Financial Reporting
Standard 101- Reduced Disclosure Framework

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1 INTRODUCTION

In 2012 and 2013 the Financial Reporting Council (FRC) changed financial reporting standards in the United Kingdom and the Republic of Ireland. These changes will replace almost all extant UK GAAP with the following three Financial Reporting Standards:

- FRS 100 — Application of Financial Reporting Requirements (FRS 100);
- FRS 101 — Reduced Disclosure Framework: Disclosure exemptions from EU-adopted IFRS for qualifying entities (FRS 101); and

This chapter deals only with the application of FRS 101. This is a voluntary framework which can be applied by qualifying entities that previously used either EU-adopted IFRS or UK GAAP (including the FRSSE and FRS 102). FRS 101 may also be adopted by non-UK entities currently applying IFRS as issued by the IASB or another GAAP although application would depend on local legislation. However, this chapter discusses FRS 101 only as it applies to UK companies, LLPs and other entities preparing financial statements under Part 15 of the Companies Act 2006 (the Companies Act).

FRS 101 sets out a framework which addresses the financial reporting requirements and disclosure exemptions for the financial statements of subsidiaries and parents that otherwise apply the recognition, measurement and disclosure requirements of standards and interpretations issued (or adopted) by the International Accounting Standards Board (IASB) that have been adopted in the European Union (EU-adopted IFRS). To use the framework, an entity needs to be a qualifying entity (see section 2.1 below) which is included in publicly available consolidated financial statements of its parent which are intended to give a true and fair view. The shareholders of the qualifying entity must be notified and not object.
An entity reporting under FRS 101 complies with EU-adopted IFRS except as modified in accordance with this FRS. This chapter does not discuss EU-adopted IFRS, which is covered in the Ernst & Young publication *International GAAP 2013*. The FRC’s 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 the users’ information needs. In other words, the objective of FRS 101 is to enable subsidiary and parent company financial statements to be prepared under the recognition and measurement rules of IFRS without the need for some of the copious disclosures which are perceived to act as a barrier to those entities preparing those financial statements under IFRS.

An entity using the reduced disclosure framework of FRS 101 is unable to make the explicit and unreserved statement that its financial statements comply with EU-adopted IFRS. This is because an accounting framework that allows such reduced disclosures cannot be described as EU-adopted IFRS. Therefore, entities that prepare financial statements under FRS 101 prepare Companies Act individual accounts as defined in s395(1)(a) of the Companies Act. This means that financial statements prepared under FRS 101 are subject to different Companies Act requirements than financial statements prepared under EU-adopted IFRS which are IAS accounts prepared under s395(1)(b) of the Companies Act. These differences are discussed at sections 4, 5 and 7 below.

### 1.1 Summary of FRS 101

- Adoption of FRS 101 is voluntary;
- FRS 101 can only be applied in individual financial statements (see section 2 below);
- FRS 101 can only be applied by a ‘qualifying entity’ (see section 2.1 below);
- Approval of shareholders must be obtained to use FRS 101 (see section 2.2 below);
- Entities can transition to FRS 101 from either UK GAAP or IFRS (see section 3 below);
- Entities using FRS 101 apply the recognition and measurement principles of EU-adopted IFRS except as amended by this standard (see section 4 below);
- Entities using FRS 101 must prepare a balance sheet and profit and loss account section of the statement of comprehensive income in accordance with *The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008* (the Regulations) (see section 5 below);
- Entities using FRS 101 can take advantage of various disclosure exemptions from EU-adopted IFRS. Entities defined as ‘financial institutions’ have fewer exemptions than entities that are not financial institutions. Some of these disclosure exemptions are conditional on equivalent disclosures being included in the publicly available consolidated financial statements of a parent of the entity which are intended to give a true and fair view and in which the entity is consolidated (see section 6 below); and
- In addition to IFRS disclosures, entities using FRS 101 must comply with disclosures required by Company law and the Regulations (see section 7 below).
1.2 Effective date of FRS 101
FRS 101 was issued on 22 November 2012. A qualifying entity (see section 2.1 below) may apply FRS 101 for accounting periods beginning on or after 1 January 2015. FRS 101 can also be applied early. If an entity applies FRS 101 before 1 January 2015 it shall disclose that fact. [FRS 101.11].
UK entities that wish to transition to FRS 101 from IFRS can only do so for accounting periods ending on or after 1 October 2012 unless there is a relevant change in circumstance (see section 3.1 below). Entities that wish to transition to FRS 101 from UK GAAP or any other GAAP can do so in respect of any financial statements not issued as at 22 November 2012.
Transitional rules and eligibility to adopt FRS 101 are discussed at section 3 below.

1.3 Statement of compliance with FRS 101
A set of financial statements prepared in accordance with FRS 101 must contain a statement in the notes to the financial statements that: “These financial statements were prepared in accordance with Financial Reporting Standard 101 ‘Reduced Disclosure Framework’.” FRS 101 also clarifies that because FRS 101 does not comply with all of the requirements of IFRS it should not contain the unreserved statement of compliance with IFRS set out in paragraph 3 of IFRS 1 – First-time Adoption of International Financial Reporting Standards and paragraph 16 of IAS 1 – Presentation of Financial Statements. [FRS 101.10].

1.4 Referencing convention
Throughout this chapter, IAS 27 – Separate Financial Statements and IAS 28 – Investments in Associates and Joint Ventures are referred to as IAS 27 and IAS 28 respectively. IAS 27 – Consolidated and Separate Financial Statements and IAS 28 – Investments in Associates are referred to as IAS 27 (2012) and IAS 28 (2012) respectively.

2 SCOPE OF FRS 101
FRS 101 may be applied to the individual financial statements of a ‘qualifying entity’ (see section 2.1 below), that are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss for a period. [FRS 101.2]. FRS 101 cannot be applied to consolidated financial statements.
Individual financial statements to which FRS 101 applies are individual accounts as set out in s394 of the Companies Act or as set out in s72A of the Building Societies Act 1986. Separate financial statements, as defined by IAS 27 or IAS 27 (2012) are included in the meaning of the term individual financial statements. [FRS 101.App1 Glossary].
This means that FRS 101 can be used in:
- individual financial statements of subsidiaries;
- separate financial statements of an intermediate parent which does not prepare consolidated financial statements; and
- separate financial statements of a parent which does prepare consolidated financial statements.
However, the entity applying FRS 101 must be included in a set of consolidated financial statements intended to give a true and fair view (see section 2.1.6 below).

A parent that prepares consolidated financial statements but applies FRS 101 in its separate financial statements can also use the exemption in s408 of the Companies Act from presenting a profit and loss account and related notes in the individual financial statements as well as taking advantage of the reduced disclosures from IFRS.

FRS 101 cannot be applied in consolidated financial statements even if the entity preparing consolidated financial statements is a qualifying entity. [FRS 101.3].

FRS 101 requires that financial statements prepared under FRS 101 are Companies Act accounts rather than IAS accounts. Therefore, entities that apply FRS 101 must comply with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("the Regulations") including the rules on recognition and measurement, the Companies Act accounts formats and note disclosures. In order to enable financial statements prepared in accordance with FRS 101 to comply with the Regulations, some limited recognition, measurement and presentational changes have been made by FRS 101 to IFRS. Therefore, the version of IFRS applied by FRS 101 is not the same as EU-adopted IFRS. These differences are discussed at sections 4 and 5 below.

FRS 101 does not permit the company law formats included in Part 1 'General Rules and Formats' of the Regulations applicable to small companies to be applied. However, our view is that companies subject to the Small Companies Regime can still apply FRS 101, and, in doing so, are not prevented from taking advantage of other Companies Act exemptions applicable to companies subject to the Small Companies Regime. Likewise, medium-sized entities applying FRS 101 can still take advantage of applicable Companies Act disclosure exemptions for medium-sized entities.

A charity cannot be a qualifying entity and therefore cannot apply FRS 101. [FRS 101.A1 Glossary].

### 2.1 Definition of a qualifying entity

FRS 101 defines a qualifying entity as 'A member of a group where the parent of that group prepares publicly available consolidated financial statements, which are intended to give a true and fair view (of the assets, liabilities, financial position and profit or loss) and that member is included in the consolidation.' [FRS 101.A1 Glossary].

The phrase ‘included in the consolidation’ is referenced to s474(1) of the Companies Act which states that this means that ‘the undertaking is included in the accounts by the method of full (and not proportional) consolidation and references to an undertaking excluded from consolidation shall be construed accordingly’. Therefore, entities that are not fully consolidated in the group financial statements, such as subsidiaries of investment entities, which are accounted for at fair value through profit and loss under IFRS 10 – Consolidated Financial Statements, cannot use FRS 101. Associates and joint ventures (or jointly controlled entities under IAS 31 – Interests in Joint Ventures) are not qualifying entities.

#### 2.1.1 Reporting date of the consolidated financial statements of the parent

The requirement for the qualifying entity to be included in the consolidation implies that the consolidated financial statements of the parent must be prepared before the
FRS 101 individual financial statements of the qualifying entity. FRS 101 is silent on whether the reporting date and period of those consolidated financial statements has to be identical to that of the qualifying entity. In contrast, both s400 and s401 of the Companies Act require that the exemption from preparing group accounts for a parent that is a subsidiary is conditional on the inclusion of the subsidiary in the consolidated financial statements of the parent drawn up to the same date or an earlier date in the same financial year. It would seem logical that the reporting date criteria in s400 and s401 can also be used for FRS 101.

However, where the consolidated financial statements are prepared as at an earlier date than the date of the qualifying entity’s financial statements, some of the disclosure exemptions may not be available to the qualifying entity because the consolidated financial statements may not contain the ‘equivalent’ disclosures (see section 6.2 below).

2.1.2 Definition of group and subsidiary

The definition of a qualifying entity contains a footnote that refers to s474(1) of the Companies Act which defines a ‘group’ as a parent undertaking and its subsidiary undertakings. EU-adopted IFRS defines a group as ‘a parent and its subsidiaries’. [IFRS 10.A, s474(1)].

IFRS defines a parent as ‘an entity that controls one or more entities’ and a subsidiary as ‘an entity that is controlled by another entity’. [IFRS 10.A]

The Companies Act states that an undertaking is a parent undertaking in relation to another undertaking, a subsidiary undertaking, if:

(a) it holds a majority of the voting rights in the undertaking; or

(b) it is a member of the undertaking and has the right to appoint or remove a majority of its board of directors; or

(c) it has the right to exercise a dominant influence over the undertaking by virtue of provisions in the undertaking’s articles or by virtue of a control contract; or

(d) it is a member of the undertaking and controls alone, pursuant to an agreement with other shareholders or members, a majority of the voting rights in the undertaking.

An undertaking is also a parent undertaking in relation to another undertaking if it has the power to exercise, or actually exercises, dominant control or influence over it, or it and the subsidiary undertaking are managed on a unified basis.

A parent undertaking shall be treated as the parent undertaking of undertakings in relation to which any of its subsidiary undertakings are, or are to be treated as, parent undertakings; and references to its subsidiary undertakings shall be construed accordingly. [s1162].

These differences in definition make it possible for an entity to be a subsidiary undertaking under the Companies Act but not under EU-adopted IFRS, for example an entity in which a parent owns a majority of the voting rights but does not control. However, the key issue for the application of FRS 101 is whether the subsidiary is included in the consolidation of the parent’s consolidated financial statements. A company which meets the definition of a subsidiary undertaking under the
Companies Act but is not included in the consolidation of the consolidated financial statements of its parent cannot apply FRS 101.

2.1.3 Publicly available consolidated financial statements

By ‘publicly available’, we believe that FRS 101 requires that the consolidated financial statements can be accessed by the public as the use of the EU-adopted IFRS disclosure exemptions is conditional on a disclosure by the qualifying entity indicating from where those consolidated financial statements can be obtained (see section 2.2 below). This does not mandate that the consolidated financial statements must be filed with a regulator. However, it does mean that UK consolidated financial statements not yet filed with the Registrar of Companies, at the date that the subsidiary’s financial statements prepared in accordance with FRS 101 are approved, must be publicly available via some other medium.

2.1.4 Non UK qualifying entities

There is no requirement that a qualifying entity is a UK entity. Therefore, overseas entities can apply FRS 101 in their individual or separate financial statements subject to meeting the criteria and subject to FRS 101 being allowed in their own jurisdiction.

There is also no requirement that the parent that prepares publicly available consolidated financial statements, in which the qualifying entity is included, is a UK parent (see section 2.1.6 below).

2.1.5 Non controlling interests

There is no ownership threshold for a subsidiary to apply FRS 101. Therefore, a qualifying entity can apply FRS 101 even if its parent holds less than a majority of the voting rights. However, other shareholders are permitted to object to the use of FRS 101 (see section 2.2 below).

2.1.6 Intended to give a true and fair view

The consolidated financial statements are not required to give an explicit true and fair view of the assets, liabilities, financial position and profit or loss. Rather, they are ‘intended to give a true and fair view’ (our emphasis). This means that the consolidated financial statements in which the qualifying entity is consolidated need not contain an explicit opinion that they give a true and fair view (for example, US GAAP financial statements do not have such an opinion) but, in substance, they should be intended to give such a view. The FRC obtained a QC’s opinion in 2008 which stated that ‘the requirement set out in international accounting standards to present fairly is not a different requirement to that of showing a true and fair view but is a different articulation of the same concept’.

In our view, a set of consolidated financial statements drawn up in a manner equivalent to consolidated financial statements that are in accordance with the EU Seventh Directive (ie a set of consolidated financial statements that meets the ‘equivalence’ test of s401 of the Companies Act) is intended to give a true and fair view. The Application Guidance to FRS 100 states that consolidated financial statements of a higher parent will meet the test of equivalence in the Seventh Directive if they:

- give a true and fair view and comply with FRS 102;
- are prepared in accordance with EU-adopted IFRS;
are prepared in accordance with IFRS, subject to the consideration of the reasons for any failure by the European Commission to adopt a standard or interpretation; or

- are prepared using other GAAPs which are closely related to IFRS, subject to the consideration of the effect of any differences from EU-adopted IFRS. [FRS 100.AG6].

The IFRS for SMEs shall be assessed for equivalence with the Seventh Directive considering a number of factors including the disclosure requirements for extraordinary items, additional disclosures for financial liabilities held at fair value, shortening the presumed life of goodwill from 10 to not exceeding 5 years, recognising "negative goodwill" in the income statement only when it meets the definition of a realised profit, replacing the prohibition on reversal of impairment losses with a requirement to reverse the loss if, and only if, the reasons for the impairment cease to apply and removing the requirement for unpaid called up share capital to be recognised as an offset to equity. [FRS 100.AG6(f)].

Other GAAPs should be assessed for equivalence with the Seventh Directive based on the particular facts, including the similarities to and differences from the Seventh Directive. [FRS 100.AG6(e)].

The EU has a mechanism to determine the equivalence to IFRS of GAAP from other countries. As of April 2012, via a Commission Implementing Decision amending Decision 2008/961/EC, the EU had determined that the following standards were considered as equivalent to EU-adopted IFRS (for the purposes of the Transparency and Prospectus Directive):

- US GAAP;
- Japanese GAAP;
- GAAP of the People's Republic of China
- GAAP of Canada;
- GAAP of the Republic of Korea; and
- GAAP of the Republic of India (treated as equivalent for financial years starting before 1 January 2015). [FRS 100.AG7].

In theory, there is no reason why consolidated financial statements of a parent prepared under a GAAP that is not equivalent to the Seventh Directive cannot be used provided those consolidated financial statements in which the entity is included are publicly available and are intended to give a true and fair view. However, a parent company that wishes to claim an exemption from preparing consolidated accounts under either s400 or s401 of the Companies Act must be a subsidiary of a parent that prepares consolidated accounts in accordance with the provisions of the EU Seventh Directive or in a manner so equivalent [s400(2)(b), s401(2)(b)].

In addition, a number of the disclosure exemptions from EU-adopted IFRS in FRS 101 are conditional on "equivalent" disclosures being made in those consolidated financial statements. Where the equivalent disclosure is not made, the relevant disclosure exemptions cannot be applied in the qualifying entity's financial statements prepared under FRS 101 (see section 6.2 below). A GAAP that is not
‘equivalent’ to the Seventh Directive is less likely to have those ‘equivalent’ disclosures.

One issue not addressed by FRS 101 is the impact of a qualified audit opinion on the consolidated financial statements. The QC’s opinion obtained by the FRC in 2008 stated that ‘the scope for arguing that financial statements which do not comply with relevant accounting standards nevertheless give a true and fair view is very limited’.

2.2 Use of the disclosure exemptions

The use of the disclosure exemptions in FRS 101 (see section 6 below) is conditional on all of the following criteria being met:

- the shareholders have been notified in writing about the use of the disclosure exemptions;
- the shareholders have not objected to the disclosure exemptions;
- the reporting entity applies the recognition, measurement and disclosure requirements of EU-adopted IFRS but makes amendments to those requirements where necessary in order to comply with the Companies Act and the Regulations because the financial statements it prepares are Companies Act individual accounts as defined in s395(1) of the Companies Act (see section 4 below);
- the reporting entity provides in the notes to its financial statements
  - a brief narrative summary of the disclosure exemptions adopted; and
  - the name of the parent of the group in whose consolidated financial statements its financial statements are consolidated and from where those financial statements may be obtained. [FRS 101.5].

FRS 101 does not state whether the requirement of the reporting entity to notify its shareholders about the use of the disclosure exemptions is an annual requirement or whether a more open-ended notification can be provided. In addition, no timescale is mentioned. Therefore, there is no requirement that notification occurs in the period covered by the financial statements; it could be earlier or later. In the absence of clear guidance, we would recommend that entities obtain legal advice as to the form in which they should notify shareholders of their intention to use FRS 101.

Objections to the use of FRS 101 may be served on the qualifying entity in accordance with reasonable 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 allotted shares in the entity or more than half of the allotted shares in the entity that are not held by the immediate parent. [FRS 101.5(a)]. FRS 101 does not explain what is meant by ‘reasonable timeframes and format requirements’ in respect of any shareholder objection. Entities may wish to obtain legal advice as to what ‘reasonable timeframes and format requirements’ should be specified in any notice provided to shareholders.

An objection by a shareholder or shareholders holding in aggregate 5% or more of the total allotted shares or more than half of the allotted shares that are not held by the immediate parent (which could be less than 5% of the total allotted shares) automatically means that FRS 101 cannot be applied by the entity. A shareholder is not required to supply a reason for any objection.
2.3 The impact of s400 and s401 of the Companies Act on FRS 101

FRS 101 does not override either s400 or s401 of the Companies Act. S400 exempts a UK parent company from preparing consolidated accounts if it is a subsidiary undertaking of an immediate parent undertaking established under the law of an EEA State and is included in the consolidated accounts for a larger group drawn up to the same date, or to an earlier date in the same financial year, by a parent undertaking established under the law of an EEA State. S401 exempts a UK parent company from preparing consolidated accounts if it is a subsidiary undertaking of a parent undertaking not established under the law of an EEA State and is included in the consolidated accounts for a larger group drawn up to the same date, or to an earlier date in the same financial year, by a parent undertaking. The exemptions from preparing consolidated accounts in both s400 and s401 are subject to various conditions including ‘equivalence’ (in respect of s401) as discussed at section 2.1.6 above.

If a UK parent company does not meet all of the conditions set out in either s400 or s401 (and is not otherwise exempt under the Companies Act) then it must prepare consolidated financial statements. Such consolidated financial statements cannot be prepared under FRS 101. However, the parent entity could still prepare its individual financial statements under FRS 101.

3 TRANSITION TO FRS 101

An entity can transition to FRS 101 from either EU-adopted IFRS or another form of UK GAAP. In this context, another form of UK GAAP means either FRS 102, the FRSE or ‘old’ UK GAAP.

FRS 101 is adopted in the first accounting period for which a reporting entity has notified its shareholders in writing about the use of the disclosure exemptions (see 2.2 above). When this occurs, the date of transition to FRS 101 is the beginning of the earliest period for which an entity presents full comparative information under a given standard in its first financial statements that comply with that standard, eg 1 January 2012 for an entity with a 31 December year-end adopting in its 2013 financial statements. [FRS 100.A1:Glossary].

3.1 Companies Act restrictions on changes to FRS 101

Under the Companies Act, a company which wishes to change from preparing IAS individual accounts to preparing individual accounts under FRS 101 may do so either:

- if there is a ‘relevant change of circumstance’ as defined in s395(4) of the Companies Act; or
- or for financial years ending on or after 1 October 2012, for a reason other than a relevant change of circumstance, once in a five year period. [FRS 100.A2.14].

There is no restriction on the number of times an entity can move from Companies Act accounts to IAS accounts or vice versa so theoretically an entity could ‘flip’ from IAS accounts to FRS 101 and back again several times without a ‘relevant change in
reverted back to Companies Act accounts no more than once every five years.

There are no Companies Act restrictions on a change from "old" UK GAAP, the FRSSE or FRS 102 to FRS 101 and back again since these are all Companies Act accounts.

### 3.2 Consistency of financial statements within the group

The Companies Act requires that the directors of a parent company secure that the individual accounts of a parent company and of each of its subsidiary undertakings are prepared under the same financial reporting framework, be it IAS accounts or Companies Act accounts, except to the extent that in the directors’ opinion there are good reasons for not doing so. [s407(1)]. However, this rule does not apply:

- if the parent company does not prepare group accounts [s407(2)];
- if the accounts of the subsidiary undertaking are not required to be prepared under Part 15 of the Companies Act (for example foreign subsidiary undertakings) [s407(3)]; or
- to any subsidiary undertakings that are charities (so charities and non-charities within a group are not required to use the same accounting framework). [s407(4)].

This is because charities are not permitted to prepare either IAS group or individual accounts. [s395(2), s403(3)].

Additionally, a parent company that prepares both consolidated and separate financial statements under EU-adopted IFRS (ie IAS group accounts and IAS individual accounts) is not required to ensure that its subsidiary undertakings all prepare IAS individual accounts. However, it must ensure that its subsidiary undertakings use the same accounting framework in their individual accounts unless there are good reasons for not doing so [s407(5)].

Therefore, a group that decides to use FRS 101 for any of its qualifying subsidiaries, must ensure, unless there are good reasons, that all UK subsidiaries prepare Companies Act individual accounts (ie the same financial reporting framework). Although not explicitly stated by FRS 100, there appears to be no requirement that all subsidiaries in a group must use FRS 101 for their Companies Act individual accounts; some could also use FRS 102, the FRSSE or "old" UK GAAP (prior to 2015) since all are Companies Act individual accounts and therefore part of the same financial reporting framework.

Examples of ‘good reasons’ for not preparing all individual accounts within a group using the same reporting framework are contained in the June 2008 BERR document Guidance for UK Companies On Accounting and Reporting: Requirements under the Companies Act 2006 and the application of the IAS regulation.

### 3.3 Transition from EU-adopted IFRS to FRS 101

In substance, the transition requirements for entities that have been applying EU-adopted IFRS prior to conversion to FRS 101 treat the qualifying entity as not having changed its financial reporting framework. Disclosure is required only where changes are made on transition, because FRS 101 modifies EU-adopted IFRS in certain respects, in order to comply with the Companies Act and the Regulations.

A qualifying entity that is applying EU-adopted IFRS at the date of transition to FRS 101 must consider whether amendments are required to comply with
paragraph 5(b) of FRS 101 — see sections 4 and 5 below — but it does not reapply the provisions of IFRS 1. Where amendments in accordance with paragraph 5(b) of FRS 101 are required, the entity shall determine whether the amendments have a material effect on the first FRS 101 financial statements presented. [FRS 100.12]. Details of measurement differences between EU-adopted IFRS and FRS 101 which might result in a material effect on the financial statements are discussed at section 4 below.

Where there is no material effect of such changes, the qualifying entity shall disclose that it has undergone transition to FRS 101 and give a brief narrative of the disclosure exemptions taken for all periods presented in the financial statements. [FRS 100.12(a)].

Where there is a material effect caused by such changes, the qualifying entity's first FRS 101 financial statements shall include:

- a description of the nature of each material change in accounting policy;
- reconciliations of its equity determined in accordance with EU-adopted IFRS to its equity determined in accordance with FRS 101 for both the date of transition to FRS 101 and for the end of the latest period presented in the entity's most recent annual financial statements prepared in accordance with EU-adopted IFRS; and
- a reconciliation of the profit or loss determined in accordance with EU-adopted IFRS to the profit or loss determined in accordance with FRS 101 for the latest period presented in the entity's most recent annual financial statements prepared in accordance with EU-adopted IFRS. [FRS 100.12(b)].

This means that, for an entity adopting FRS 101 for the first time in its annual financial statements ending on 31 December 2013 (and presenting one comparative period), reconciliations will be required of:

- equity as at 1 January 2012 and 31 December 2012; and
- profit or loss for the year ended 31 December 2012.

There is no requirement for a transition balance sheet to be prepared presumably on the grounds that IFRS 1 — First-time Adoption of International Financial Reporting Standards is not being reapplied.

Material amendments must be applied retrospectively on transition unless impracticable. Where a retrospective amendment is impracticable, the qualifying entity shall apply the amendment to the earliest period for which it is practicable to do so and shall identify the data presented for prior periods that are not comparable with the data for the period for which it prepares its first financial statements that conform with FRS 101. [FRS 100.13]. 'Impracticable' will be as defined in IAS 8 — Accounting Policies, Changes in Accounting Estimates and Errors.

Paragraph 5(b) of FRS 101 cross-refers to application guidance that includes presentational changes to the financial statements as well as recognition and measurement differences. The transitional rules contain no explicit requirement to disclose material presentational changes such as the use of balance sheet and profit and loss formats as per the Regulations. However, we recommend that entities explain any material presentational changes compared to EU-adopted IFRS arising from adoption of FRS 101 in order to assist readers of the financial statements.
3.4 Transition from another version of UK GAAP or another GAAP to FRS 101

In substance, the transition requirements treat conversion to FRS 101 from another version of UK GAAP (FRS 102, the FRSSE or 'old' UK GAAP) or another GAAP as a full first time conversion to EU-adopted IFRS (as modified by FRS 101).

A qualifying entity that transitions to FRS 101 shall, unless it is applying EU-adopted IFRS prior to the date of transition, apply the requirements of paragraphs 6 to 33 of IFRS 1 including the relevant appendices. [FRS 100.11(b)]. This means that all of the recognition, measurement and disclosure rules for an IFRS first-time adopter apply to the extent they do not conflict with IFRS as amended by paragraph 5(b) of FRS 101. First-time adoption of IFRS is discussed in Chapter 5 of International GAAP 2013.

IFRS 1 sets out requirements for where a subsidiary becomes a first time adopter later than its parent or where a parent becomes a first time adopter later than its subsidiary (or becomes a first-time adopter in its separate financial statements earlier or later than in its consolidated financial statements).

IFRS 1 permits a subsidiary that becomes a first-time adopter later than its parent to measure its assets and liabilities at either the carrying amounts required by IFRS 1, based on the subsidiary’s date of transition, or the carrying amounts that would be included in the parent’s consolidated financial statements, based on the parent’s date of transition if no adjustments were to be made for the effects of consolidation procedures or the business combination in which the parent acquired the subsidiary (the D16 election). There is a similar election available for an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it. [IFRS 1.D16].

Where an entity becomes a first-time adopter later than its subsidiary it shall, in the consolidated financial statements, measure the assets and liabilities of the subsidiary after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary. Similarly, if a parent becomes a first time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments. [IFRS 1.D17].

Although FRS 101 retains the D16 election and the D17 requirements, the qualifying entity must ensure it measures its assets and liabilities in accordance with FRS 101 (where application of these paragraphs conflicts with EU-adopted IFRS). [IFRS 101.AG1(a)-(b)].

3.5 The impact of transition on realised profits

There may be circumstances where a conversion to FRS 101 eliminates a qualifying entity’s realised profits or turns those realised profits into a realised loss. TECH 02/10 – Guidance on Realised and Distributable Profits under the Companies Act 2006 (TECH 02/10), issued by the ICAEW and ICAS, states that the change in the treatment of a retained profit or loss as a result of a change in the law or in accounting standards or interpretations would not render unlawful a distribution already made out of realised profits determined by reference to ‘relevant accounts’ which had been prepared in accordance with generally acceptable accounting
principles applicable to those accounts. This is because the Companies Act defines realised profits or losses for determining the lawfulness of a distribution as "such profits and loss of the company as fall to be treated as realised in accordance with principles generally accepted at the time when the accounts are prepared.”

The effects of the introduction of a new accounting standard or on the adoption of IFRSs become relevant to the application of the common law capital maintenance rule only in relation to distributions accounted for in periods in which the change will first be recognised in the accounts. This means that a change in accounting policy known to be adopted in a financial year needs to be taken into account in determining the dividend to be approved by shareholders in that year. Therefore, for example, an entity converting to FRS 101 in 2013 must have regard to the effect of adoption of FRS 101 in respect of all dividends payable in 2013 (including any final dividends in respect of 2012) even though the ‘relevant accounts’ may still be those for 2012 prepared under another GAAP.

4 MEASUREMENT DIFFERENCES BETWEEN FRS 101 AND IFRS

As noted at section 2 above, entities applying FRS 101 use EU-adopted IFRS as amended by the Standard in order to comply with the Regulations. This is because financial statements prepared under FRS 101 are Companies Act individual accounts and not IAS individual accounts. There are several conflicts between the recognition and measurement rules of EU-adopted IFRS and those required by the Regulations. Consequently, entities applying FRS 101 apply a modified version of EU-adopted IFRS designed to eliminate these differences.

FRS 101 changes EU-adopted IFRS in respect of the following matters:

- negative goodwill (see 4.1 below);
- contingent consideration payable by an acquirer in a business combination (see 4.2 below);
- reversal of goodwill impairments (see 4.3 below);
- government grants deducted from the cost of fixed assets (see 4.4 below); and
- realised profits (see 4.5 below)

No changes have been made to EU-adopted IFRS in respect of positive goodwill that is not amortised. Instead, FRS 101 states that paragraph B63(a) of IFRS 3 – Business Combinations, which requires that goodwill is measured at cost less impairment, should be read in accordance with paragraph A2.8 of FRS 101. [FRS 101.A2.8]. The non-amortisation of goodwill required by IFRS 3 conflicts with paragraph 22 of Schedule 1 to the Regulations (and its equivalents in Schedules 2 and 3) which require that acquired goodwill is reduced by provisions for depreciation calculated to write-off the amount systematically over a period chosen by the directors, not exceeding its useful economic life.

Paragraph A2.8 of FRS 101 notes that the non-amortisation of goodwill will usually be a departure, for the overriding purpose of giving a true and fair view, from the requirements of the Regulations. FRS 101 goes on to state that this is not a new instance of the use of the ‘true and fair override’ and it would have been required for companies reporting under previous UK GAAP which used an indefinite life for goodwill as permitted by FRS 10 – Goodwill and Intangible Assets. [FRS 101.A2.8]. The
implication from this is that the FRC expects that entities with positive goodwill should continue not to amortise that goodwill and invoke a true and fair override as permitted by paragraph 10(2) of Schedule 1 of the Regulations (or the equivalents in Schedules 2 and 3) to overcome the prohibition in paragraph 22 of Schedule 1 of the Regulations. The use of the true and fair override would require disclosure of the particulars of the departure from the Regulations, the reasons for it and its effect. [1 Sch.10(2)].

It is anticipated that the use of a true and fair override in respect of goodwill amortisation will be limited in application since, in individual financial statements, there will only be goodwill where a business that is not an entity has been acquired.

FRS 101 does not address the conflict between Schedule 3 of the Regulations and paragraph 14(a) of IFRS 4 – Insurance Contracts in respect of the classification of equalisation reserves. These are not permitted to be recognised as a liability by IFRS 4 but must be recognised as a liability by the Regulations. We anticipate that entities are likely also to deal with this conflict between EU-adopted IFRS and the Regulations by the use of a true and fair override.

As FRS 101 specifically amends EU-adopted IFRS to alter the accounting for the matters discussed at sections 4.1 to 4.4 below, to remove conflicts identified between EU-adopted IFRS and the Regulations, the issue of a 'true and fair override' does not arise in respect of these matters.

4.1 Negative goodwill

FRS 101 changes paragraph 34 of IFRS 3 – Business Combinations so that any gain arising from a bargain purchase (ie negative goodwill) is not recognised immediately in profit and loss. Instead, any amount of the negative goodwill up to the fair values of the non-monetary assets acquired should be recognised in profit and loss in the periods in which the non-monetary assets are recovered, whether through depreciation or sale. Any amount of the negative goodwill in excess of the fair values of the non-monetary assets acquired should be recognised in profit or loss in the periods expected to be benefited. [FRS 101.AG1(c)]

This change to EU-adopted IFRS was necessary because the Seventh Directive (on which the requirements in the Regulations are based) may be inconsistent with the recognition requirements for negative goodwill under EU-adopted IFRS. [FRS 101.A2, Table 1].

Monetary assets are defined in EU-adopted IFRS as ‘money held and assets to be received in fixed or determinable amounts of money’. [IAS 38.8.]. Conversely, an essential feature of a non-monetary asset is the absence of a right to receive a fixed or determinable number of units of currency. IAS 21 – The Effects of Changes In Foreign Exchange Rates gives examples of non-monetary assets as amounts prepaid for goods and services, goodwill, intangible assets, inventories and property, plant and equipment. [IAS 21.16]. IAS 39 – Financial Instruments: Recognition and Measurement indicates (and IFRS 9 - Financial Instruments states) that investments in equity instruments are non-monetary items. [IAS 39.AG83, IFRS 9.B5.7.3]. This suggests that equity investments in subsidiaries, associates or joint ventures are also non-monetary items.

Negative goodwill must be shown on the statement of financial position immediately below goodwill and followed by a subtotal showing the net amount of the goodwill assets and the excess. The excess shall be attributed to the acquirer. [FRS 101.AG1(c)].
4.2 Contingent consideration payable by an acquirer in a business combination

FRS 101 changes paragraphs 39 to 40 and deletes paragraph 58 of IFRS 3 so that an adjustment to the cost of a business combination contingent on future events is recognised only if the estimated amount of the adjustment is probable and can be measured reliably. If the potential adjustment is not recognised at the acquisition date but subsequently becomes probable and can be measured reliably, the additional consideration is treated as an adjustment to the cost of the combination (ie goodwill). [FRS 101.AG1(d)-(e)]. ‘Probable’ is defined in IAS 37 – Provisions, Contingent Liabilities and Contingent Assets as ‘more likely than not’ (ie there is a greater than 50% chance of the event occurring).

The EU-adopted version of IFRS 3 requires contingent consideration in a business acquisition to be measured at fair value upon date of acquisition with subsequent adjustments taken to profit or loss. This change to EU-adopted IFRS was necessary because the Regulations do not permit contingent consideration that is a financial liability to be measured at fair value unless it is a derivative. [FRS 101.A2, Table 1].

IFRS 3, as modified by FRS 101, is silent as to whether a subsequent re-measurement of probable contingent consideration is an adjustment to goodwill or to profit or loss. The legal requirements appendix to FRS 101 states that the intention was to align the accounting in FRS 101 with paragraphs 19.12 and 19.13 of FRS 102. Although paragraphs 19.12 and 19.13 of FRS 102 are also silent on this matter, the Accounting Council’s advice to the FRC, which accompanies FRS 102 states that the requirements of FRS 102 in respect of business combinations are based on IFRS 3 (issued 2004). The implication of this is that subsequent re-measurements of contingent consideration once it becomes probable should be treated as adjustments to the cost of consideration, ie adjusted against goodwill. [FRS 101.AII, Table 1].

FRS 101 is silent on accounting for contingent consideration on the acquisition of a subsidiary, associate or joint venture which is accounted for as an investment under either IAS 27 or IAS 27 (2012). However, we believe the guidance on contingent consideration in a business combination discussed above should be applied.

4.3 Reversal of goodwill impairments

FRS 101 changes paragraph 124 of IAS 36 – Impairment of Assets to permit a goodwill impairment loss to be reversed in a subsequent period if, and only if, the reasons for the impairment loss have ceased to apply. [FRS 101.AG1(s)]. EU-adopted IFRS does not permit the reversal of a goodwill impairment.

This change to EU-adopted IFRS was necessary because the Regulations require the reversal of a provision for diminution in value of a fixed asset, if the reason for the provision has ceased to exist. [FRS 101.AII, Table 1].

However, paragraph 125 of IAS 36, which states that ‘any increase in the recoverable amount of goodwill in the periods following the recognition of an impairment loss for that goodwill is likely to be an increase in internally generated goodwill, rather than a reversal of the impairment loss recognised for the acquired goodwill’, has not been changed. This suggests that the FRC believes that there is a high hurdle for entities to overcome in order to reverse a goodwill impairment loss. Indeed, the legal requirements appendix to FRS 11 – Impairment of fixed assets and goodwill stated that legal advice had been received that ‘a reversal of an impairment loss on goodwill

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should be recognised only where an external event caused the recognition of the impairment loss in previous periods and subsequent external events clearly and demonstrably reverse the effects of that event in a way that was not foreseen in the original impairment calculations. [IFRS 11.AII.10].

4.4 Government grants deducted from the cost of fixed assets

FRS 101 changes paragraph 28 of IAS 16 — Property, Plant and Equipment and paragraphs 24 to 29 of IAS 20 — Accounting for Government Grants and Disclosure of Government Assistance in order to eliminate the option in IFRS that permits a government grant relating to an asset to be deducted in arriving at the carrying amount of the asset. Consequently, all government grants related to assets must be presented in the financial statements by setting up the grant as deferred income and recognising the grant as deferred income in profit or loss on a systematic basis over the useful life of the asset. In addition, the option in paragraph 29 of IAS 20 that permits grants related to income to be deducted in reporting the related expense has been deleted. [FRS 101.AG1(l)-(r)].

These changes to EU-adopted IFRS have been necessary because the Regulations prohibit off-setting of items that represent assets against items that represent liabilities unless specifically permitted or required. [FRS 101.All, Table 1].

SSAP 4 — Accounting for Government Grants permits entities to deduct a government grant from the purchase price or production cost of an asset where the grant was made as a contribution towards expenditure on that asset. This is despite the fact that this accounting is not permitted by the Regulations. [SSAP 4.25]. Consequently, under SSAP 4, some entities deduct government grants from the cost of assets and use a ‘true and fair override’ to overcome the prohibition in the Regulations. As FRS 101 has specifically amended EU-adopted IFRS to remove the option to credit assets with the value of government grants, we do not consider that entities are permitted to use this accounting with a true and fair override under FRS 101 since the accounting standard does not permit this treatment.

4.5 Realised profits under FRS 101

FRS 101 has changed paragraph 88 of IAS 1 — Presentation of Financial Statements to clarify the precedence of the Regulations over IFRS in this matter by adding the words ‘or unless prohibited by the Act’ after ‘an entity shall recognise all items of income and expense arising in a period in profit or loss unless an IFRS requires or permits otherwise’. [FRS 101.AG1(l)].

Paragraph 13(a) of Schedule 1 to the Regulations (and its equivalents in Schedules 2 and 3) require that only profits realised at the balance sheet date are included in the profit or loss account. [FRS 101.A2.12]. Paragraph 39 of Schedule 1 to the Regulations allows that investment property and living animals and plants that may, under EU-adopted IFRS, be held at fair value may also be held at fair value in Companies Act accounts. [FRS 101.A2.13]. Paragraph 40(2) of Schedule 1 to the Regulations (and its equivalents in Schedules 2 and 3) require that, in general, movements in the fair value of financial instruments, investment properties or living animals and plants are recognised in the profit and loss account notwithstanding the usual restrictions allowing only realised profits and losses to be included in the profit and loss account. Therefore, in the opinion of the FRC, paragraph 40 of Schedule 1 overrides
Paragraph 13(a) of Schedule 1 and such fair value gains can be recognised in profit and loss under FRS 101. [FRS 101.A2.14].

The legal appendix to FRS 101 states that entities measuring investment properties, living animals or plants, or financial instruments at fair value may transfer such amounts to a separate non-distributable reserve instead of carrying them forward in retained earnings but are not required to do so. The FRC suggests that presenting fair value movements that are not distributable profits in a separate reserve may assist with the identification of profits available for that purpose. [FRS 101.A2.15].

Whether profits are available for distribution must be determined in accordance with applicable law. Entities may also refer to TECH 02/10 to determine the profits available for distribution. [FRS 101.A2.16].

4.6 Investments in associates and joint ventures

The Regulations are clear that, in individual accounts, investments in associates and joint ventures (or jointly controlled entities under IAS 31) can be measured only at cost or fair value. Neither the equity method of accounting nor proportional consolidation (allowed under IAS 31) are permitted.

There may be some entities that are not parents but have used the equity method or proportional consolidation for associates, joint ventures or jointly controlled entities under EU-adopted IFRS on the grounds that they are not preparing separate financial statements as defined by IAS 27 or IAS 27 (2012).

FRS 101 does not identify this as a potential measurement difference with EU-adopted IFRS.

5 PRESENTATIONAL DIFFERENCES BETWEEN FRS 101 AND IFRS

As noted at section 2 above, entities applying FRS 101 must prepare their financial statements in accordance with the Regulations. This is because financial statements prepared under FRS 101 are Companies Act individual accounts and not IAS individual accounts. There are several conflicts between the presentational requirements of EU-adopted IFRS and those required by the Regulations. The FRC has therefore changed EU-adopted IFRS to ensure that the financial statements prepared under FRS 101 comply with the Regulations.

Changes to EU-adopted IFRS have been made by FRS 101 to:

- require the balance sheet (or statement of financial position) and profit and loss account to be presented in the formats required by the Regulations rather than the presentation required by IAS 1 (see section 5.1 below);
- require a columnar presentation of discontinued operations on the face of the profit and loss account (see section 5.2 below); and
- permit the presentation of extraordinary activities although these are expected to be extremely rare (see section 5.3 below);
5.1 Balance sheet and profit and loss formats required by FRS 101

FRS 101 amends IAS 1 by inserting a new paragraph, 53A, which states that a qualifying entity shall comply with the balance sheet format requirements of the Act instead of paragraphs 54 to 76 of IAS 1 unless the entity elects to apply those paragraphs and the resulting statement of financial position complies with the balance sheet format requirements of the Act. [FRS 101.AG1(h)]

FRS 101 also amends IAS 1 by inserting a new paragraph, 81C, which states that a qualifying entity shall present the components of profit or loss in the statement of comprehensive income (in either the single statement or two statement approach) in accordance with the profit and loss format requirements of the Act instead of paragraphs 82 and 84 to 86 of IAS 1. The entity may elect to apply the requirements of those paragraphs so long as the resulting statement of comprehensive income complies with the profit and loss format requirements of the Act. [FRS 101.AG1(i)].

Footnote text further clarifies that an entity shall apply, as required by company law, either Part 1 ‘General Rules and Formats’ of Schedule 1 to the Regulations; Part 2 ‘General Rules and Formats’ of Schedule 2 to the Regulations; Part 1 ‘General Rules and Formats’ of Schedule 3 to the Regulations; or Part 1 ‘General Rules and Formats’ of Schedule 1 to the LLP Regulations, [FRS101.AG1(h)-(i)].

This means that, for balance sheet and profit or loss presentation, a reporting entity under FRS 101 must apply the Regulations where they are different from IAS 1. An insurance entity reporting under Schedule 3, for example, would therefore continue to show separate technical and non-technical accounts rather than a single performance statement as its profit and loss account since technical and non-technical accounts are the profit and loss format required by the Act.

The FRS 101 legal appendix confirms that the requirements of paragraphs 54 to 76, 82 and 84 to 86 of IAS 1 disapply unless their application complies with the Regulations. [FRS 101.App II.Table1]. However, even if these requirements do comply with the Regulations, their application is voluntary.

A UK parent company presenting both consolidated financial statements (either IAS group accounts or Companies Act group accounts) and Companies Act individual financial statements under FRS 101 can take advantage of the exemption in s408 of the Companies Act from presenting a profit and loss account and related notes in respect of its individual profit and loss account.

FRS 101 makes no amendments to the requirement in IAS 1 to present a statement of changes in equity for the reporting period.

There is no requirement to present a statement of cash flows where the reduced disclosure exemption is taken (see section 6.1.8 below).

5.1.1 Practical issues relating to balance sheet and profit and loss presentation

5.1.1.A Debtors due after more than one year

The Regulations require presentation of debtors falling due after more than one year within current assets. Under IAS 1, these would generally be presented as non-current assets. The legal appendix to FRS 101 reproduces the consensus of UITF 4 – Presentation of long-term debtors in current assets that ‘in most cases it will be satisfactory to disclose the size of debtors due after more than one year in the notes to the accounts. There will be some instances, however, where the amount is so material in
the context of the total net current assets that in the absence of disclosure of debtors due after more than one year on the face of the balance sheet readers may misinterpret the accounts. In such circumstances, the amount should be disclosed on the face of the balance sheet within current assets*. [FRS 101.A2.10].

5.1.1.B Non-current assets or disposal groups held for sale

Paragraph 38 of IFRS 5 — Non-current Assets Held for sale and Discontinued Operations requires an entity to present a non-current asset classified as held for sale and the assets of a disposal group held for sale separately from other assets in the statement of financial position and the liabilities of a disposal group separately from other liabilities in the statement of financial position. Paragraph 54 of IAS 1 requires a single line approach in the balance sheet for both assets and liabilities held for sale. Detailed analysis of the components of the assets and liabilities held for sale is required in the notes to the financial statements.

A one-line presentation approach in the balance sheet is not allowed by FRS 101 because the Regulations do not permit the aggregation of different types of assets or liabilities in this way and paragraph 54 of IAS 1 cannot be applied if it conflicts with the Regulations (see section 5.1 above). One practical solution to this matter could be to present aggregate assets and aggregate liabilities held for sale as a memorandum on the statement of financial position cross-referenced to the detailed analysis in the notes.

5.2 Presentation of discontinued operations

FRS 101 changes IFRS 5 to:

- remove the option to present the analysis of discontinued operations into its component parts (e.g., revenue, expenses, tax) in the notes to the accounts. This analysis must be presented on the face of the statement of comprehensive income; and

- require the analysis above to be shown on the face of the statement of comprehensive income in a column identified as related to discontinued operations (i.e., separately from continuing operations); and

- require a total column (i.e., the sum of continuing and discontinuing operations) to be presented on the face of the statement of comprehensive income; and

- remove the option to present income from continuing operations and from discontinued operations attributable to owners of the parent in the notes to the accounts. [FRS 101.AG1(g)].
In substance, this means that the single line presentation of discontinued operations is replaced by a three-column approach with the detailed analysis of the results from the discontinued operation shown on the face of the statement of comprehensive income. This is illustrated in the following example:

**Example 1: Presentation of discontinued operations**

**Statement of comprehensive income**

**For the year ended 31 December 20X1**

<table>
<thead>
<tr>
<th></th>
<th>Continuing operations</th>
<th>Discontinued operations</th>
<th>Total</th>
<th>Continuing operations</th>
<th>Discontinued operations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20X3</td>
<td>20X3</td>
<td>20X3</td>
<td>20X2</td>
<td>20X2</td>
<td>20X2</td>
</tr>
<tr>
<td></td>
<td>£000</td>
<td>£000</td>
<td>£000</td>
<td>£000</td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td>Turnover</td>
<td>4,200</td>
<td>1,232</td>
<td>5,432</td>
<td>3,201</td>
<td>1,500</td>
<td>4,701</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>(2,591)</td>
<td>(1,104)</td>
<td>(3,695)</td>
<td>(2,281)</td>
<td>(1,430)</td>
<td>(3,711)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>1,609</td>
<td>128</td>
<td>1,737</td>
<td>920</td>
<td>70</td>
<td>990</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(452)</td>
<td>(110)</td>
<td>(562)</td>
<td>(418)</td>
<td>(120)</td>
<td>(538)</td>
</tr>
<tr>
<td>Other operating income</td>
<td>212</td>
<td>–</td>
<td>212</td>
<td>198</td>
<td>–</td>
<td>198</td>
</tr>
<tr>
<td>Profit on disposal of operations</td>
<td>–</td>
<td>301</td>
<td>301</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Operating profit</td>
<td>1,369</td>
<td>319</td>
<td>1,688</td>
<td>700</td>
<td>(50)</td>
<td>650</td>
</tr>
<tr>
<td>Interest receivable and similar income</td>
<td>14</td>
<td>–</td>
<td>14</td>
<td>16</td>
<td>–</td>
<td>16</td>
</tr>
<tr>
<td>Interest payable and similar charges</td>
<td>(208)</td>
<td>–</td>
<td>(208)</td>
<td>–</td>
<td>(208)</td>
<td>(208)</td>
</tr>
<tr>
<td><strong>Profit on ordinary activities before tax</strong></td>
<td>1,175</td>
<td>319</td>
<td>1,494</td>
<td>508</td>
<td>(50)</td>
<td>458</td>
</tr>
<tr>
<td>Taxation</td>
<td>(390)</td>
<td>(4)</td>
<td>(394)</td>
<td>(261)</td>
<td>3</td>
<td>(258)</td>
</tr>
<tr>
<td><strong>Profit on ordinary activities after taxation and profit for the financial year</strong></td>
<td>785</td>
<td>315</td>
<td>1,100</td>
<td>247</td>
<td>(47)</td>
<td>200</td>
</tr>
</tbody>
</table>

**Other comprehensive income**

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20X3</td>
<td>20X2</td>
</tr>
<tr>
<td>Actuarial losses on defined benefit pension plans</td>
<td>(108)</td>
<td>(68)</td>
</tr>
<tr>
<td>Deferred tax movement relating to actuarial losses</td>
<td>28</td>
<td>18</td>
</tr>
<tr>
<td><strong>Total Comprehensive income for the year</strong></td>
<td>1,020</td>
<td>150</td>
</tr>
</tbody>
</table>

### 5.3 Presentation of extraordinary items

FRS 101 changes paragraph 87 of IAS 1, and introduces a new paragraph 87A, to distinguish between ordinary activities and extraordinary items. Extraordinary activities are “material items possessing a high degree of abnormality which arise
from events or transactions that fall outside the ordinary activities of the reporting entity and which are not expected to recur. They do not include items occurring within the entity’s ordinary activities that are required to be disclosed by paragraph 97 of IAS nor do they include prior period items merely because they relate to a prior period. [FRS 101.AG1(g)].

Ordinary activities are defined as ‘any activities which are undertaken by a reporting entity as part of its business and such related activities in which the reporting entity engages in furtherance of, or incidental to, or arising from, these activities. Ordinary activities include any effects on the reporting entity of any event in the various environments in which it operates, including the political, regulatory, economic and geographical environments, irrespective of the frequency or unusual nature of the events’. [FRS 101.AG1(g)].

These changes have been made to comply with the profit and loss account format of the Regulations which includes an ‘extraordinary activities’ line item. However, the definitions of both ‘ordinary’ and ‘extraordinary’ activities are identical to the definitions of these activities previously contained within FRS 3 – Reporting financial performance (except that reference to ‘exceptional items’ has been replaced by a reference to paragraph 97 of IAS 1 which requires an entity to disclose separately material items of income and expense).

The definition of ‘ordinary activities’ in FRS 3 was deliberately designed to be so wide such as to render it extremely difficult for an entity to present an event as ‘extraordinary’. The explanatory guidance to FRS 3 stated that ‘extraordinary items are extremely rare’ and ‘in view of the extreme rarity of such items no examples are provided’. This view is confirmed in the legal appendix of FRS 101 which states that ‘entities should note that extraordinary items are extremely rare as they relate to highly abnormal events or transactions’. [FRS 101.A2.11].

We would anticipate therefore that this change has no practical impact and we would not expect to see disclosure of extraordinary items under FRS 101.

6 IFRS DISCLOSURE EXEMPTIONS FOR QUALIFYING ENTITIES

Qualifying entities may take advantage in their financial statements of a number of disclosure exemptions from EU-adopted IFRS (see section 6.1 below).

Some, but not all, of these exemptions are conditional on ‘equivalent’ disclosures in the consolidated financial statements of the group in which the entity is consolidated (see section 6.2 below).

In addition, certain IFRS 7 Financial Instruments: Disclosures disclosures are required for certain financial instruments that are held at fair value even if the qualifying entity is otherwise exempt from IFRS 7 (see section 6.3 below).

Financial institutions as defined by FRS 101 are not entitled to some disclosure exemptions (see section 6.4 below).

6.1 Disclosure exemptions

Qualifying entities are permitted the following disclosure exemptions from EU-adopted IFRS: [FRS 101.6-8].
the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 - Share Based Payment provided that for a qualifying entity that is:

- a subsidiary, the share-based payment arrangement concerns equity instruments of another group entity;
- an ultimate parent, the share-based payment arrangement concerns its own equity instruments and its separate financial statements are presented alongside the consolidated financial statements of the group;

and, in both cases, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated (see section 6.1.1 below);

- the requirements of paragraphs 62, B64(d) to (e), (g) to (h), (j) to (m), n(ii), o(ii), (p), (q)(ii), B66 and B67 of IFRS 3 provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated (see section 6.1.2 below);

- the requirements of paragraph 33(c) of IFRS 5 provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated (see section 6.1.3 below);

- the requirements of IFRS 7 provided that equivalent disclosures are included in the financial statements of the group in which the entity is consolidated (see section 6.1.4 below). However, some disclosures are required for certain financial instruments held at fair value such as liabilities which are not held for trading or derivatives, and investments in subsidiary undertakings, joint ventures and associates (see section 6.3 below). Qualifying entities that are financial institutions do not receive this exemption and must apply the disclosure requirements of IFRS 7 in full (see section 6.4 below);

- the requirements of paragraphs 91 to 99 of IFRS 13 — Fair Value Measurement provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated. However, qualifying entities that are financial institutions can only take advantage of the exemptions to the extent that they apply to assets and liabilities other than financial instruments (see section 6.1.5 below);

- the requirement in paragraph 38 of IAS 1 to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16;
  - paragraph 118(e) of IAS 38 — Intangible Assets;
  - paragraphs 76 and 79(d) of IAS 40 — Investment Property; and
  - paragraph 50 of IAS 41 — Agriculture (see section 6.1.6 below);

- the requirements of paragraphs 10(d), 10(f), 16, 38A to 38D, 40A to 40D, 111 and 134 to 136 of IAS 1 (for accounting periods beginning before 1 January 2013 paragraphs 38A to 38D and 40A to 40D of IAS 1 are replaced with paragraphs 39 to 40 of IAS 1). However, qualifying entities that are financial institutions are not permitted to take advantage of the exemptions in paragraphs 134 to 136 of IAS 1 (see section 6.1.7 below);
• the requirements of IAS 7 — Statement of Cash Flows (see section 6.1.8 below);
• the requirements of paragraphs 30 and 31 of IAS 8 (see section 6.1.9 below);
• the requirements of paragraph 17 of IAS 24 — Related Party Disclosures and the requirements in IAS 24 to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member (see section 6.1.10 below); and
• the requirements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated (see section 6.1.11 below).

Use of the disclosure exemptions is conditional on the following disclosures in the notes to the financial statements:
(a) a brief narrative summary of the exemptions adopted; and
(b) the name of the parent of the group in whose consolidated financial statements the reporting entity is consolidated and from where those financial statements may be obtained. [FRS 101.5(c)].

There is no requirement to list all of the disclosure exemptions in detail. Reporting entities can also choose to apply the disclosure exemptions on a selective basis. This may be necessary, for example, where not all of the relevant disclosures are made in the consolidated financial statements of the parent on the grounds of materiality (see section 6.2 below).

Each of the disclosure exemptions listed above is discussed below.

6.1.1 Share-based payment (IFRS 2)
The disclosure exemption eliminates all IFRS 2 disclosures apart from those required by paragraphs 44 and 45(a), (c) and (d) of IFRS 2. In substance, this reduces the disclosure requirements of IFRS 2 to:
• a description of the type of share-based payment arrangements that existed during the reporting period, including general terms and conditions, maximum terms of options granted, and the method of entitlement (eg whether in cash or equity);
• weighted average share price information in respect of options exercised during the reporting period; and
• the range of exercise prices and weighted average remaining contractual life of share options outstanding at the end of the reporting period.

6.1.2 Business combinations (IFRS 3)
In substance, this disclosure exemption eliminates the qualitative disclosures required on a business combination. However, a number of factual or quantitative disclosures are still required for each business combination including:
• the name and description of the acquiree, acquisition date and percentage of voting equity interests acquired;
• the acquisition date fair value of total consideration transferred split by major class;
• the amount recognised at the acquisition date for each major class of assets acquired and liabilities assumed;
• the amount of any negative goodwill recognised and the line item in the statement of comprehensive income in which it is recognised;
• the amount of any non-controlling interest recognised and the measurement basis for the amount (although there should be no non-controlling interests for acquisitions in individual financial statements);
• revenue and profit or loss of the acquiree since acquisition date included in comprehensive income for the period; and
• the information above (except for the details of the acquirees) in aggregate for individually immaterial business combinations that are collectively material.
In addition, an acquirer is still subject to the general requirements of paragraphs 59 to 61 of IFRS 3. These require disclosure of information that enables users of the financial statements to evaluate the nature and effect of a business combination that occurs either during the current reporting period or at the end of the financial reporting period but before the financial statements are authorised for issue and the financial effects of adjustments recognised in the current reporting period relating to business combinations that occurred in the current or previous periods.

6.1.3 Discontinued operations (IFRS 5)
This exemption eliminates the requirement to disclose cash flows attributable to discontinued operations. This cash flow disclosure exemption is contingent on equivalent disclosures in the consolidated financial statements of the parent although equivalent disclosures in the parent are not necessary to make use of the exemption not to prepare a cash flow statement.

6.1.4 Financial instruments (IFRS 7)
This exemption removes all of the disclosure requirements of IFRS 7. However, notwithstanding this exemption, some IFRS 7 disclosures are still required for certain financial instruments held at fair value (see section 6.3 below). In addition, some specific disclosures are required by the Regulations (see section 7.2 below). Financial institutions are not permitted to use this exemption (see section 6.4 below).

6.1.5 Fair values (IFRS 13)
This exemption removes all of the disclosure requirements of IFRS 13. However, notwithstanding this exemption, some IFRS 13 disclosures are still required for certain financial instruments held at fair value (see section 6.3 below). In addition, specific disclosures in respect of fair values of financial instruments, investment property and living animals and plants carried at fair value are required by the Regulations (see section 7.2 below). Financial institutions are not permitted to use this IFRS 13 disclosure exemption in respect of financial instruments. However, they can use this exemption in respect of disclosures of non-financial instruments (see section 6.4 below).
6.1.6 **Comparatives (IAS 1, IAS 16, IAS 38, IAS 40, IAS 41)**

This exemption eliminates the requirement for comparatives to be presented for reconciliations of:

- outstanding shares at the beginning and end of the current period (IAS 1);
- the carrying amount of property plant and equipment at the beginning and end of the current period (IAS 16);
- the carrying amount of intangible assets at the beginning and end of the current period (IAS 38);
- the carrying amount of investment property held at either fair value or cost at the beginning and end of the current period (IAS 40); and
- the carrying amount of biological assets at the beginning and end of the current period (IAS 41).

These comparative disclosures were also not required under ‘old’ UK GAAP.

6.1.7 **Presentation (IAS 1)**

This exemption removes:

- the requirement to present a cash flow statement (see section 6.1.8 below);
- the requirement to present a statement of financial position and related notes at the beginning of the earliest comparative period whenever an entity applies an accounting policy retrospectively, makes a retrospective restatement, or when it reclassifies items in its financial statements;
- the requirement to make an explicit statement of compliance with IFRS. Indeed, FRS 101 prohibits such a statement of compliance and an FRS 101 statement of compliance is required instead – see section 1.3 above; and
- the requirement to disclose information about capital and how it is managed.

Financial institutions are not permitted to use the exemption in respect of the disclosure of information about capital and how it is managed. This is because financial institutions are usually subject to externally imposed capital requirements.

6.1.8 **Cash flows (IAS 7)**

The exemption removes the requirement for a cash flow statement for any qualifying entity. This exemption therefore goes beyond the exemption in FRS 1 — *Cash flow statements* which does not require a cash flow statement for only those subsidiary undertakings where 90% or more of the voting rights are controlled within the group, provided the consolidated financial statements in which the subsidiary undertakings are included are publicly available.

6.1.9 **Standards issued but not effective (IAS 8)**

This exemption removes the requirement to provide information about the impact of IFRSs that have been issued but are not yet effective.

6.1.10 **Related party transactions (IAS 24)**

The exemptions in respect of IAS 24 remove:

- the requirement to disclose information about key management personnel compensation; and
• the requirements to disclose related party transactions between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Although the requirement to disclose key management personnel compensation is eliminated, UK companies are required separately by the Companies Act to disclose information in respect of directors’ remuneration and quoted companies must prepare a directors’ remuneration report (see section 7.1 below). There is no exemption from other IAS 24 disclosure requirements, so disclosure of other transactions with key management personnel (e.g., loans) is still required.

In this context of FRS 101, we believe that the ‘group’ being referred to in respect of the exemption from transactions with other wholly owned subsidiaries should be interpreted as being the group headed by the ultimate controlling entity. This interpretation follows paragraph 38 of Appendix IV of FRS 8 – Related party disclosures which clarifies the meaning of the identical disclosure exemption in FRS 8. Oddly, this explanatory wording has not been carried into FRS 101. The ultimate controlling entity may not necessarily be the same entity as the entity that is preparing the publicly available consolidated accounts intended to give a true and fair view in which the qualifying entity is included.

6.1.11 Impairment of assets (IAS 36)

This exemption eliminates all requirements to disclose information about estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives other than:

• the carrying amounts of goodwill and indefinite life intangibles allocated to cash generating units; and
• the basis on which the recoverable amount of those units has been determined (i.e., value in use or fair value less costs to sell).

Qualifying entities are also still required to make the disclosures required by paragraphs 126 to 133 of IAS 36 in respect of impairment losses (and reversal of impairment losses) recognised in the period.

6.2 ‘Equivalent’ disclosures

Certain of the disclosure exemptions in FRS 101 are dependent on the provision of ‘equivalent’ disclosures in the publicly available consolidated financial statements of the parent in which the entity is included.

The following table summarises which disclosure exemptions need ‘equivalent’ disclosures in the consolidated financial statements of the parent and which do not.

<table>
<thead>
<tr>
<th>Disclosure exemption</th>
<th>Equivalent disclosures required in parent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share-based payment (see section 6.1.1 above)</td>
<td>Yes</td>
</tr>
<tr>
<td>Business combinations (see section 6.1.2 above)</td>
<td>Yes</td>
</tr>
<tr>
<td>Discontinued operations (see section 6.1.3 above)</td>
<td>Yes</td>
</tr>
<tr>
<td>Financial instruments (see section 6.1.4 above)</td>
<td>Yes</td>
</tr>
<tr>
<td>Fair values (see section 6.1.5 above)</td>
<td>Yes</td>
</tr>
<tr>
<td>Comparatives (see section 6.1.6 above)</td>
<td>No</td>
</tr>
<tr>
<td>Presentation (see 6.1.7 above)</td>
<td>No</td>
</tr>
<tr>
<td>Cash flows (see 6.1.8 above)</td>
<td>No</td>
</tr>
<tr>
<td>Standards issued but not effective (see 6.1.9 above)</td>
<td>No</td>
</tr>
<tr>
<td>Related party transactions (see 6.1.10 above)</td>
<td>No</td>
</tr>
<tr>
<td>Impairment of assets (see 6.1.11 above)</td>
<td>Yes</td>
</tr>
</tbody>
</table>
FRS 101 refers to the Application Guidance in FRS 100 in deciding whether the consolidated financial statements of the group in which the reporting entity is included provides disclosures that are ‘equivalent’ to the requirements of IFRS from which relief is provided. \[\text{FRS 101.9}\].

The Application Guidance in FRS 100 states that:

- it is necessary to consider whether the publicly available consolidated financial statements of the parent provide disclosures that meet the basic disclosure requirements of the relevant standard or interpretation without regarding strict conformity with each and every disclosure. This assessment should be based on the particular facts, including the similarities to and differences from the requirements of the relevant standard from which relief is provided. ‘Equivalence’ is intended to be aligned to that described in s401 of the Act; \[\text{FRS 100.AGB-9}\] and
- disclosure exemptions for subsidiaries are permitted where the relevant disclosure requirements are met in the consolidated financial statements, even where the disclosures are made in aggregate or abbreviated form. If, however, no disclosure is made in the consolidated financial statements on the grounds of materiality, the relevant disclosures should be made at the subsidiary level if material in those financial statements. \[\text{FRS 100.AGB-9}\].

This means that a qualifying entity must review the consolidated financial statements of its parent to ensure that ‘equivalent disclosures have been made’ for each of the above exemptions that it intends to use. Where a particular ‘equivalent’ disclosure has not been made then the qualifying subsidiary cannot use the exemption in respect of that disclosure.

6.3 IFRS 7 and IFRS 13 disclosures required by non-financial institutions for certain financial instruments held at fair value

Paragraph 36(4) of Schedule 1 of the Regulations (and its equivalents in Schedules 2 and 3) allow certain financial instruments, that are permitted to be held at fair value under IFRS adopted by the EU before 5 September 2006, to be held at fair value only if ‘the disclosures required by such accounting standards are made’.

The financial instruments referred to are those in paragraphs 36(2)(c) and 36(3) of Schedule 1 to the Regulations. These are:

- any financial liability which is not held for trading or a derivative (ie a financial liability designated at fair value through profit or loss (FVPL) under paragraph 9 of IAS 39);
- loans and receivables originated by the reporting entity and designated at either available-for-sale (AFS) or FVPL under paragraph 9 of IAS 39;
- interests in subsidiary undertakings, associates and joint ventures designated at either AFS or FVPL under paragraph 10 of IAS 27 or paragraph 38 of IAS 27 (2012); or
- other financial instruments with such special characteristics that the instruments according to generally accepted accounting principles or practice, should be accounted for differently from other financial instruments. \[\text{1 Sch.36}\].

Therefore, FRS 101 requires certain IFRS 7 and, for periods beginning on or after 1 January 2013, IFRS 13 disclosures in respect of those financial instruments. For
accounting periods beginning on or after 1 January 2013, the disclosures required by FRS 101 for such financial instruments where held at fair value are as follows:

- paragraphs 8(e), 9(c), 10, 11, 17, 20(a)(i), 25, 26, 28, 29, 30, and 31 of IFRS 7;
- paragraph 93 of IFRS 13. [FRS 101.6].

For accounting periods beginning before 1 January 2013, paragraph 93 of IFRS 13 is replaced by paragraphs 27, 27A and 27B of IFRS 7. [FRS 101.6].

6.4 Disclosure exemptions for financial institutions

Financial institutions are permitted to apply FRS 101 but receive fewer disclosure exemptions. A qualifying entity which is a financial institution may take advantage in its individual financial statements of the disclosure exemptions set out in section 6.1 above except for:

- the disclosure exemptions of IFRS 7;
- the disclosure exemptions from paragraphs 91 to 99 of IFRS 13 to the extent that they apply to financial instruments. Therefore, a financial institution can take advantage of the disclosure exemptions from paragraphs 91 to 99 of IFRS 13 for assets and liabilities other than financial instruments (e.g., property plant and equipment, intangible assets, investment property); and
- the capital disclosures of paragraphs 134 to 136 of IAS 1. [FRS 101.7].

The FRC has opted not to provide a generic definition of a financial institution. Instead, it has provided a list of entities that are stated to be financial institutions. A financial institution is stated to be any of the following: [FRS 101.A1.Glossary].

(a) a bank which is:
   (i) a firm with a Part IV permission (as defined in s40(4) of the Financial Services and Markets Act 2000) which includes accepting deposits and:
      (a) which is a credit institution; or
      (b) whose Part IV permission includes a requirement that it complies with the rules in the General Prudential sourcebook and the Prudential sourcebook for Banks, Building Societies and Investment Firms relating to banks, but which is not a building society, a friendly society or a credit union;
   (ii) an EEA bank which is a full credit institution;
(b) a building society which is defined in s119(1) of the Building Societies Act 1986 as a building society incorporated (or deemed to be incorporated) under that Act;
(c) a credit union, being a body corporate registered under the Industrial and Provident Societies Act 1965 as a credit union in accordance with the Credit Unions Act 1979, which is an authorised person;
(d) custodian bank, broker-dealer or stockbroker;
(e) an entity that undertakes the business of effecting or carrying out insurance contracts, including general and life assurance entities;
(f) an incorporated friendly society incorporated under the Friendly Societies Act 1992 or a registered friendly society registered under section 7(1)(a) of the Friendly Societies Act 1974 or any enactment which it replaced, including any registered branches;

(g) an investment trust, Irish investment company, venture capital trust, mutual fund, exchange traded fund, unit trust, open-ended investment company (OEIC);

(h) a retirement benefit plan; or

(i) any other entity whose principal activity is to generate wealth or manage risk through financial instruments. This is intended to cover entities that have business activities similar to those listed above but are not specifically included in the list above.

A parent entity whose sole activity is to hold investments in other group entities is not a financial institution.

Category (i) is potentially wide-ranging and, despite the reference to ‘similar’ business activities, appears to have a different emphasis from (a) to (h) which focus on entities that hold assets in a fiduciary capacity on behalf of others rather than wealth generation or risk management through the use of financial instruments.

7 ADDITIONAL COMPANIES ACT DISCLOSURES

FRS 101 individual financial statements are subject to disclosures required by the Regulations as well as other disclosures required by the Companies Act or other related regulations. These disclosures are in addition to those required by EU-adopted IFRS.

There are two types of Companies Act disclosures required for a UK entity applying FRS 101:

(a) those required already for IAS accounts prepared under EU-adopted IFRS and Companies Act accounts prepared under UK GAAP (see section 7.1 below); and

(b) those required by the Regulations which would have been applied by an entity preparing Companies Act accounts under ‘old UK GAAP’ (i.e., the FRSSE or FRS 102) but not by an entity preparing IAS accounts under EU-adopted IFRS (see section 7.2 below).

This means that, in certain scenarios, a move from EU-adopted IFRS to FRS 101 would result in increased disclosures for an entity despite the use of the disclosure exemptions described at section 6 above.

There may also be additional statutory disclosures for types of entities other than companies.

7.1 Existing Companies Act disclosures in the financial statements for IFRS and UK GAAP reporters which also apply under FRS 101

FRS100 identifies the following disclosures: [FRS 100.A2.19j].

- s410A – off-balance sheet arrangements (unless subject to the Small Companies Regime);
- s411—employee numbers and costs (unless subject to the Small Companies Regime);
- s412—directors’ benefits: remuneration;
- s413—directors’ benefits: advances, credit and guarantees;
- s415 to 419—directors’ report;
- s420 to 421—directors remuneration report; and
- s494—services provided by auditor and associates and related remuneration (disclosures of non-audit services are not required for companies subject to the Small Companies Regime or medium-sized companies).

The list of disclosures identified by FRS 100 is not complete and omits, for example, the information about related undertakings required by s409. In addition, other Companies Act or related disclosures may apply depending on individual circumstances such as the disclosures required for a parent taking advantage of the exemption from preparing consolidated accounts under either s400 or s401 of the Companies Act.

7.2 Disclosures required by the Regulations in the financial statements under FRS 101 but not previously required under IFRS

The Regulations require various disclosures in the financial statements. In particular, Part 3 of Schedules 1 to 3 require certain disclosures to be made in the notes to the financial statements if not given in the primary statements. The relevant paragraphs are as follows:
- Schedule 1 paragraphs 42 to 72; or
- Schedule 2 paragraphs 52 to 92; or
- Schedule 3 paragraphs 60 to 90.

Although some of these disclosure requirements are replicated in EU-adopted IFRS others are not. Entities that move to FRS 101 from UK GAAP will have made these disclosures previously and therefore these requirements will not increase their reporting burden. Entities that move to FRS 101 from EU-adopted IFRS will not have made these disclosures previously or any other disclosures required by the applicable Schedule above and should consider carefully the impact of these new requirements against the benefits of the reduced disclosures discussed at section 6 above.

Some examples of disclosures not required under EU-adopted IFRS in individual or separate financial statements are:

(a) Schedule 1 companies (ie companies other than banking and insurance companies)
- a statement required by large companies that the accounts have been prepared in accordance with applicable accounting policies [1 Sch.45];
- disclosures in respect of share capital and debentures [1 Sch.47-50];
- disclosure of the split of land between freehold and leasehold and the leasehold land between that held on a long lease and that held on a short lease [1 Sch.53];
- disclosure of information about listed investments [1 Sch.54];
disclosure of information about the fair value of financial assets and liabilities which, in substance, "replaces" some parts of IFRS 7 and IFRS 13. In particular, there are requirements to disclose information about significant assumptions where the fair value of a financial instrument results from generally accepted valuation models and techniques, details of the fair value of financial instruments by category and details concerning significant terms and conditions of derivatives [1 Sch.55-57];

- disclosure of information about creditors due after five years [1 Sch.61];
- disclosure of information about loans made in connection with the purchase of own shares [1 Sch.64];
- disclosure of particulars of taxation [1 Sch.67]; and
- disclosure of information about turnover by class of business and geographical markets. IFRS 8—Operating Segments does not require segmental information if an entity’s debt or equity instruments are not traded in a public market or the entity is not in the process of filing financial statements for that purpose. [1 Sch.68].

The profit and loss account of a company that falls within s408 of the Act (individual profit and loss account where group accounts prepared) need not contain the information specified in paragraphs 65 to 69 of Schedule 1. [Regulations 3(2)].

(b) Schedule 2 companies (ie banking companies)

- a statement that the accounts have been prepared in accordance with applicable accounting policies [2 Sch.54];
- disclosures in respect of share capital and debentures [2 Sch.58-61];
- disclosure of the split of land between freehold and leasehold and the leasehold land between that held on a long lease and that held on a short lease [2 Sch.64];
- disclosure of a specific maturity analysis for loans and advances and liabilities [2 Sch.72];
- disclosure of arrears of fixed cumulative dividends [2 Sch.75];
- disclosure of details of transferable securities [2 Sch.79];
- disclosure of leasing transactions [2 Sch.80];
- disclosure of assets and liabilities denominated in a currency other than the presentational currency [2 Sch.81];
- disclosure of details of unmatured forward transactions [2 Sch.83];
- disclosure of loans made in connection with the purchase of own shares [2 Sch.84];
- disclosure of particulars of taxation [2 Sch.86]; and
- disclosure of certain profit and loss account information by geographical markets. IFRS 8 does not require segmental information if an entity’s debt or equity instruments are not traded in a public market or the entity is not in the process of filing financial statements for that purpose [2 Sch.87].
The profit and loss account of a banking company that falls within s408 of the Act (individual profit and loss account where group accounts prepared) need not contain the information specified in paragraphs 85 to 91 of Schedule 2. [Regulations 5(2)].

(c) Schedule 3 companies (ie insurance companies)
- a statement that the accounts have been prepared in accordance with applicable accounting policies [3 Sch.62];
- disclosures in respect of share capital and debentures [3 Sch.65-68];
- disclosure of the split of land between freehold and leasehold and the leasehold land between that held on a long lease and that held on a short lease [3 Sch.71];
- disclosure of information about listed investments [3 Sch.72];
- disclosure of creditors due after five years [3 Sch.79];
- disclosure of loans made in connection with the purchase of own shares [3 Sch.82];
- disclosure of particulars of taxation [3 Sch.84];
- disclosure of certain profit and loss account information by type of business and by geographical area. IFRS 8 does not require segmental information if an entity’s debt or equity instruments are not traded in a public market or the entity is not in the process of filing financial statements for that purpose [3 Sch.85-87]; and
- disclosure of total commissions for direct insurance business [3 Sch.88];

The profit and loss account of an insurance company that falls within s408 of the Act (individual profit and loss account where group accounts prepared) need not contain the information specified in paragraphs 83 to 89 of Schedule 3. [Regulations 6(2)].

Banking and insurance companies are financial institutions (see section 6.4 above) and therefore must comply with IFRS 7 disclosures in full and IFRS 13 disclosures in respect of financial instruments, including disclosures about the fair value of financial assets and liabilities.

The disclosures illustrated above are not intended to be an exhaustive list of additional disclosures required by the Regulations for entities applying FRS 101 that have previously reported under IFRS.

8. FUTURE CHANGES TO IFRS AND THEIR IMPACT ON FRS 101

Although not specifically addressed by FRS 101, future changes to EU-adopted IFRS would appear to be automatically incorporated into FRS 101 unless they are modified by the FRC.

The Accounting Council has advised the FRC to update FRS 101 at regular intervals, to ensure that the disclosure framework maintains consistency with EU-adopted IFRS. [FRS 101.Accounting Council Advice to the FRC.20].

Whenever a new IFRS is issued or an amendment is made to an existing IFRS, the FRC will have to:
- consider whether any proposed requirements are prohibited by the Companies Act or the Regulations; and
• consider whether exemptions should be provided in respect of any disclosures required by the change.

The principles established are that UK financial reporting standards should:

• have consistency with global accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective;
• reflect up-to-date thinking and developments in the way businesses operate and the transactions they undertake;
• 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;
• promote efficiency within groups; and
• be cost-effective to apply. [FRS 100, Accounting Council Advice to the FRC.8].

FRS 101 already addresses those IFRS standards issued in 2011 but not effective or endorsed by the EU as at the date of issue (November 2012) as well as the Annual Improvements to IFRSs 2009-2011 Cycle which was issued by the IASB in May 2012. In particular, FRS 101:

• does not provide any disclosure exemptions in respect of IFRS 12 — Disclosure of Interests in Other Entities. This means that the disclosures required by paragraphs 24 to 31 of IFRS 12 in respect of interests in unconsolidated structured entities will apply to entities preparing financial statements in accordance with FRS 101. The other disclosures do not apply to an entity’s separate financial statements to which IAS 27 applies [IFRS 12.6(b)];

• provides an exemption from all of the disclosures of IFRS 13 provided equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated (financial institutions are only entitled to the disclosure exceptions to the extent they do not relate to financial instruments). See section 6.1.5 above;

• provides an exemption from disclosures in IAS 1 arising out of the Annual Improvements Cycle relating to the requirement to present a statement of financial position and related notes at the beginning of the earliest comparative period whenever an entity applies an accounting policy retrospectively, makes a retrospective restatement, or when it reclassifies items in its financial statements. See section 6.1.7 above; and

• does not provide any disclosure exemptions in respect of the revised version of IAS 19 — Employee benefits.

References

1 The True and Fair Requirement Revised — Opinion, FRC, May 2008, para. 4(C).
3 TECH 02/10 Guidance on the determination of realised profits and losses in the context of distributions under the Companies Act 2006, ICAEW/ICAS, February 2010, paras. 3.28 and 3.29.
4 TECH 02/10 Guidance on the determination of realised profits and losses in the context of distributions under the Companies Act 2006, ICAEW/ICAS, February 2010, paras. 3.30 to 3.32.
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