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Accounting and Reporting Policy Team  
Financial Reporting Council  
8th Floor  
125 London Wall  
London  
EC2Y 5AS

Dear Ms Carter,

**FRED 80: Draft amendments to FRS 100, Application of Financial Reporting Requirements ('FRED 80')**

RSM is a leading audit, tax and consulting firm to the UK middle market, with over 3,600 partners and staff operating from 35 locations throughout the UK.

We welcome the opportunity to comment on FRED 80 and agree that it is appropriate for the FRC to be revisiting its guidance on equivalence.

In its reconsiderations, we encourage the FRC to develop a mechanism for assessing equivalence of local EU country GAAPs to Part 15 of the Companies Act 2006 ('the Act'). This assessment will be more time consuming (and therefore costly) in the future as section 401 of the Act no longer requires consideration of equivalence to the EU Directives that, following its exit from the EU, the UK is not required to implement.

Section 401 of the Act requires equivalence to be considered for the consolidated accounts of the larger group and, where appropriate, the group's annual report. With the developing pace of non-financial reporting, we suggest the FRC consider the need for guidance on assessing equivalence of the annual report.

Whilst we welcome the additional guidance on assessing equivalence of the group share-based payment expense in order to apply the alternative measurement basis, in our view more specific guidance would reduce the time (and therefore, the cost) for each preparer and each auditor to make this assessment as well as the potential for divergent outcomes in practice.

We are supportive of the other proposals in FRED 80 for assessing equivalence to UK-IAS and the proposal to retain current guidance on assessing equivalence of group disclosures in order to take the disclosure exemptions available in FRS 101 and FRS 102.

Should you wish to discuss any matters included in this letter, please contact Danielle Stewart OBE, head of Financial Reporting at [REDACTED]

Yours sincerely

A handwritten signature in black ink that reads 'RSM UK Tax and Accounting Limited'.

RSM UK Tax and Accounting Limited

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## Question 1

### **Do you agree with the proposed amendments to the Application Guidance The Interpretation of Equivalence to FRS 100? If not, why not?**

#### Section 401 – Equivalence to UK-IAS

We agree that the FCA's assessment of equivalence to UK-IAS for the purpose of determining exemptions from certain requirements in DTR 4 should be applied to assess equivalence under section 401 of the Act. This results in a consistent approach to UK-IAS equivalence which should not be impacted by whether or not an entity is subject to DTR 4 or the Act.

#### Section 401 – Equivalence to Part 15 of the Companies Act 2006

We strongly encourage the FRC to develop guidance on the equivalence of EU country GAAPs for the purpose of section 401 of the Act. Prior to the UK's exit from the EU, the requirement was to consider equivalence to the EU Directives on which both UK law and laws of jurisdictions in the EU were based. Over time UK law will diverge from EU Directives which will make the assessment of equivalence to Part 15 of the Act more time consuming (and therefore costly) for every preparer and every auditor of UK financial statements where this exemption is being considered. A lack of guidance also means there is the potential for divergent outcomes.

The requirement in section 401 is to consider not just the manner in which the consolidated accounts are drawn up, but also 'where appropriate, the group's annual report'. There has never been any guidance on when this is relevant or how equivalence of the annual report should be evaluated. Now may be the appropriate time to consider guidance given the developing pace of the non-financial reporting requirements.

#### Equivalence for disclosure exemptions

We agree that the assessment of equivalence for the purposes of reduced disclosures should be based on similarities to and differences from the disclosure requirements in FRS 101 or FRS 102.

We do not encounter common issues in practice when applying the equivalence assessments required for certain disclosure exemptions under FRS 101 and FRS 102. This is, in part, due to the assessment of the basic disclosure requirements being aided by disclosure objectives in many IFRS standards.

#### Alternative measurement option for share-based payment transactions

We agree that guidance is required on whether the expense for the group is calculated on an equivalent basis to FRS 102 or IFRS 2. However, it would be clearer if that guidance was included within FRS 102, paragraph 26.16, either directly or by cross-reference to further detail in FRS 100.

We consider further guidance on what constitutes the 'basic measurement requirements' in FRS 102 or IFRS 2 would reduce potential divergence in practice. The assessment of whether the group share-based payment ('SBP') expense is equivalent is often made when consolidated accounts apply US GAAP and, in some cases, GAAPs of EU countries.

Assessing the 'basic measurement requirements' can be challenging as measurement is interlinked with the classification of SBP transactions as equity-settled or cash-settled which may be different at group vs entity-level. The fair value re-measurement of the latter at each reporting date often results in a fair value, and consequently an expense, that is materially different to the fair value at grant date. The materiality of any change in fair value is further affected when the SBP expense forms part of the key management personnel compensation disclosures.

As a minimum, we would ask the FRC to clarify that the basic measurement requirements include the requirement for fair value measurement, similar to the reference in FRS 100 to the requirement to give a 'true and fair view' when considering the basic requirements of a reporting framework. It would be helpful if the FRC would go further and provide a Staff Guidance Note on whether the frequency of the fair value measurement, and period over which the SBP is spread (e.g. straight-line vs graded vesting) also forms part of the basic measurement requirements.

That said, we agree that the assessment of equivalence should continue to consider similarities to and differences from the requirements in FRS 102 or IFRS 2.

#### Effective date

We agreed with the proposed amendments taking effect immediately as changes to section 401 of the Act have already come into force.

#### Irish entities

We have not considered the paragraphs in FRED 80 that apply to Irish entities.

### **Question 2**

**In relation to the Consultation stage impact assessment, do you have any comments on the costs and benefits identified? Please provide evidence to support your views.**

In our response to Question 1 we have commented on the effort which may be involved in assessing equivalence of EU country GAAPs to Part 15 of the Act.