

Jenny Carter
Financial Reporting Council
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By email to: ukfrs@frc.org.uk

30 March 2016

Dear Ms Carter

FRED 63 Draft amendments to FRS 101 Reduced Disclosure Framework 2015/16 cycle

Deloitte LLP welcomes the opportunity to comment on FRED 63 Draft amendments to FRS 101 Reduced Disclosure Framework 2015/16 cycle. We have set out our detailed responses to the consultation questions together with some other comments in the Appendix to this letter.

We agree with the draft amendments to FRS 101 as set out in FRED 63. However, we believe that clarification is needed as regards the current requirement in FRS 101 to notify shareholders of qualifying entity status.

We would be happy to discuss our letter and the draft proposals with you. If you have any questions, please contact Ken Rigelsford on 0207 007 0752 or krigelsford@deloitte.co.uk.

Yours sincerely



Veronica Poole
National Head of Accounting and Corporate Reporting
Deloitte LLP

Appendix 1

Responses to detailed questions

Question 1 The principles for determining whether disclosure exemptions from EU-adopted IFRS should be available in FRS 101 are set out in paragraph 9 of the Accounting Council's Advice. These are relevance, cost considerations and avoiding gold plating.

Qualifying entities have limited external users of the financial statements. These external users are likely to be providers of credit with a greater focus on information that supports the statement of financial position of the qualifying entity, when compared with detailed analysis of performance as required by some of the disclosures in IFRS 15 *Revenue from Contracts with Customers*. Do you agree?

Yes, we agree that qualifying entities will have limited external users of their financial statements and that such users will have a greater focus on disclosures supporting the statement of financial position.

Question 2 Do you consider that additional refinements could be made to the principles set out in paragraph 9 of the Accounting Council's Advice that, when applied, would help to increase further the cost-effectiveness of FRS 101?

We believe the principles of relevance, cost constraint on useful financial reporting and avoidance of gold plating, as set out in paragraph 9 of the Accounting Council's Advice, are suitably refined to ensure the cost-effectiveness of FRS 101. We therefore do not consider that any additional refinements to these principles are required.

Question 3 Do you agree with the proposed amendments to FRS 101? If not, why not?

Yes, we agree to the proposed amendments to FRS 101 as set out in FRED 63.

Question 4 In relation to the Consultation stage impact assessment do you have any comments on the costs and benefits identified? Please provide evidence to support your views of the quantifiable costs or benefits of these proposals.

We do not have any comments on the costs and benefits identified in relation to the Consultation stage impact assessment and we agree that the draft amendments to FRS 101 contained in FRED 63 will have a positive impact on financial reporting and will reduce the costs of compliance for groups with qualifying entities.

Other comments

The requirement in FRS 101 to notify shareholders about their right to object to the use of the disclosure exemptions has been the subject of much debate. In the case of partly-owned subsidiaries, this requirement serves a useful purpose in protecting the rights of minority shareholders. In the case of wholly-owned subsidiaries, however, it merely creates paperwork for the sake of it. In practice such decisions are made by group management and imposed upon subsidiaries. It seems almost inconceivable that a subsidiary would apply FRS 101 in defiance of the wishes of group management.

Nevertheless, the bigger problem concerns the use of FRS 101 for the separate financial statements of a parent company. In the case of a listed company, the notification in writing requirement in FRS 101 requires communication with many thousands of shareholders and this is potentially an onerous requirement. There has been much debate about when and how this communication should take place. It seems widely accepted that the intention to use FRS 101 can be communicated in the accounts for the previous year or as part of the AGM agenda papers for the previous year. However, this takes no account of the fact that the identity of shareholders can change significantly over a year. Also, the use of RNS announcements for this purpose is being seen quite often in practice even though it is unclear whether this practice can be said to meet the requirements of FRS 101.

We believe that, instead of providing guidance on these issues, the best solution lies in removing the requirement for shareholder notification in the case of the separate financial statements of a parent which are presented together with consolidated financial statements. Proposals to make this deregulatory change should be brought forward as soon as possible. It seems unlikely that this would meet any significant opposition although the views of investors clearly need to be considered. There is already a statutory exemption from presenting a profit and loss account for the parent company and there were automatic exemptions from certain requirements such as the cash flow statement and FRS 29 financial instruments disclosures under old UK GAAP.

If the FRC concludes that it is not possible to consult on this issue soon, it should consider issuing guidance about what it regards as adequate 'notification in writing' but that is a sub-optimal solution. Any proposals should also apply to FRS 102 which includes similarly worded requirements. However, in practice this is less of an issue for companies applying the reduced disclosures for qualifying entities in FRS 102 because such companies typically have fewer shareholders.