

Financial Reporting News

FRC requests views to inform the periodic review of FRS 102

UK and Ireland accounting standards are subject to periodic reviews, at least every five years, to ensure they remain up-to-date and continue to require high-quality and cost-effective financial reporting from entities within their scope. The FRC is starting the next periodic review of FRS 102 (and other UK and Ireland accounting standards). Through this process, the FRC is seeking views from stakeholders on areas that might be considered as part of the review.

This might include new issues/ transactions that should be addressed, or comments or suggestions in relation to the current requirements. In addition to stakeholder feedback the review will consider recent developments in financial reporting (such as changes in IFRS) and relevant developments in the wider reporting framework, for example, IFRS 16 Leases provides a single lessee accounting model that requires assets and liabilities arising from almost all lease arrangements to be recognised on the balance sheet. One might view that bringing leases

onto the balance sheet under FRS 102 is the right approach as many companies reporting under FRS 102, including small entities, have complex lease arrangements and that the principles of IFRS 16 would provide better information to preparers and users. Nevertheless, those that might take this view should urge the FRC to develop a simplified approach to avoid introducing all the complexities of IFRS 16 into FRS 102. In contrast, one might take the view that bringing all leases onto the balance sheet may be particularly challenging for very small entities, particularly owner-managed businesses, and may have limited benefits.

Any changes to accounting standards that are proposed as a result of the periodic review will be subject to public consultation at a later date, not expected to be before 2022. The effective date for any amendments is currently expected to be 1 January 2024. The FRC also expects to hold roundtable events for stakeholders to provide their views. Further details will be provided in due course.

Source: www.frc.org.uk

International Sustainability Standards Setting

The FRC has published FAQs on International Sustainability Standards Setting. The purpose of the FAQs is to inform UK company stakeholders of developments in sustainability standard setting by the International Financial Reporting Standards Foundation (IFRS Foundation). This is a fast-moving agenda that has the potential to impact corporate reporting significantly in the future.

<https://frc.org.uk/newsseptember-2021/international-sustainability-standards-setting>

European accounting enforcers outline common enforcement priorities regarding companies' 2021 financial statements

The European Securities and Markets Authority (ESMA) has published its annual priorities statement titled 'European common enforcement priorities for 2021 annual financial reports'. That Public Statement sets out the topics which European accounting enforcers believe warrant close attention when financial statements for the year ending 31 December 2021 are being prepared, approved and audited.

ESMA's Public Statement supplements IAASA's Observations paper which was published in September 2021.

<https://www.esma.europa.eu/>

FRC review of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'

The Financial Reporting Council (FRC) has published on 14 October 2021 the findings of its review into IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', which has been identified as a recurrent problem area by the FRC.

Provisions and contingent liabilities reporting are of particular importance to investors owing to the forward-looking information it can provide about a company's exposures.

The issues giving rise to provisions and contingent liabilities are often long-term in nature, such as climate change and other environmental obligations, or significant to the assessment of future business performance, for example, onerous contracts and regulatory

penalties or compensation.

The FRC's review considered how a sample of 20 companies' annual reports had met relevant reporting requirements, identified examples of good practice and outlined its expectations for future disclosures.

The review found scope for improvements in several areas, in particular in:

- explaining how the amounts of expected outflows have been estimated, identifying the key assumptions applied and describing the associated uncertainties,
- disclosing the phasing of outflows companies expect to see as they utilise their provisions; and
- describing the underlying costs for which companies make provisions.

The FRC also encourages companies to disclose entity-specific accounting policies and to provide more

quantitative information about contingent liabilities.

The FRC's Corporate Reporting Review Director, Carol Page, said:

"The reporting of provisions and contingent liabilities is of particular importance to investors and other users of accounts in understanding the longer-term financial effects of climate change and other risks to companies' prospects.

Companies should carefully consider the findings of our review and take appropriate steps to improve their reporting, consistent with our expectations."

The full report is available at https://www.frc.org.uk/getattachment/d7386e32-190f-4599-b763-6fe7c702f579/FRC-Thematic-Report-IAS37_October-2021.pdf

Source: www.frc.org.uk