporting Council (FRC) revised financial reporting standards in the United Kingdom and Republic of Ireland. The revisions fundamentally reformed financial reporting, replacing the extant standards with five Financial Reporting Standards:

(a) FRS 100 *Application of Financial Reporting Requirements*;

(b) FRS 101 *Reduced Disclosure Framework*;

(c) FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*;

(d) FRS 103 *Insurance Contracts*; and

(e) FRS 104 *Interim Financial Reporting*.

The FRC has also issued FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* to support the implementation of the new micro-entities regime. It is effective from 1 January 2016 with early application permitted.

These limited amendments to FRS 101 arise as a result of the 2015/16 annual review and provide additional disclosure exemptions.

(ii) 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.

(iii) In meeting this objective, the FRC aims to provide succinct financial reporting standards that:

(a) have consistency with international accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective;

(b) reflect up-to-date thinking and developments in the way entities operate and the transactions they undertake;

(c) balance consistent principles for accounting by all UK and Republic of Ireland entities with practical solutions, based on size, complexity, public interest and users' information needs;

(d) promote efficiency within groups; and

(e) are cost-effective to apply.

Amendments to FRS 101

(iv) After considering the 2015/16 annual review of FRS 101 these amendments principally provide certain disclosure exemptions in relation to IFRS 15 *Revenue from Contracts with Customers* and clarify a legal requirement relating to the order in which the notes to the financial statements are presented.

Amendments to FRS 101 *Reduced Disclosure Framework*

Amendments to FRS 101

1 The following paragraphs set out the amendments to FRS 101 *Reduced Disclosure Framework* (inserted text is underlined).

2 Paragraph 8(eA) is inserted as follows:

8(eA) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 *Revenue from Contracts with Customers*.

Amendments to Appendix II: Note on legal requirements

3 The following paragraphs set out the amendments to Appendix II: *Note on legal requirements* (inserted text is underlined).

4 Paragraph A2.7E and the sub-heading preceding it are inserted as follows:

Equity method in separate financial statements

A2.7E Paragraph 29A of Schedule 1 to the Regulations permits participating interests to be accounted for using the equity method. However, Schedules 2 and 3 to the Regulations do not include an equivalent paragraph. Therefore entities applying either Schedule 2 or Schedule 3 to the Regulations may not take advantage of the option in paragraph 10(c) of IAS 27 *Separate Financial Statements* to account for investments in subsidiaries, joint ventures and associates using the equity method.

5 Paragraphs A2.11A and A2.11B and the sub-heading preceding them are inserted as follows:

Notes to the financial statements

A2.11A Paragraph 42(2) of Schedule 1 to the Regulations requires the notes to the financial statements to be presented in the order in which, where relevant, the items to which they relate are presented in the statement of financial position and the income statement. A qualifying entity preparing financial statements in accordance with FRS 101 shall have regard to this requirement when determining a systematic manner for the presentation of its notes to the financial statements in accordance with paragraphs 113 and 114 of IAS 1.

A2.11B Paragraph 68 of Schedule 1 to the Regulations requires particulars of turnover to be disclosed, including the amount of turnover attributable to each class of business carried on by the company. When relevant, turnover attributable to different geographical markets must also be disclosed. Although this FRS provides an exemption from paragraph 114 of IFRS 15 *Revenue from Contracts with Customers*, the requirements of the Regulations shall still be complied with.

Approval by the FRC

Amendments to FRS 101 Reduced Disclosure Framework – 2015/16 cycle was approved for issue by the Board of the Financial Reporting Council on 28 June 2016, following its consideration of the Corporate Reporting Council's Advice.

The Corporate Reporting Council's Advice to the FRC to issue A*mendments to FRS 101 – 2015/16 cycle*

Introduction

1 This report provides an overview of the main issues that have been considered by the Corporate Reporting Council in advising the Financial Reporting Council (FRC) to issue A*mendments to FRS 101 Reduced Disclosure Framework – 2015/16 cycle*.

2 The FRC, in accordance with the *Statutory Auditors (Amendment of Companies Act 2006 and Delegation of Functions etc) Order 2012* (SI 2012/1741), is a prescribed body for issuing accounting standards in the UK. The *Foreword to Accounting Standards* sets out the application of accounting standards in the Republic of Ireland.

3 In accordance with the *FRC Codes and Standards: procedures*, any proposal to issue, amend or withdraw a code or standard is put to the FRC Board with the full advice of the relevant Councils and/or the Codes & Standards Committee. Ordinarily, the FRC Board will only reject the advice put to it where:

(a) it is apparent that a significant group of stakeholders has not been adequately consulted;

(b) the necessary assessment of the impact of the proposal has not been completed, including an analysis of costs and benefits;

(c) insufficient consideration has been given to the timing or cost of implementation; or

(d) the cumulative impact of a number of proposals would make the adoption of an otherwise satisfactory proposal inappropriate.

4 The FRC has established the Corporate Reporting Council as the relevant Council to assist it in the setting of accounting standards.

Advice

5 The Corporate Reporting Council is advising the FRC to issue A*mendments to FRS 101 Reduced Disclosure Framework – 2015/16 cycle.*

6 The Corporate Reporting Council advises that these proposals will ensure that FRS 101 *Reduced Disclosure Framework* continues to be effective in providing disclosure reductions when compared with EU-adopted IFRS and maintains consistency with company law.

7 The Accounting Council's Advice[1] to the FRC to issue FRS 101 was set out in that standard. The Corporate Reporting Council's Advice to the FRC in respect of these amendments will be included in the revised FRS 101.

Background

8 In October 2012, as part of its advice relating to the first edition of FRS 101, the Accounting Council advised the FRC to update FRS 101 at regular intervals to ensure that the reduced disclosure framework continues to be effective in providing disclosure reductions when compared with EU-adopted IFRS. An annual review is carried out to consider changes in IFRS and their potential impact on FRS 101.

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[1] From 1 April 2016 the Accounting Council was renamed as the Corporate Reporting Council.

9 The 2015/16 annual review considered:

(a) IASB projects completed since the 2014/15 cycle; and

(b) IFRS 15 *Revenue from Contracts with Customers*, which was carried forward from the previous review.

10 The FRC consulted on proposals for amendments to FRS 101 in FRED 63 *Draft amendments to FRS 101 – 2015/16 cycle*. The responses to FRED 63 have been considered in developing this advice.

Amendments to FRS 101

11 The Accounting Council advised the FRC that the following principles should be applied when determining which of the disclosure requirements in EU-adopted IFRS should be applied 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?

12 The Corporate Reporting Council notes that respondents to FRED 63 continue to support these principles. It also notes that when applying FRS 101, and deciding which disclosure exemptions to take advantage of, entities shall bear in mind the need to ensure that disclosures are relevant and targeted to meet the needs of users.

IASB projects completed since the 2014/15 cycle

13 The IASB has completed four projects since those considered in the review for the 2014/15 cycle, which was performed in August 2014. In addition, one project was brought forward for consideration as part of this review.

	IASB project	**Date issued**	**Date effective**	**Date endorsed in the EU**
1	Equity Method in Separate Financial Statements (Amendments to IAS 27)	Aug 2014	1 Jan 2016	Dec 2015
2	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	Sept 2014	1 Jan 2016	Postponed
3	Annual Improvements to IFRSs (2012 – 2014 Cycle)	Sept 2014	1 Jan 2016	Dec 2015
4	Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	Dec 2014	1 Jan 2016	Expected Q3 2016
5	Disclosure Initiative (Amendments to IAS 1)	Dec 2014	1 Jan 2016	Dec 2015

14 The amendments[2] resulting from these five 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.

15 The Corporate Reporting Council advises that only limited amendment to FRS 101 are necessary in relation to these amendments to IFRS. These are discussed below.

Equity method in separate financial statements

16 Following changes that implemented the EU Accounting Directive, company law now permits the use of the equity method in an entity's individual financial statements for entities applying Schedule 1 to the Regulations. This is not the case for entities applying Schedule 2 or Schedule 3 to the Regulations. As a result, the Corporate Reporting Council advises that no amendments to FRS 101 itself are necessary in relation to the recent amendment to IAS 27 *Separate Financial Statements*. However, an additional paragraph (paragraph A2.7E) has been included in Appendix II: *Note on legal requirements* to discuss this issue as the requirements are not universal.

Disclosure initiative

17 The Corporate Reporting Council notes that this project was intended to clarify existing requirements and give greater guidance, particularly on the application of materiality to disclosures, the levels of aggregation (or disaggregation) permitted and the order in which notes might be presented. As a result, it did not change disclosure requirements.

18 However, one area where additional guidance was included relates to the systematic manner in which the notes to the financial statements are presented. Company law contains a requirement about the order in which the notes to the financial statements shall be presented. The amendments to IAS 1 *Presentation of Financial Statements* paragraphs 113 and 114 do not require entities to present notes to the financial statements in an order that would conflict with this legal requirement. However, some of the examples of how to present notes in a systematic manner are unlikely to comply with company law. Therefore the Corporate Reporting Council advises including an additional paragraph (paragraph A2.11A) in Appendix II to discuss this issue.

IFRS 15 Revenue from Contracts with Customers

19 The disclosure requirements of IFRS 15 have been compared to the principles set out in paragraph 11. In doing so, the Corporate Reporting Council considered further how the principle of 'relevance' should be applied in the context of disclosure by qualifying entities. It 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.

20 The Corporate Reporting Council considered that the interest which a provider of credit has in the financial statements of a qualifying entity 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

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

credit advanced. As a result, in relation to the detailed disclosures required by IFRS 15, there would be greater interest in information supporting the statement of financial position, rather than information supporting the income statement.

21 As a result, the Corporate Reporting Council advises that significant disclosure exemptions from IFRS 15 should be available to qualifying entities. The Corporate Reporting Council noted the following related requirements:

(a) company law requirements relating to disaggregation of turnover (which are reflected in paragraph A2.11B); and

(b) IAS 1 contains requirements relating to judgements having a significant effect on the amounts recognised in an entity's financial statements.

22 Having taken into account user's information needs and existing disclosure requirements, the Corporate Reporting Council advises that disclosure exemptions from paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 should be available. In order to clarify the remaining requirements:

(a) an exemption from the second sentence of paragraph 110 should be provided to remove the cross-references to these later paragraphs; and

(b) it should be noted that although paragraph 117 (from which a qualifying entity is not exempt) cross-refers to paragraph 119, it is not necessary to comply with paragraph 119 in order to meet the requirements of paragraph 117.

Effective date

23 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. However, it should be noted that the change in company law to permit the equity method in individual financial statements is effective from 1 January 2016 (or 1 January 2015 if it is applied early), which is the same date as the amendment to IAS 27.

Approval of this advice

24 This advice to the FRC was approved by the Corporate Reporting Council on 18 May 2016.

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FRC Publications
Lexis House
30 Farringdon Street
London
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