Financial Reporting Council

December 2016

Amendments to FRS 101 *Reduced Disclosure Framework* and FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

Notification of shareholders

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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Notification of shareholders

Amendments to FRS 101 Reduced Disclosure Framework and FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Notification of shareholders amends accounting standards. 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 stakeholder feedback and are intended to make FRS 101 more cost-effective by removing an administrative burden.

(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 and FRS 102

(iv) These amendments to FRS 101 and FRS 102 remove the requirement for a qualifying entity to notify its shareholders in writing that it intends to take advantage of the disclosure exemptions in FRS 101 and FRS 102.

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* (deleted text is struck through, inserted text is underlined).

2 Paragraph 5(a) is amended as follows:

5(a) ~~Its shareholders have been notified in writing about, and do not object to, the use of the disclosure exemptions. Objections to the use of the disclosure exemptions may be served on the qualifying entity, in accordance with reasonable specified timeframes and format requirements, by a shareholder that is the immediate parent of the entity, or by a shareholder or shareholders holding in aggregate 5% or more of the total allotted shares in the entity or more than half of the allotted shares in the entity that are not held by the immediate parent.~~[Deleted]

3 Paragraph 13 is inserted as follows:

13 In December 2016 an amendment was made to this FRS to delete paragraph 5(a), and therefore remove the requirement for a qualifying entity to notify its shareholders about the proposed use of disclosure exemptions. A qualifying entity shall apply this amendment for accounting periods beginning on or after 1 January 2016.

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

Amendments to Section 1
Scope

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

5 Paragraph 1.11(a) is amended as follows:

1.11(a) ~~Its shareholders have been notified in writing about, and do not object to, the use of the disclosure exemptions. Objections to the use of the disclosure exemptions may be served on the qualifying entity, in accordance with reasonable specified timeframes and format requirements, by a shareholder that is the immediate **parent** of the entity, or by a shareholder or shareholders holding in aggregate 5 per cent or more of the total allotted shares in the entity or more than half of the allotted shares in the entity that are not held by the immediate parent.~~<u>[Deleted]</u>

6 In paragraph 1.11(c)(ii) the word 'parent' is now shown in bold type.

7 Paragraph 1.17 is inserted as follows:

<u>1.17 In December 2016 an amendment was made to this FRS to delete paragraph 1.11(a), and therefore remove the requirement for a qualifying entity to notify its shareholders about the proposed use of disclosure exemptions. A qualifying entity shall apply this amendment for accounting periods beginning on or after 1 January 2016.</u>

Approval by the FRC

Amendments to FRS 101 Reduced Disclosure Framework and FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Notification of shareholders was approved for issue by the Financial Reporting Council on 7 December 2016, following its consideration of the Corporate Reporting Council's Advice.

The Corporate Reporting Council's Advice to the FRC to issue *Amendments to FRS 101 and FRS 102 – Notification of shareholders*

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 *Amendments to FRS 101 Reduced Disclosure Framework and FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Notification of shareholders*.

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 *Codes and Standards Committee: 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 *Amendments to FRS 101 Reduced Disclosure Framework and FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Notification of shareholders.*

6 The Corporate Reporting Council advises that these amendments will reduce the costs of complying with FRS 101 *Reduced Disclosure Framework* and the reduced disclosures for subsidiaries (and ultimate parents) in FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and eliminate an area of inconsistency in practice.

7 The Accounting Council's Advice[1] to the FRC to issue FRS 101 and FRS 102 was set out in those standards. The Corporate Reporting Council's Advice to the FRC in respect of these amendments will be included in the revised FRS 101 and FRS 102.

Background

8 When FRS 101 and FRS 102 were developed, they included a requirement that a qualifying entity's shareholders were notified about the intention to take advantage of

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

reduced disclosures. The requirement was intended to protect minority shareholders by giving them the opportunity to object to the use of reduced disclosures.

9 As part of the 2015/16 annual review of FRS 101, respondents to FRED 63 *Draft amendments to FRS 101 – 2015/16 cycle* raised concerns about the cost-effectiveness of this requirement. They also raised concerns about there being insufficient guidance available on how to apply the requirement in practice, which was leading to uncertainty and diversity in practice. One area of uncertainty relates to the frequency with which notification is required. After considering this feedback the FRC consulted on proposals to remove the requirement to notify shareholders in FRED 65 *Draft amendments to FRS 101 – Notification of shareholders*. The responses to FRED 65 have been considered in developing this advice.

Amendments to FRS 101 and FRS 102

10 The Corporate Reporting Council initially considered a number of options for addressing the concerns about whether the requirement to notify shareholders was meeting its objective and was cost-effective.

11 The Corporate Reporting Council advises that the requirement to notify shareholders of the intention to take advantage of reduced disclosures should be removed from FRS 101 and FRS 102. Overall, the Corporate Reporting Council advises that complying with this requirement is no longer cost-effective in practice and that sufficient information will continue to exist for minority shareholders to understand the effects of the reduced disclosure framework.

12 In doing so the Corporate Reporting Council notes that:

(a) The overall level of disclosure required by FRS 101 is not less than that required by previous UK accounting standards, taking into account exemptions that were available for subsidiaries. Indeed, disclosure may be greater in some areas. In addition, the overall level of disclosure may be greater than that required by FRS 102, which will also be an option available to qualifying entities applying FRS 101.

(b) The shareholders in an ultimate parent entity will receive the consolidated financial statements of the group as well as the parent entity's individual financial statements. These consolidated financial statements will include full disclosure in accordance with the relevant accounting framework (often EU-adopted IFRS).

(c) Notifying all shareholders of an ultimate parent entity in writing could lead to a significant cost being incurred.

(d) A shareholder that controls a qualifying entity can exercise that control in relation to the financial reporting of its subsidiary without the need for an additional opportunity to object.

(e) A qualifying entity is required to disclose a summary of the disclosure exemptions adopted. Therefore although there may be some qualifying entities that adopt FRS 101 from a later date, many will now have adopted FRS 101 for the first time and any prospective shareholders will be aware of the use of the reduced disclosure framework from the prior period financial statements.

(f) Company law does not generally require shareholder agreement, or provide an opportunity to object, to disclosure exemptions. However, company law does provide shareholders with other rights to influence the company's actions and protections for minority shareholders.

13 Similar considerations apply to FRS 102.

14 Respondents to FRED 65 agreed with removing the requirement to notify shareholders. However, some respondents suggested further consideration be given to retaining the right to object for shareholders holding a specified proportion of the voting rights. The Corporate Reporting Council considered the information available to shareholders and their existing rights and advises that a specific right to object to the use of disclosure exemptions is not necessary.

Effective date

15 The effective date for these amendments shall be accounting periods beginning on or after 1 January 2016.

Approval of this advice

16 This advice to the FRC was approved by the Corporate Reporting Council on 17 November 2016.

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FRC Publications
Lexis House
30 Farringdon Street
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