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Jenny Carter
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By email: ukfrs@frc.org.uk

Dear Ms Carter

FRED 86 Draft amendments to FRS 101 Reduced Disclosure Framework – 2024/25 cycle

Deloitte LLP welcomes the opportunity to comment on *FRED 86 Draft amendments to FRS 101 Reduced Disclosure Framework – 2024/25 cycle* (FRED 86). We agree with the proposed amendments.

The Appendix below sets out our responses to the questions asked in the consultation. We would welcome the opportunity to expand on any of our comments. Please do not hesitate to contact Robert Carroll on 020 7303 2458 or rcarroll@deloitte.co.uk or Anne Warner on 020 7007 5636 or annewarner@deloitte.co.uk.

Yours sincerely

Linda Riedel
UK Head of Accounting and Corporate Reporting
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Deloitte.

Appendix – Responses to questions

Question 1(a)

Amendments are proposed to exempt most qualifying entities from the disclosure requirements in IFRS 18 related to management-defined performance measures. Do you agree with these proposed amendments? Why or why not? (See paragraphs 15 to 20 of the Basis for Conclusions.)

We agree with the proposed amendments. We believe that management-defined performance measures are typically of little relevance to users of financial statements prepared in accordance with FRS 101 and that it would be disproportionate, other than in the very limited case referred to in FRED 86, to require FRS 101 preparers to apply these requirements. We also note that it is unusual for FRS 101 preparers to use management-defined performance measures or other alternative performance measures in their reporting.

Question 1(b)

Do you agree that qualifying entities should be exempt from the requirements of paragraph 83(b) of IFRS 18, which in some circumstances requires an entity to disclose a disaggregation of specified expenses classified by nature? Why or why not? (See paragraphs 21 to 23 of the Basis for Conclusions.)

We agree with the proposed exemption as we believe that the costs of providing this disclosure would outweigh any benefits to be obtained from providing it. We believe that the resulting information would be of little relevance or interest to users of financial statements prepared in accordance with FRS 101. However, we believe that the Basis for Conclusions could be improved in articulating the rationale for providing an exemption from paragraph 83(b). Whilst there may be a cost saving, we believe there is little benefit of this disaggregated information to users and the exemption would be better justified on the basis of not increasing requirements for FRS 101 preparers unnecessarily compared to the current position for FRS 101 preparers applying IAS 1.

Question 1(c)

Amendments are proposed to maintain extant exemptions that apply to requirements in IAS 1 that have been retained in IFRS 18 or moved to other IFRS Accounting Standards by IFRS 18, but, other than as set out above in Questions 1(a) and 1(b), no other exemptions to IFRS 18 requirements are proposed. Do you agree with this approach? Why or why not? (See paragraphs 12 to 14 and paragraph 24 of the Basis for Conclusions.)

We agree with the proposed amendments. We believe that that the existing exemptions from IAS 1 *Presentation of Financial Statements* that are set out in FRS 101 work well and the proposals will largely preserve the existing approach.

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IFRS 19 Subsidiaries without Public Accountability: Disclosures

Question 2

Do you agree that an entity that applies FRS 101 should not apply IFRS 19? Why or why not? (See paragraphs 32 to 33 of the Basis for Conclusions.)

We agree with this proposal. We believe that the different reduced disclosure frameworks are not compatible with one another given the different routes by which they were developed.

We believe that FRS 101 has worked well in the UK and its operation could be improved further by simplifying or repealing the parts of the Accounting Regulations that are relevant to individual company accounts, as discussed further in our 2023 response to the government's call for evidence on the non-financial reporting framework.

Other topics

Question 3

Do you have any other comments on the proposed amendments to FRS 101?

We believe it would be useful if the FRC were to clarify whether a small entity that adopts FRS 101 would need to provide the disclosures set out in Schedules 4 and 5 to the Accounting Regulations (SI 2008/410). For example, it is not currently clear whether a company that would qualify for the small companies regime under the Companies Act 2006 but which reports under FRS 101 is required to provide disclosure of directors' remuneration in accordance with Schedule 5 to the Accounting Regulations and disclosure of related undertakings under Schedule 4.

We also note that, when applying FRS 101, a company is subject to the requirement to disclose a reconciliation of investments in subsidiaries, associates and joint ventures in accordance with paragraph 51 of Schedule 1 to the Accounting Regulations. The general requirement in paragraph 38 of IAS 1 to present comparatives also applies. While there are explicit exemptions in FRS 101.8(f) from providing comparatives in certain cases, this does not include the reconciliation of investments in subsidiaries, associates and joint ventures as no requirements exist in this regard in IFRS Accounting Standards.

FRS 102.3.14A contains a specific statement that an entity providing reconciliations of items of fixed assets, in accordance with paragraph 51 of Schedule 1 to the Accounting Regulations, need not present these reconciliations for prior periods. However, FRS 101 does not contain such a statement. Consequently, it would appear that, on a strict reading, FRS 101 preparers must present comparatives for these reconciliations. Given the other exemptions in FRS 101 from providing comparatives to reconciliations required by IFRS, we do not believe it was the FRC's intention to require comparatives for the reconciliation of investments. It would therefore be helpful to include an explicit exemption in FRS 101.

Finally, paragraph 50 of IFRS 18 requires an entity with a specified main business activity to classify in the operating category some income and expenses that would have been classified in the investing or financing category if the entity did not have a specified main business activity. The assessment of whether an entity has a specified main business activity under paragraph 49 of IFRS 18 is made at the reporting entity level and, as a result, a group may determine that it, as a whole, does not have a specified main business activity whereas one or more of its subsidiaries may have specified main business activities, or vice versa. This in turn may lead to differences in classification of items between the parent's consolidated income statement and that of a subsidiary. We are aware that suggestions have been made that the FRC should amend the application of IFRS 18 for FRS 101 preparers to permit all entities within a group to present their income statements on the same basis as the consolidated income statement, notwithstanding that IFRS 18 itself would require some entities to present their income statement on the basis of having a specified main business activity but would not require or permit this for other entities within the group.

However, we do not believe that the FRC should modify the presentation requirements of IFRS 18 as they are applied to an FRS 101 reporter, for example, to permit a subsidiary to prepare its financial statements as though that entity does not have a specified main business activity even if it does have such an activity to achieve consistency with the consolidated financial statement of the ultimate parent. We believe that such an approach would have the potential to produce misleading and distortive information at the subsidiary level and would be contrary to the principle underlying the adapted format approach in the Accounting Regulations, which is to facilitate a presentation consistent with IFRS Accounting Standards.

Question 4

Do you agree with the conclusion in the consultation stage impact assessment? Why or why not?

We agree with the conclusion and believe that the proposals will ensure that application of FRS 101 remains cost-effective and attractive for many qualifying entities.