



July 2015

Impact Assessment and Feedback Statement

*Amendments to FRS 100 Application of
Financial Reporting Requirements*

*Amendments to FRS 101 Reduced
Disclosure Framework – 2014/15 cycle
and other minor amendments*

*Amendments to FRS 102 The Financial
Reporting Standard applicable in the UK
and Republic of Ireland – Small entities
and other minor amendments*

*FRS 105 The Financial Reporting Standard
applicable to the Micro-entities Regime*

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Contents

	Page
Impact Assessment	3
Feedback Statement	7
<i>FRED 50 Draft FRC Abstract 1 Residential Management Companies' Financial Statements</i>	9
<i>Consultation Document Accounting standards for small entities – Implementation of the EU Accounting Directive</i>	11
<i>FRED 57 Draft amendments to FRS 101 (2014/15 cycle)</i>	19
<i>FRED 58 Draft FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime</i>	24
<i>FRED 59 Draft amendments to FRS 102 – Small entities and other minor amendments</i>	35
<i>FRED 60 Draft amendments to FRS 100 and FRS 101</i>	40
<i>FRED 61 Draft amendments to FRS 102 – Share-based payment transactions with cash alternatives</i>	42

Impact assessment

Introduction

- 1 As published in its Regulatory Strategy, 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 The overriding objective 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.
- 3 This impact assessment accompanies the following documents issued in July 2015:
 - (a) *Amendments to FRS 100 Application of Financial Reporting Requirements*;
 - (b) *Amendments to FRS 101 Reduced Disclosure Framework – 2014/15 cycle and other minor amendments*;
 - (c) *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Small entities and other minor amendments*; and
 - (d) *FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime*.
- 4 The proposals preceding the above were set out in a series of Financial Reporting Exposure Drafts (FREDs) and a Consultation Document, each of which was accompanied by a Consultation Stage Impact Assessment. In summary the amendments and new standard arise as a result of:
 - (a) making amendments to accounting standards as a direct response to changes in legislation that have been made as part of the implementation of the new EU Accounting Directive;
 - (b) issuing a new accounting standard for micro-entities, FRS 105, to support implementation of the micro-entities regime;
 - (c) improving financial reporting by small entities by withdrawing the Financial Reporting Standard for Smaller Entities (FRSSE) and replacing it with a new section for small entities (Section 1A *Small Entities*) within FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*;
 - (d) making amendments to FRS 101 *Reduced Disclosure Framework* as a result of the annual review for consistency with changes in IFRS; and
 - (e) making amendments to FRS 102 to address an implementation issue relating to share-based payment arrangements with cash alternatives.
- 5 Consistently with the FRC's regulatory approach, this Impact Assessment focuses on those aspects of the proposals that augment or diverge from the new EU Accounting Directive.

Amendments to accounting standards that are required for consistency with company law

- 6 The Department for Business, Innovation and Skills (BIS) prepared an Impact Assessment for the changes in legislation and hence no further impact assessment has been prepared by the FRC in this respect.

Introduction of FRS 105

- 7 In April 2014 the FRC issued amendments to the FRSSE to incorporate the new UK micro-entities regime, which includes reduced presentation and disclosure requirements for the financial statements and simplifies the measurement options available to micro-entities choosing to apply the regime. With FRS 105 the FRC has further simplified the accounting requirements for micro-entities choosing to apply the micro-entities regime by, for example, removing the need to recognise deferred tax balances and simplifying the accounting for defined benefit pension plans and business combinations.
- 8 The FRC believes that FRS 105:
 - (a) meets its overriding objective for micro-entities choosing to apply the micro-entities regime, bearing in mind the limited disclosures that are required by law in order for the financial statements to be presumed to give a true and fair view; and
 - (b) generates opportunities for some cost savings in the preparation of the financial statements where recognition and measurement requirements have been simplified in comparison to the FRSSE.

Therefore the FRC believes that introducing FRS 105 is a cost-effective solution for financial reporting in the UK and Republic of Ireland, given the nature of the legal requirements for the micro-entities regime.

Introduction of a small entities regime within FRS 102

- 9 Given the changes to the small companies regime that have been introduced as part of the implementation of the new EU Accounting Directive, the FRC did not consider 'do nothing' a viable option; the FRSSE contained various presentation and disclosure requirements that may not be mandated now company law has changed.
- 10 The FRC considered the following two possible options:
 - (a) Option A – incorporate the new small companies regime within FRS 102, reinstating consistency in accounting policies between those entities that are small and those that are larger; and
 - (b) Option B – amend the presentation and disclosure requirements of the FRSSE to remove any requirements that will no longer be compatible with company law.
- 11 The FRC notes that, whichever option was pursued, given the legal framework for the small entities regime additional time may be spent by small entities applying judgement in determining the disclosures to provide, in addition to those required by law, in order to give a true and fair view.

Option A – Small companies regime within FRS 102

- 12 When it issued FRS 102, the FRC did not intend to retain for any significant period, accounting standards for small companies that were not consistent with FRS 102. The FRC had intended to update financial reporting for small entities when the new EU Accounting Directive was implemented. The advantages of including a small entities regime within FRS 102 are:
 - (a) all entities will be applying accounting standards that are based on the same framework, but with some simplifications available for smaller entities; this will:
 - (i) increase consistency and comparability in financial reporting between entities; and
 - (ii) reduce education and training costs; and

- (b) the improvements in financial reporting that FRS 102 introduced, for example in relation to financial instruments, will apply to all entities increasing transparency for users around the risks associated with financial instruments.
- 13 The FRC issued an Impact Assessment with FRS 102 which discussed the costs and benefits of its introduction more fully.
 - 14 The disadvantage of including a small entities regime within FRS 102 is that there will be costs associated with the changes in accounting. However, the FRC believes that the improvements in financial reporting and the longer-term benefits of a consistent framework outweigh the costs of transition, and therefore the FRC has incorporated a small entities regime within FRS 102.

Option B – Amend the FRSSE

- 15 The advantage of amending the FRSSE would have been that there were no changes in accounting by small entities other than any reduction in disclosures permitted by the changes in company law.
- 16 The disadvantages of amending the FRSSE would be:
 - (a) certain financial instruments would have continued to be unrecognised in the financial statements of small entities, yet this information is relevant to a true and fair view;
 - (b) small entities would be applying an accounting standard derived from other accounting standards that were no longer in issue;
 - (c) small entities should now look to FRS 102 to determine new accounting policies for matters not addressed by the FRSSE, which would have made it difficult for the FRSSE to continue without its application being influenced by FRS 102; and
 - (d) preparers, advisors, auditors and users of financial statements will need to maintain familiarity with different accounting standards that are not derived from the same common framework, which in the long run is likely to increase education and training costs.
- 17 The FRC decided against this option and the FRSSE has been withdrawn for accounting periods beginning on or after 1 January 2016.

Amendments to FRS 101 – 2014/15 cycle

- 18 FRS 101 allows qualifying entities within groups where the parent of that group prepares publicly available consolidated financial statements which are intended to give a true and fair view to apply the recognition and measurement requirements of EU-adopted IFRS whilst reducing disclosure requirements.
- 19 The FRC conducts an annual review of FRS 101 and considers the IASB projects that have been completed since the previous annual review, predominantly to consider whether additional disclosure exemptions should be available in FRS 101 in relation to any new disclosure requirements of IFRS.
- 20 For those groups that have chosen to prepare the individual accounts of the group entities in accordance with EU-adopted IFRS, FRS 101 offers a cost saving due to the reduced number of disclosures that require preparing and auditing. Feedback from listed groups supported the introduction of FRS 101, highlighting the benefits of consistent reporting across the group, and noting that the cost of producing full EU-adopted IFRS disclosures for individual group entities would be disproportionate to the use made of subsidiary financial statements, which often have few users that are external to the group.

- 21 Any changes made to the accounting requirements in FRS 101 may lead to some additional costs of familiarisation; however the FRC believes that these additional costs will be minimal, and the overall objective of FRS 101 to reduce group reporting costs still holds true.
- 22 The FRC believes that FRS 101 provides proportionate disclosures for group entities and generates opportunities for cost savings, particularly for those groups required to prepare consolidated financial statements in accordance with EU-adopted IFRS.

Amendments to FRS 102 – Share-based payment arrangements with cash alternatives

- 23 The amendments to FRS 102 relating to share-based payment transactions with cash alternatives are intended to more closely align FRS 102 with the equivalent requirements in FRS 20 (*IFRS 2 Share-based Payment*) and IFRS 2 *Share-based Payment* and make compliance with FRS 102 less onerous through:
 - (a) not requiring a change in accounting following transition to FRS 102; and
 - (b) fewer share-based payment transactions requiring ongoing remeasurement at fair value.

The FRC therefore expects that the amendments will have the positive effect of reduced compliance costs.

- 24 The FRC is mindful that some entities will have already commenced their assessment of the application of FRS 102. A late change to FRS 102, especially subsequent to the effective date, is therefore generally not desirable. However, the FRC believes that the negative consequences of a late change are outweighed by the following benefits:
 - (a) entities are able to continue with their past accounting practice for existing and new share-based payment awards where the entity has a choice of settlement method;
 - (b) the accounting requirements are less onerous to apply and hence reduce the cost of compliance with FRS 102; and
 - (c) the accounting requirements result in better quality financial reporting.

Feedback statement

- 25 The purpose of this Feedback Statement is to summarise the comments received to the following FRC consultations:
- (a) FRED 50 *Draft FRC Abstract 1 Residential Management Companies' Financial Statements* issued in August 2013. The comment period closed on 11 November 2013.
 - (b) Consultation Document *Accounting Standards for small entities – Implementation of the EU Accounting Directive* issued in September 2014. The comment period closed on 30 November 2014.
 - (c) FRED 57 *Draft amendments to FRS 101 Reduced Disclosure Framework (2014/15 Cycle)* issued in December 2014. The comment period closed on 20 March 2015.
 - (d) FRED 58 *Draft FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime* issued in February 2015. The comment period closed on 30 April 2015.
 - (e) FRED 59 *Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Small Entities and other minor amendments* issued in February 2015. The comment period closed on 30 April 2015.
 - (f) FRED 60 *Draft amendments to FRS 100 Application of Financial Reporting Requirements and FRS 101 Reduced Disclosure Framework* issued in February 2015. The comment period closed on 30 April 2015.
 - (g) FRED 61 *Draft Amendments to FRS 102 Share-based payment transactions with cash alternatives* issued in April 2015. The comment period closed on 1 June 2015.
- 26 The Accounting Council's Advice to the FRC included with each set of amendments, or standard, sets out how the key comments have been taken into account in finalising:
- (a) the amendments to FRS 100 *Application of Financial Reporting Requirements*;
 - (b) the amendments to FRS 101 *Reduced Disclosure Framework*;
 - (c) the amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
 - (d) FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*.
- 27 The table below shows the number of respondents to each consultation and analyses the respondents by category. In addition to the formal responses, FRC staff participated in a number of outreach activities with stakeholders, including public events, webinars and stakeholder meetings, that were intended to raise awareness and understanding of the proposals and generate discussion and informal feedback.

Table 1: Respondents by category

	FRED 50	Consultation Document	No. of respondents							
			FRED 57	FRED 58	FRED 59	FRED 60	FRED 61			
Accountancy firms	20	18	8	10	12	9	7			
Accounting bodies	4	8	4	9	9	7	4			
Representative bodies of preparers	-	2	2	1	2	1	1			
Preparers	10	-	1	-	-	-	-			
Government bodies and regulators	-	1	-	-	1	-	-			
Other	-	1	-	-	-	-	-			
	34	30	15	20	24	17	12			

FRED 50 – Residential Management Companies Financial Statements

- 28 FRED 50 posed two questions, and the feedback and FRC response to it, is summarised below.

Question 1

Do you agree with proposed draft FRC Abstract 1 and Consequential Amendments to the FRSSE? If not, why not?

Table 2: Respondents' views on Question 1

	No. of respondents
Agreed	3
Disagreed	19
Other	10
	<hr style="width: 100%;"/>
	32
No comment	2
	<hr style="width: 100%;"/>
	<u>34</u>

- 29 Many respondents to FRED 50 did not provide a clear 'yes' or 'no' answer to this question, and therefore judgement has been applied in categorising the responses.
- 30 Few respondents agreed with the proposals. Some of the key issues raised included:
- (a) how the proposed disclosures interact with and are affected by developments in EU regulations (ie the new micro-entities regime and the revised small companies regime);
 - (b) the scope of the FRED and in particular the definition of an RMC and the transactions that are subject to the statutory trust of s42 of LTA 1987;
 - (c) concerns over issues such as the exclusion of the cash and other assets held in trust from the RMC's balance sheet and a concern that FRED 50 reflected only the legal form rather than the economic substance of the arrangement; and
 - (d) concerns that the FRC had underestimated the additional costs that will be incurred as a result of the proposals.

FRC response

- 31 The FRC considered all the comments and in the Consultation Document, issued in September 2014, proposed that a new sub-section be added to Section 34 *Specialised Activities* of FRS 102 to address the principles of accounting by residential management companies (RMCs). It was to be developed from the proposals in FRED 50. However, unlike FRED 50, this sub-section was not expected to include any new disclosure requirements as most RMCs will be small entities or micro-entities for which company law limits the mandating of disclosures. See also paragraphs 55, 56 and 112.

Question 2

Do you agree with the proposed effective date? If not, why not?

Table 3: Respondents' views on Question 2

	No. of respondents
Agreed	7
Disagreed	1
Other	1
	<hr/> 9
No comment	25
	<hr/> <hr/> 34

32 The majority of respondents did not comment on the effective date of the proposals.

FRC response

33 In making revised proposals in the Consultation Document, the FRC proposed that the effective date for any changes would be accounting periods beginning on or after 1 January 2016, which was a change from that proposed in FRED 50.

Consultation Document *Accounting standards for small entities – Implementation of the EU Accounting Directive*

- 34 The Consultation Document posed seven questions, and the feedback and FRC response to it, is summarised below.

Question 1

Do you agree with the proposal to develop a new accounting standard, the *Financial Reporting Standard for Micro-entities (FRSME)*, for entities taking advantage of the micro-entities regime? If not, why not?

Table 4: Respondents’ views on Question 1

	No. of respondents
Agreed	21
Disagreed	3
	24
No comment	6
	30

- 35 The vast majority of respondents commenting on the proposal for a new standard for micro-entities agreed with the idea, noting that given the nature of the regime with limited disclosures providing a ‘presumed true and fair view’ and restrictions on the measurement bases that might be applied (with the knock-on effects on recognition), incorporating micro-entities into FRS 102 was unlikely to be an effective solution, and may be confusing.
- 36 Those respondents disagreeing with the introduction of a separate standard for micro-entities mainly considered that the micro-entity requirements should be a separate section of FRS 102, which would be easier to update as FRS 102 is updated and would emphasise the consistency between the two.

FRC response

- 37 The FRC does not believe it will be easier for preparers of micro-entity financial statements to include these requirements within FRS 102. On the basis of significant support for a new standard for micro-entities the FRC proposed a new standard for micro-entities, which was set out in FRED 58.
- 38 Other comments from respondents included noting the importance of using language consistent with FRS 102 where no difference in treatment was intended, providing clear requirements rather than being silent and reconsidering the proposed name for the standard. All of these comments were reflected in developing FRED 58.

Question 2

Do you agree with the proposed recognition and measurement simplifications that are being considered for the FRSME? If not, why not? Are there any further areas where you consider simplifications could be proposed for micro-entities?

Table 5: Respondents' views on Question 2

	No. of respondents
Agreed	19
Disagreed	4
Other	2
	<hr/>
	25
No comment	5
	<hr/>
	<u>30</u>

- 39 Respondents indicated strong support for the simplifications proposed in the Consultation Document. In particular, some respondents noted that clarification of the treatment of derivative contracts that have become onerous would be helpful.
- 40 Of the four respondents that disagreed, one felt these were not simplifications and the others were concerned about differences from FRS 102 resulting in different realised profits figures depending on which standard was applied; removing the requirement to account for deferred tax was a particular concern.
- 41 Those respondents providing 'other' comments suggested that micro-entities should either be permitted to continue to apply their existing accounting policies, or that they should be able to use FRS 102 measurement bases where appropriate and adequate disclosure is given. Both of these suggestions are potentially inconsistent with the legal framework for micro-entities.
- 42 In relation to the possibility of further simplifications, some respondents indicated that they had not identified any further simplifications, some other simplifications were suggested that were included in FRED 58, and other main suggestion related to financial instruments at non-market rates of interest, typically with related parties (either other group entities or directors).
- FRC response*
- 43 FRED 58 expanded the proposed recognition and measurement simplifications, including providing additional simplifications for financial instruments. In addition, FRED 58 proposed removing accounting policy choices, with a preference for recognition in the income statement rather than deferral of assets or liabilities on the balance sheet.

Question 3

The accounting standard that is applicable to small entities (not just small companies) (ie currently the FRSSE) is being revised following changes to company law. Company law, which will limit the disclosures that can be made mandatory, may not apply to entities that are not companies. Do you agree that the accounting standard for small entities should continue to be applicable to all entities meeting the relevant criteria, not just companies? This will have the effect of reducing the number of mandatory disclosures for all small entities, not just small companies. If not, why not?

Table 6: Respondents' views on Question 3

	No. of respondents
Agreed	22
Disagreed	2
	<hr/> 24
No comment	6
	<hr/> 30
	<hr/> <hr/>

- 44 The vast majority of those commenting agreed that the new small entities regime should be applicable to all entities of equivalent size and eligibility criteria, not just companies. These respondents agreed that it would be confusing to have two different small entity regimes, one with more mandatory disclosure requirements than the other.

FRC response

- 45 FRED 59 proposed that the new Section 1A *Small Entities* of FRS 102 should apply to all small entities of equivalent size meeting the eligibility criteria, not just companies.

Question 4

Do you agree that the FRSSE should be withdrawn and small entities should be brought within the scope of FRS 102, so that they apply recognition and measurement requirements that are consistent with larger entities, but with fewer mandatory disclosures? If not, are there any areas where you consider there should be recognition and measurement differences for small entities and why?

Table 7: Respondents' views on Question 4

	No. of respondents
Agreed	23
Disagreed	2
	<hr/>
	25
No comment	5
	<hr/>
	<u>30</u>

- 46 The vast majority of respondents commenting agreed with withdrawing the FRSSE and bringing small entities (other than those eligible to apply the micro-entities regime) within FRS 102. Various reasons were given, including many that were set out in the Consultation Document:
- (a) It will reintroduce consistency between larger and small entities. It was never the intention that the FRSSE's recognition and measurement principles should, over time, diverge from those applied by larger entities.
 - (b) The application of the FRSSE alongside FRS 102 is problematic because it is derived from different standards, but as small companies should look to FRS 102 in situations where the FRSSE is silent, some small entities may end up applying aspects of FRS 102 anyway under current standards.
 - (c) With the micro-entities regime (including FRS 105) catering for the smallest companies and the small company thresholds rising, the new small entities regime is aimed at the larger and more complex small entities where more transparent accounting for financial instruments and greater consistency and comparability with larger entities should be welcome. Introducing a third set of recognition and measurement requirements would only complicate matters.
- 47 Those disagreeing felt that the costs of change may not be worth the benefits, however, with changes in company law, retaining the FRSSE without amendment is not possible.

FRC response

- 48 There did not appear to be any significant support for the retention of the FRSSE, or for a stand-alone standard for small entities. FRED 59 set out the proposals for Section 1A of FRS 102, which addressed financial reporting by small entities. FRED 60 proposed the withdrawal of the FRSSE.

Recognition and measurement for small entities

- 49 Many respondents agreed with the view put forward in the Consultation Document that there should not be recognition and measurement differences between the small entities regime and FRS 102 more generally. Nevertheless, a small number (one, two or three) of respondents, whilst agreeing with the overall concept, felt there were some areas, listed

below, where concessions to small entities should be made in terms of recognition and measurement:

- (a) financial instruments at non-market rates of interest;
- (b) equity-settled share-based payments arrangements;
- (c) use of a contracted rate for foreign currency translation;
- (d) gains or losses on investment property to be recognised in other comprehensive income;
- (e) additional transitional provisions for derivatives already entered into; and
- (f) fewer intangibles to be recognised in a business combination.

FRC response

- 50 Most respondents agree that there is no compelling case for providing accounting simplifications for small entities. The FRC considered the suggestions made but, bearing in mind that FRS 105 will be available for micro-entities, does not believe there are sufficient reasons to depart from its principle of consistent recognition and measurement requirements for all entities applying FRS 102.
- 51 In developing FRED 59 the FRC did not propose additional transitional provisions for small entities applying FRS 102 for the first time, but following that consultation the FRC has now included some additional transitional provisions within FRS 102.

True and fair view

- 52 There was concern from a number of respondents about the interaction of the requirement to prepare financial statements giving a true and fair view with the limited mandatory disclosures. A number of respondents commented on the importance of the accounting standards in guiding the directors of small companies to the appropriate level of disclosure.

FRC response

- 53 The directors of a small entity will need to consider whether additional disclosures are necessary to give a true and fair view, and if so, provide those additional disclosures. FRED 59 reminded small entities of this and encouraged reference to FRS 102 to determine the additional disclosures necessary in an entity's own circumstances.

Question 5

FRED 50 *Draft FRC Abstract 1 – Residential Management Companies’ Financial Statements* was issued in August 2013. After considering the comments received, the FRC publicised its intention to roll this project into the work required to implement the new EU Accounting Directive. Do you agree, in principle, with adding a new subsection to Section 34 *Specialised Activities* of FRS 102 to address the principles of accounting by residential management companies (RMCs)? If not, do you consider this unnecessary, or would you address the issue in an alternative way?

Table 8: Respondents’ views on Question 5

	No. of respondents
Agreed	7
Disagreed	11
Other	4
	<hr/> 22
No comment	8
	<hr/> <hr/> 30

- 54 Only some 32% of respondents to this question agreed with the proposal, with the rest disagreeing (50%) or providing some other response (18%). The most compelling reasons given for not proceeding with this proposal were:
- (a) the issue is too narrow and industry-specific to be dealt with in an accounting standard and inclusion in Section 34 of FRS 102 would open up the FRC to specific requests that could result in the standard becoming unwieldy and difficult to apply; and
 - (b) interpretations of law and accounting standards should be issued by other means with a significant number of respondents calling for an alternative solution such as sector-specific guidance developed by the FRC or the development of a Statement of Recommended Practice (SORP) by parties outside the FRC.

FRC response

- 55 The FRC considers that UK financial reporting standards are in general principles-based (not rules-based) and that it expects preparers of financial statements to apply judgement in interpreting and applying its standards to reflect the impact of transactions that the reporting entity is party to.
- 56 Based on the feedback received, the FRC considers that it is not appropriate to insert a new subsection into FRS 102 but that a clear statement of the legal position is of use. This was incorporated into the Accounting Council’s Advice to the FRC in relation to both FRED 58 and FRED 59. See also paragraph 112.

Question 6

FRS 102 does not currently include all of the disclosures specified in company law. Other than in relation to the new small companies regime within FRS 102, it is not proposed that this will change. Do you agree that FRS 102 should not include all the disclosure requirements for medium and large companies from company law? If not, why not?

Table 9: Respondents' views on Question 6

	No. of respondents
Agreed	20
Disagreed	2
Other	<u>2</u>
	24
No comment	<u>6</u>
	<u>30</u>

57 There was strong support from respondents for retaining the current approach and not introducing into FRS 102 all disclosures required by company law for larger entities.

58 A small number of respondents (including those that both agreed and disagreed with the proposal) expressed support for a new appendix to FRS 102 including such disclosures, which could be added as part of this project, or alternatively as part of the triennial review of FRS 102.

59 One respondent suggested it should be made clearer in FRS 102 that there may be additional disclosure requirements from company law (or other legal or regulatory requirements) that must be complied with.

FRC response

60 FRED 59 retained the current approach, whereby disclosures required by company law are not necessarily repeated in FRS 102. A new paragraph 1.2A of FRS 102 was proposed to clarify the need to ensure compliance with legal requirements, and that FRS 102 does not necessarily contain all legal disclosure requirements.

61 Any future developments in this area could be considered as part of the triennial review of FRS 102, and following the implementation of Section 1A (which does include legal disclosure requirements for small companies) and practical experience of applying it.

Question 7

Do you agree that, if UK and Irish company law is sufficiently flexible, FRS 101 should be amended to permit the application of the presentation requirements of IAS 1 *Presentation of Financial Statements*, rather than the formats of the profit and loss account and balance sheet that are otherwise specified in company law? Do you agree that this will increase efficiency of financial reporting within groups? If not, why not? Do you foresee any downsides to this approach?

Table 10: Respondents' views on Question 7

	No. of respondents
Agreed	21
Disagreed	—
	<hr/> 21
No comment	9
	<hr/> 30
	<hr/> <hr/>

- 62 All respondents commenting agreed with the proposal to amend FRS 101 to permit IAS 1 presentation requirements if the relevant flexibility is introduced into company law, which should increase efficiencies in group reporting. A few respondents highlighted the need to consider 'equivalence' with the company law formats, as required by the Directive, and the possibility of additional disclosures being necessary to achieve this.

FRC response

- 63 Both FRED 59 and FRED 60 included proposals relating to implementing this additional flexibility available in company law.

FRED 57 Draft Amendments to FRS 101 (2014/15 Cycle)

- 64 FRED 57 posed five questions and the feedback, and FRC response to it, is summarised below.

Question 1 – IAS 24 Related Party Disclosures

Do you agree with the proposed amendment to permit an exemption against the requirement of paragraph 18A of IAS 24 *Related Party Disclosures*?

If not, why not?

Table 11: Respondents' views on Question 1

	No. of respondents
Agreed	14
Disagreed	1
	<hr/>
	15
	<hr/> <hr/>

- 65 The majority of respondents agreed with the proposal, recognising that (as set out in FRED 57) it is consistent with the existing exemption from paragraph 17 of IAS 24 (key management personnel compensation). The rationale for the existing exemption was that disclosure of directors' emoluments is required by company law. UK company law requires similar disclosures where the services of a director are given by another entity.
- 66 One respondent (from the Republic of Ireland), on balance, disagreed, considering that where an entity is providing this level of management services to another entity, the shareholders of that entity should be able to see how much those services are costing. It was noted that the legal requirements in the Republic of Ireland are not as extensive as those applying in the UK.

FRC response

- 67 The FRC considered this issue carefully, and noted the context in which an entity is permitted to apply FRS 101. Taking account of the circumstances and the likely limited external users of the financial statements, the FRC considers that further information about key management personnel compensation is unlikely to be relevant to the users of a qualifying entity's financial statements, and the exemption has been given.

Question 2 – IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Do you agree with the proposed amendment to permit an exemption from the requirement of paragraphs 6 and 21 of IFRS 1 *First-time Adoption of International Financial Reporting Standards* to present an opening statement of financial position on transition?

If not, why not?

Table 12: Respondents' views on Question 2

	No. of respondents
Agreed	15
Disagreed	—
	<u>15</u>

68 All respondents agreed with the proposal that entities applying FRS 101 for the first time should be exempt from presenting the opening (third) balance sheet, and that this is consistent with the approach to first-time adoption of FRS 102 and should provide welcome cost savings for entities, particularly as it also exempts them from providing a third set of notes for items in the statement of financial position.

69 Four respondents highlighted an inconsistency with FRS 100, which also contains transitional arrangements for entities applying FRS 101 for the first time.

FRC response

70 This amendment has been made and a consequential amendment has been made to paragraph 11(b) of FRS 100.

Question 3 – IFRS 15 Revenue

Do you agree that at this early stage, no exemption should be permitted in FRS 101 from the disclosure requirements of IFRS 15 *Revenue from Contracts with Customers* given that its effective date is not until 1 January 2017, and that for FRS 101 IFRS 15 should be revisited once preparers, users and auditors have had more experience of the required disclosures and are in a better position to assess whether exemptions against all or some of the disclosure requirements of IFRS 15 would be appropriate?

If not, why not?

Table 13: Respondents' views on Question 3

	No. of respondents
Agreed	11
Disagreed	3
	14
No comment	1
	15

- 71 The majority of respondents agreed that it is too early to determine which, if any, exemptions from the disclosure requirements of IFRS 15 should be given in FRS 101. One respondent, in particular, noted the number of implementation issues currently being considered by the IASB (and FASB).
- 72 There was some diversity in views about how quickly this issue should be revisited, some favoured waiting until there has been at least one full reporting cycle applying IFRS 15, others consider that it should be revisited more quickly. Some respondents considered that there would be likely to be scope for disclosure exemptions as the new disclosures will be more onerous than the previous ones based on IAS 18 *Revenue* and may well largely replicate disclosures in the group financial statements.
- 73 Those disagreeing generally consider that possible exemptions from IFRS 15 disclosure requirements should be considered prior to the effective date of IFRS 15, to avoid a situation where qualifying entities must comply with IFRS 15 in full for at least one year, with reduced disclosures being available in subsequent periods.

FRC response

- 74 On the basis of the responses the FRC does not propose to make any changes to FRS 101 for IFRS 15 at this time. If disclosure exemptions are to be proposed, entities applying FRS 101 would not want these to be available only after they had applied the disclosure in full for a reporting period. Therefore, IFRS 15 should be revisited as part of the 2015/16 cycle in order to consider whether any disclosure exemptions are appropriate in FRS 101.

Question 4 – IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* amends the requirements of IFRS 7 *Financial Instruments: Disclosures*.

Do you agree that no amendments should be made to the existing exemptions permitted in FRS 101 that allow non-financial institutions exemptions against the disclosure requirements of IFRS 7 (and IFRS 13 *Fair Value Measurement*)?

If not, why not?

Table 14: Respondents' views on Question 4

	No. of respondents
Agreed	14
Disagreed	–
	<hr/> 14
No comment	1
	<hr/> 15
	<hr/> <hr/>

75 All those respondents commenting agreed that no amendments should be made to FRS 101 in relation to financial instruments disclosures, where it currently allows non-financial institutions exemptions from the disclosure requirements of IFRS 7 *Financial Instruments: Disclosures* and IFRS 13 *Fair Value Measurement* (provided equivalent disclosures are made in the group financial statements).

76 Some respondents expressly agreed with the principle that financial institutions should not receive any exemptions from financial instruments disclosures. A small number of respondents suggested that exemptions should be reviewed following endorsement of IFRS 9 *Financial Instruments* and/or more practical experience of FRS 101 being applied. One respondent suggested that the definition of a financial institution should be reviewed as part of the triennial review.

FRC response

77 The existing position of FRS 101 (ie that financial institutions are not permitted any exemptions against the disclosure requirements of IFRS 7 or IFRS 13 and that non-financial institutions are permitted exemptions) should remain even after IFRS 9 is endorsed.

78 The definition of a financial institution may be reviewed as part of the triennial review.

Question 5 – Other comments

Do you have any other comments in relation the proposed amendments?

79 Other comments made included the following:

Timing

80 Four respondents noted that the FRC intended to finalise these proposals at the same time as those arising from FRED 60, but they would prefer them to be finalised separately and without delay.

FRC response

81 The FRC has finalised both sets of proposals together, noting that this was preferable to issuing two sets of amendments in quick succession. The amendments to FRS 101 make it clear that those arising from FRED 57 have a different effective date to those arising from FRED 60.

Functional currency

82 One respondent requested transitional relief in FRS 101 to allow prospective application of a change in functional currency under IAS 21 *The Effects of Changes in Foreign Exchange Rates* when it arises solely as a result of transition to FRS 101.

FRC response

83 The FRC notes that providing transitional relief in FRS 101 in addition to that set out in IFRS 1 *First-time Adoption of International Financial Reporting Standards* would be a fundamental change to the reduced disclosure framework set out in FRS 101, which is based on an entity applying the recognition and measurement requirements of EU-adopted IFRS. The FRC decided not to make such a change.

FRED 58 – Draft FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*

84 FRED 58 posed ten questions and the feedback, and the FRC response to it, is summarised below.

Structure and language of draft FRS 105 – Question 1

In adapting FRS 102 to create draft FRS 105, it is necessary to strike a careful balance between developing an accounting standard that:

- (a) is easily accessible and understandable for preparers of financial statements of entities of this size; yet
- (b) maintains consistency with:
 - (i) the language and terminology of FRS 102 (where the underlying recognition and measurement requirements of the two standards are the same); and
 - (ii) the structure (ie the section and paragraph numbering) of FRS 102 upon which draft FRS 105 is based.

The advantages of maintaining consistency of structure and language with FRS 102 include:

- (a) increasing comparability in financial reporting between entities reporting under different UK accounting standards; and
- (b) reducing education and training costs for preparers, advisors, auditors and users of financial statements.

The FRC anticipates that entities that do not expect (or wish) to grow outside the qualifying limits of the micro-entities regime are more likely to favour simplicity of structure and language and will not be concerned with consistency with FRS 102; whereas entities that do expect to grow and move through the different reporting frameworks over time, and practitioners and advisors that have a range of clients reporting under different frameworks, are more likely to favour consistency of structure and language across the suite of UK standards.

Draft FRS 105 has been developed with this consistency in mind and this FRED presents the draft standard such that the language and terminology of FRS 102 (where the underlying recognition and measurement requirements of draft FRS 105 are the same), and the section and paragraph numbering of FRS 102, has been maintained. Those sections and paragraphs that have been deleted (either because of legal compliance (see Question 2) or because further recognition and measurement simplifications have been introduced (see Questions 3 to 8)) are replaced with the term “[not used]”. Where the recognition and measurement requirements have been simplified in draft FRS 105, this consistency has not necessarily been maintained.

Do you agree with this approach? If not, why not? What alternative presentation do you propose?

Table 15: Respondents' views on Question 1

	No. of respondents
Agreed	12
Disagreed	6
	<hr/>
	18
No comment	2
	<hr/>
	20
	<hr/> <hr/>

85 Respondents generally agreed that FRS 105 should be developed from FRS 102. This would maintain a consistent framework and terminology, but some accounting requirements should be simplified.

86 However, several respondents suggested that usability should be improved. Perhaps section numbering should remain consistent with FRS 102, but the paragraph numbering within each section should run sequentially. This would make the standard easier to read and use and reduce the risk of confusion where paragraphs with the same number have been significantly modified in FRS 105.

FRC response

87 The structure of FRS 105 has been improved with sequential section numbering and sequential paragraph numbering unique to FRS 105.

Legal requirements – Question 2

Do you agree that draft FRS 105 accurately reflects the legal requirements and exemptions of the Micro-entities Regime including:

- (a) Its scope?
- (b) The presentation and formats of financial statements?
- (c) The prohibition of the use of the Alternative Accounting Rules and Fair Value Rules?
- (d) The disclosure exemptions?

If not, why not? What further amendments are required?

Table 16: Respondents' views on Question 2

	No. of respondents
Agreed	14
Disagreed	1
Other	2
	<hr/>
	17
No comment	3
	<hr/>
	<u>20</u>

88 In general, respondents agreed with the way in which the legal requirements of the micro-entities regime had been reflected in FRS 105, although a number of drafting suggestions were made.

89 A number of respondents queried the scope of FRS 105 and whether similar-sized unincorporated businesses would be able to apply it in computing their taxable profits.

FRC response

90 Accounting standards are applicable to the preparation of financial statements of an entity that are intended to give a true and fair view. Financial statements of a micro-entity that include the specified minimum accounting items are presumed in law to give a true and fair view. FRS 105 reflects the legal requirements of the micro-entities regime.

Question 3 – Principles for simplifications

The Accounting Council used the following principles in considering whether further simplifications over and above the legal requirements would be appropriate in draft FRS 105:

- (a) if the burden of applying the accounting treatment in FRS 102 is not outweighed by the benefits for micro-entities and an alternative, more straightforward, treatment could be identified;
- (b) if the lack of detail in the formats of the financial statements and/or supporting disclosures would limit the understanding of the financial information presented; and/or
- (c) if transactions occur infrequently amongst micro-entities.

Do you agree with these overarching principles and the resulting simplifications proposed in draft FRS 105? If not, why not?

Specifically: [see Questions 4 to 8]

Table 17: Respondents' views on Question 3

	No. of respondents
Agreed	17
Disagreed	—
	<hr/>
No comment	17
	<hr/>
	3
	<hr/>
	20
	<hr/> <hr/>

91 Respondents agreed with the principles for simplification.

FRC response

92 The principles for simplification have been applied in developing FRS 105.

Question 4 – Financial Instruments (Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*)

The micro-entities regime prohibits the subsequent measurement of assets and liabilities at fair value, therefore financial instruments are measured at cost or amortised cost. Draft FRS 105 proposes a number of further simplifications over and above these legal requirements (see Section 11 *Basic Financial Instruments*).

Do you agree with this approach? If not, why not?

Do you believe further simplifications are necessary for micro-entities? If so, please provide further details.

Table 18: Respondents' views on Question 4

	No. of respondents
Agreed	7
Agreed in general, but with suggested improvements	7
Disagreed	2
	<hr/>
	16
No comment	4
	<hr/>
	<u>20</u>

- 93 Although most respondents agreed with the overall approach and welcomed the intention to simplify the accounting requirements for financial instruments, many commented that the clarity of these sections could be improved. Some particular suggestions included combining Section 11 and Section 12 into one, providing more examples and simplifying some of the language used to describe the cost-based measurement requirements.
- 94 Additional simplifications to the recognition and measurement requirements were not generally requested, but those that disagreed expressed stronger concerns about the need to clarify and simplify the way in which the requirements are expressed.

FRC response

- 95 Sections 11 and 12 have been combined into one, Section 9 *Financial Instruments*. As a result, the requirements for derivatives have been integrated with the requirements for other financial instruments. More examples have been provided and other drafting amendments have improved the overall structure and readability of the section.

Question 5 – Capitalisation of development costs (Section 18 *Intangible Assets other than Goodwill*) and borrowing costs (Section 25 *Borrowing Costs*)

Draft FRS 105 proposes to remove the accounting policy options from FRS 102 in relation to the capitalisation of borrowing costs (Section 25 *Borrowing Costs*) and development costs (Section 18 *Intangible Assets other than Goodwill*). The proposed mandatory treatment will be to expense both borrowing and development costs.

Do you agree with this approach? If not, why not?

Table 19: Respondents' views on Question 5

	No. of respondents
Agreed	14
Disagreed	1
Other	1
	<hr/>
	16
No comment	4
	<hr/>
	<u>20</u>

- 96 Respondents agreed with not providing accounting policy choices in FRS 105 and prohibiting the capitalisation of borrowing costs and development costs. One respondent noted that those micro-entities likely to have development expenditure that would meet the criteria for capitalisation set out in FRS 102 are likely to be specialist businesses that might benefit from capitalising such costs.

FRC response

- 97 FRS 102 does not require capitalisation of development costs, and therefore FRS 105 would be more restrictive than FRS 102 if it did. FRS 105 requires borrowing costs and development costs to be recognised in profit or loss when they are incurred.

Question 6 – Government grants (Section 24 Government Grants)

Draft FRS 105 removes the accounting policy option from FRS 102 in relation to the treatment of government grants (Section 24 *Government Grants*). The proposed mandatory treatment will be to apply the performance method.

Do you agree with this approach? If not, why not? Alternatives would be to continue to permit the accounting policy choice (ie FRS 105 would allow a choice between the accruals method and the performance method) or to require the accruals method.

Table 20: Respondents' views on Question 6

	No. of respondents
Agreed	4
Disagreed	10
Other	3
	<hr/>
	17
No comment	3
	<hr/>
	<u>20</u>

98 Only 24% of respondents commenting agreed with the proposal to require the performance method of accounting for government grants. However, not all of those that disagreed, or provided other comments, supported requiring the accruals method. Some respondents suggested that a choice of accounting policy should be retained for government grants; others that supported there being a single method did not indicate a preference for which method.

99 Those supporting the accruals method noted, amongst other things, its consistency with existing practice and that experience of applying the performance method is still developing.

FRC response

100 After considering the comments made, and providing an opportunity for respondents to comment further, the FRC has decided that FRS 105 shall require the accruals method for accounting for government grants.

Question 7 – Simplifications via cross-referencing to requirements in FRS 102

There are a number of areas within draft FRS 105 where it is proposed that the detailed requirements for a particular type of transaction are removed but a cross-reference to FRS 102 is inserted for micro-entities that have these types of transactions, on the basis that these types of transactions occur infrequently amongst the majority of micro-entities.

The areas where this approach has been proposed include:

- (a) intermediate payment arrangements (Section 9 *Consolidated and Separate Financial Statements*);
- (b) trade and asset acquisitions (Section 19 *Business Combinations*);
- (c) puttable instruments and examples of compound financial instruments (Section 22 *Liabilities and Equity*);
- (d) cash-generating units (Section 27 *Impairment of Assets*); and
- (e) foreign branches (Section 30 *Foreign Currency Translation*).

Do you agree with this proposed approach in general, and specifically for these types of transactions? If not, why not? Alternatives would be to reproduce the requirements of FRS 102 within draft FRS 105 or for draft FRS 105 to be silent.

Table 21: Respondents' views on Question 7

	No. of respondents
Agreed	10
Agreed in general, with specific suggestions	3
Disagreed	4
	<hr/>
	17
No comment	3
	<hr/>
	20
	<hr/> <hr/>

101 Many respondents agreed with the approach to cross-referencing to FRS 102; it was only adopted for transactions an individual micro-entity was expected to enter into infrequently. Some respondents noted that this is consistent with the approach used in FRS 102 for limited cross-references to IFRS.

102 A number of respondents suggested that since intermediate payment arrangements were sufficiently common, and have been subject to previous controversy, those requirements should be included in FRS 105 directly.

103 Other suggestions included that FRS 105 could be silent on these topics and/or that a requirement to consider another FRS dealing with similar issues could be included.

FRC response

104 The FRC notes that because FRS 102 includes accounting policies that are inconsistent with the legal requirements for the micro-entities regime (for example those that permit or require the subsequent revaluation of assets), or with the FRC's aim of eliminating accounting policy choices for micro-entities, a general cross-reference to FRS 102 has not been included in FRS 105.

- 105 The requirements for intermediate payment arrangements have been included directly in Section 7 *Subsidiaries, Associates, Jointly Controlled Entities and Intermediate Payment Arrangements*, but all other cross-references remain in FRS 105 as proposed.

Question 8 – Other simplifications

Do you believe that any further accounting simplifications should be made to draft FRS 105 that would be appropriate for micro-entities? If so, please provide specific details of the simplifications you propose and the reasons why the simplification should be made.

Table 22: Respondents' views on Question 8

	No. of respondents
No further simplifications suggested	11
Further simplifications suggested	5
	16
No comment	4
	20

- 106 Many respondents did not identify any further simplifications that might be included in FRS 105.

- 107 A number of detailed suggestions and other observations were made. One suggestion, made by four respondents, was that a micro-entity shall not separate goodwill from other intangible assets acquired in a business combination.

FRC response

- 108 All comments and suggestions have been considered and a variety of improvements and clarifications have been made in FRS 105 as a result.

- 109 In relation to goodwill and other intangible assets acquired in a business combination, the FRC notes that the micro-entities regime is not available when entities prepare consolidated financial statements, and therefore purchased goodwill will only arise when a micro-entity acquires the trade and assets of another entity (and the resulting entity continues to meet the micro-entity criteria). As the micro-entities regime does not require separate disclosure of goodwill and other intangible assets, the FRC agreed with this additional simplification, which is reflected in Section 14 *Business Combinations and Goodwill*.

Question 9 – Residents’ management companies (FRED 50)

The FRC’s Consultation Document proposed that a new sub-section is added to Section 34 *Specialised Activities* of FRS 102 for residents’ management companies, setting out requirements that would be developed from the proposals set out in FRED 50 *Draft FRC Abstract 1 – Residential Management Companies’ Financial Statements*.

Only some 32% of respondents to this question agreed with the proposal, with the rest disagreeing (50%) or providing some other response (18%).

The most compelling reasons given for not proceeding with the proposal were that:

- (a) the issue is too narrow and industry-specific to be dealt with in an accounting standard and inclusion in Section 34 of FRS 102 would open up the FRC to specific requests that could result in the standard becoming unwieldy and difficult to apply; and
- (b) interpretations of law and accounting standards should be issued by other means with a significant number of respondents calling for an alternative solution such as sector-specific guidance developed by the FRC or the development of a Statement of Recommended Practice (SORP) by parties outside of the FRC.

In light of feedback received, the FRC now proposes that a clear statement of the legal position (ie that residents’ management companies act as principals) should be included in the Accounting Council’s Advice to the FRC. This clarification of the legal position should reduce the diversity in practice that currently exists because when an entity enters into transactions as a principal, such transactions should be recorded in its accounts.

Do you agree with this approach? If not, why not? What alternative approach do you propose?

Table 23: Respondents’ views on Question 9

	No. of respondents
Agreed	12
Disagreed	1
Other	4
	<hr/>
	17
No comment	3
	<hr/>
	20
	<hr/> <hr/>

110 Most respondents agreed that specific accounting requirements for Residents’ Management Companies (RMCs) should not be included in FRS 105 (or FRS 102).

111 Those that disagreed, or provided other comments, were generally concerned that the proposed approach may still not resolve the matter. Some of these respondents consider that the existing diversity in practice should be allowed to continue, and that this should be made clear.

FRC response

- 112 The FRC has carefully considered this issue, and agrees that detailed requirements should not be included in FRS 102 and FRS 105.

Question 10 – Consultation Stage Impact Assessment

This FRED is accompanied by a *Consultation Stage Impact Assessment*. Do you have any comments on the costs or benefits discussed in that assessment?

Table 24: Respondents' views on Question 10

	No. of respondents
Noted potential cost savings	1
Disagreed with potential cost savings	1
Other	3
	<hr/>
	5
No comment	15
	<hr/>
	<u>20</u>

- 113 The majority of respondents did not offer any comments on the Consultation Stage Impact Assessment.
- 114 Those that did comment in some cases noted benefits such as reduced training costs and increased comparability between different-sized entities, but also potential drawbacks as a result of the simplification of information that is a feature of the legal framework for this regime, for example if additional information is required to satisfy the information needs of external stakeholders.

FRC response

- 115 These comments have been taken into account in finalising the Impact Assessment.

FRED 59 Draft amendments to FRS 102 – Small Entities and other minor amendments

116 FRED 59 posed five questions and the feedback, and the FRC response to it, is summarised below.

Question 1

Do you agree that the proposed Section 1A *Small Entities* adequately reflects the new small companies regime set out in company law and that the disclosure requirements for small entities are clear? If not, why not and what alternative approach would you propose?

Table 25: Respondents' views on Question 1

	No. of respondents
Agreed	6
Agreed with reservations	7
Disagreed	5
Other	6
	24

117 A number of respondents did not provide a clear 'yes' or 'no' answer to this question, and therefore judgement has been applied in categorising the responses.

118 The main issues raised by those respondents that expressed reservations, disagreed or provided other comments related to:

- (a) the layout of draft Section 1A *Small Entities*; and/or
- (b) the disclosures necessary to provide a true and fair view.

119 Many respondents felt that the layout of Section 1A required improvement, with increased clarity over the exact wording of the legal disclosure requirements and the extent to which similar disclosures in FRS 102 might meet the requirement. As set out in FRED 59, Section 1A was not considered sufficiently user-friendly.

120 The practical implications of the requirement for the financial statements of small entities to give a true and fair view were raised by some respondents, including the guidance the FRC might provide in FRS 102. For example whether, in addition to those disclosures required by company law, there are certain disclosures in FRS 102 that should always be provided by small entities for the purposes of giving a true and fair view, or whether there are certain disclosures that will not usually need to be provided by small entities.

FRC response

121 Whilst, in general, the content of Section 1A remains consistent with FRED 59, it has been significantly redrafted with much of the detail now included in appendices (which are an integral part of FRS 102). In addition:

- (a) the requirement for the financial statements to give a true and fair view has been further emphasised;
- (b) the drafting of the disclosure requirements is closely based on the relevant legal requirements, and the legal references are included;

- (c) further guidance or explanation has been included with a number of the disclosure requirements in order to assist with their application in practice.
- 122 The FRC considers that the disclosures required by FRS 102 of larger entities are those that are usually considered necessary (but not necessarily sufficient) to give a true and fair view and that a small entity should be encouraged to consider all of these disclosures in order to determine the additional disclosures necessary in its own circumstances. In addition to the discussion of this point in the Accounting Council's Advice to the FRC, the requirement to consider all the disclosures in FRS 102 for the purposes of giving a true and fair view has been strengthened in Section 1A.

Question 2

In developing these proposals the FRC has applied the principle that there should not be differences between the recognition and measurement requirements applicable to small entities and those applicable to larger entities. This principle has been determined after taking account of the generally positive response to a similar proposal in the Consultation Document.

Do you agree with this principle? If not, why not and what alternative principle or specific exceptions to the principle would you propose?

Table 26: Respondents' views on Question 2

	No. of respondents
Agreed	15
Agreed with reservations	1
Disagreed	4
	<hr/> 20
No comment	4
	<hr/> 24
	<hr/> <hr/>

- 123 There was general agreement that there should be no recognition and measurement differences for small entities.
- 124 The areas where a minority of respondents suggested that differences could be considered included:
- (a) share-based payment arrangements;
 - (b) long-term loans between related parties where a market rate of interest is not being paid;
 - (c) classification of financial instruments as basic or other;
 - (d) deferred tax;
 - (e) separate identification of intangible assets in a business combination.

FRC response

- 125 The FRC noted that three quarters of respondents commenting on this issue agreed with the proposal. It further noted that for all of the areas where a small number of respondents suggested simplifications, these would be available for micro-entities in FRS 105.

- 126 The FRC does not consider there to be compelling evidence to support recognition and measurement requirements for small entities that are different from those that FRS 102 requires larger entities to apply. Section 1A requires small entities to apply the recognition and measurement requirements of FRS 102.

Question 3

Do you agree that the transitional provisions in FRS 102 are sufficient for small entities, or have you identified any further areas where transitional provisions should be considered? If so, please provide details.

Table 27: Respondents' views on Question 3

	No. of respondents
Agreed	13
Disagreed	6
	19
No comment	5
	24

- 127 Although many respondents agreed that the transitional provisions already in FRS 102 should be adequate for small entities, a small number suggested that there was a need for additional transitional provisions. This was particularly for items that will be accounted for at fair value for the first time, especially given that for many the transition date (1 January 2015 for a 31 December year end, applying FRS 102 for the first time in 2016) will already have passed, limiting entities' ability to cost-effectively obtain relevant valuations.

- 128 The areas where additional transitional provisions were suggested included:

- (a) financial instruments measured at fair value (including derivatives);
- (b) equity-settled share-based payment arrangements;
- (c) intra-group loans at below market rates of interest;
- (d) certain agricultural grants.

- 129 Although there were some common themes in the areas in which respondents suggested transitional provisions should be considered, respondents did not necessarily identify the same potential solutions.

FRC response

- 130 The FRC has carefully considered the suggestions made and agrees that some additional transitional provisions should be available for small entities applying FRS 102 for the first time for accounting periods beginning before 1 January 2017.
- 131 These additional transitional provisions relate to equity-settled share-based payment arrangements, financial instruments measured at fair value and intra-group loans at below market rates. On first time application they provide relief from the full application of FRS 102 in relation to the comparative period.

Question 4

Do you agree with the other amendments proposed to FRS 102 for compliance with company law? If not, why not?

Table 28: Respondents' views on Question 4

	No. of respondents
Agreed	7
Agreed with reservations	6
Disagreed	1
Other	4
	<hr/>
	18
No comment	6
	<hr/>
	<u>24</u>

132 Respondents provided a variety of comments in response to this question, focusing on specific detailed aspects of the proposals. Some of the issues raised by respondents included:

- (a) the legal restrictions on companies applying merger accounting, and the potential implications for both group reconstructions and public benefit entity combinations;
- (b) the 'alternative formats' now permitted for the statement of financial position and income statement;
- (c) the drafting of the amendments to paragraph 9.3 of FRS 102 relating to the exemption from preparing consolidated financial statements;
- (d) the seriously prejudicial disclosure exemption relating to provisions, contingent liabilities and contingent assets; and
- (e) related party disclosures for small entities, in particular the practical implications of the legal restrictions on the scope of the disclosures.

FRC response

133 All the detailed comments made by respondents have been carefully considered and various improvements to the drafting of FRED 59 have been made in finalising the *Amendments to FRS 102*.

134 In particular, all of the issues highlighted above have been addressed, either by amendments to FRS 102 or by additional discussion in Appendix IV: *Note on legal requirements*.

Question 5

This FRED is accompanied by a *Consultation Stage Impact Assessment*. Do you have any comments on the costs or benefits discussed in that assessment?

Table 29: Respondents' views on Question 5

	No. of respondents
Agreed benefits arise from proposals	4
Other	2
	6
No comment	18
	24

- 135 The majority of respondents did not offer any comments on the Consultation Stage Impact Assessment.
- 136 Those highlighting benefits noted improved reporting of certain transactions, greater consistency with larger entities leading to reduced training costs and easier transition as entities grow.
- 137 Those providing other comments noted that costs arise from any transition and that although there are benefits from the new small entities regime, they are concerned about the costs of certain ongoing accounting requirements (eg share-based payment arrangements and loans at below market rates of interest) and the time that might be spent in determining the additional disclosures that are necessary to give a true and fair view.

FRC response

- 138 These comments have been taken into account in finalising the Impact Assessment.

FRED 60 Draft amendments to FRS 100 and FRS 101

139 FRED 60 posed two questions and the feedback, and the FRC response to it, is summarised below.

Question 1

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

Table 30: Respondents' views on Question 1

	No. of respondents
Agreed	17
Disagreed	—
	<hr/> <hr/> 17

140 All respondents agreed in principle with the amendments proposed in FRED 60. However, many respondents suggested improvements that might be made, including:

- (a) simplifying the discussion of equivalence in FRS 100 and removing some historical detail;
- (b) in relation to reduced disclosures under either FRS 101 or FRS 102, clarifying how the requirement for equivalent disclosures in the consolidated financial statements should be read in the context of intra-group balances that have been eliminated on consolidation;
- (c) clarifying how the transitional provision in FRS 101 for contingent consideration in a business combination was intended to operate;
- (d) clarifying the proposals relating to the early application of the new legal requirements and the changes in the accounting standards;
- (e) amending FRS 101 to include an 'amendment' to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* that qualifies the seriously prejudicial disclosure exemption by reminding qualifying entities that company law disclosures are still required.

FRC response

141 All the suggestions were carefully considered and a number of drafting amendments, including those listed above, were made in finalising the *Amendments to FRS 100* and *Amendments to FRS 101*.

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?

Table 31: Respondents' views on Question 2

	No. of respondents
Noted potential cost savings	3
No comment	<u>14</u>
	<u><u>17</u></u>

142 The majority of respondents did not offer any comments on the Consultation Stage Impact Assessment.

143 Three respondents noted that either as a result of the proposed changes in the framework, including the introduction of FRS 105, or through the introduction of greater flexibility in presentation requirements of FRS 101, they expected that cost savings should be available to preparers of financial statements.

FRC response

144 These comments have been taken into account in finalising the Impact Assessment.

FRED 61 Draft amendments to FRS 102 – Share-based payment transactions with cash alternatives

145 FRED 59 posed two questions and the feedback, and the FRC response to it, is summarised below.

Question 1

The proposed requirements for share-based payment transactions with cash alternatives:

- (a) align the requirements in FRS 102 with full IFRS and previous UK and Irish GAAP in cases where the entity can choose to settle in cash or equity;
- (b) retain the current requirements of FRS 102 to recognise a liability where the recipient can require settlement in cash; and
- (c) generalise the requirements to include those cases where the settlement method is dependent on an external event.

Do you agree with this proposal and the draft amendments to paragraph 26.15 of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*? If not, why not?

Table 32: Respondents’ views on Question 1

	No. of respondents
Agreed	5
Disagreed	6
	<hr/> 11
No comment	1
	<hr/> 12
	<hr/> <hr/>

146 All respondents commenting agreed with the alignment of the accounting in cases where the entity can choose the settlement method and to retain the current requirements to recognise a liability in cases where the recipient can require settlement in cash. One respondent noted that, in the latter case, the proposals did not retain the exemption in FRS 102 from recognising a liability when the cash settlement option has no commercial substance.

147 Six respondents did not agree with the proposed generalisation of the requirements to those cases where the settlement method is dependent on an external event. Respondents noted that this could lead to the recognition of a liability even if the probability of settlement in cash is remote. They also noted that this issue had been considered by the International Financial Reporting Standards Interpretation Committee which has failed to reach a consensus on the appropriate solution. These respondents believed the issue was not urgent and should not be resolved ahead of a solution being developed for IFRS 2 *Share-based Payment*.

FRC response

148 The exemption in FRS 102 from recognising a liability when the recipient can require settlement in cash but the cash settlement option has no commercial substance has been retained as the FRC did not intend to change the accounting in such cases.

- 149 The FRC agreed that the proposals to recognise a liability when the settlement method is dependent on some external event could result in situations when the recognition of a liability would be inappropriate because, for example, the probability of such an event is remote. Therefore, the amendments in this regard have not been made. The FRC will consider the need for further changes as part of the triennial view, taking into account any steps by the IASB to clarify the required accounting in IFRS 2.

Question 2

The amendments are proposed to be effective from 1 January 2015. Nevertheless, entities were able to apply FRS 102 to accounting periods commencing prior to 1 January 2015 and if so, may have adopted the extant requirements of paragraph 26.15 of FRS 102. Based on the assumption that this will not be an issue for many entities, if any, FRED 61 does not contain any transitional provisions.

Do you agree that transitional provisions are not required for the purposes of this proposed amendment? If not, please tell us what transitional provisions you would suggest and why.

Table 33: Respondents' views on Question 2

	No. of respondents
Agreed	8
Disagreed	2
	<hr/>
	10
No comment	2
	<hr/>
	12
	<hr/> <hr/>

- 150 The majority of respondents agreed that no additional transitional provisions are required as a result of the changes. However, two of the respondents shown in the analysis as agreeing did highlight that some clarification of the current transitional requirements was necessary. These comments were in respect of accounting, which has not changed, in cases where the recipient can choose the settlement method. These respondents noted that under FRS 20 (*IFRS 2*) *Share-based Payment* such arrangements would have resulted in the recognition of a compound instrument and that it is not clear whether the transitional exemption as currently worded addresses such situation.

FRC response

- 151 The wording in paragraph 35.10(b) has been changed to clarify that references to equity instruments issued before the transition date include the equity components of instruments treated as compound instruments before transition to FRS 102.



Financial Reporting Council

8th Floor

125 London Wall

London

EC2Y 5AS

+44 (0)20 7492 2300

www.frc.org.uk