



Tel: +44 (0)20 7486 5888
Fax: +44 (0)20 7487 3686
DX 9025 West End W1
www.bdo.co.uk

55 Baker Street
London W1U 7EU

Mei Ashelford
Financial Reporting Council
8th Floor
125 London Wall
London EC2Y 5AS

24 March 2017

Direct line: 020 7893 2980
Email: nicole.kissun@bdo.co.uk

Dear Mei,

FRED 66: Draft amendments to FRS 101 'Reduced Disclosure Framework' (2016/17 cycle)

We are pleased to have the opportunity to comment on *FRED 66: Draft amendments to FRS 101 Reduced Disclosure Framework 2016/17 cycle* (the Exposure Draft).

We agree with the proposed amendments to FRS 101, which would result in a Qualifying Entity being subject to substantially all of IFRS 16's lessee disclosure requirements. As leases are often an important and substantial cash commitment for a business, information on them will be of particular interest to providers of credit, who were identified in FRED 63 as the predominant external users of financial statements prepared by a Qualifying Entity. We would highlight, however, that these proposals might result in different levels of information being required in respect of economically similar arrangements. For example, where an asset has been acquired using third-party finance, the financing liability is likely to be subject to only the higher-level requirements in company law due to the IFRS 7 exemptions available under FRS 101.8(d).

We question whether it is necessary to subject a Qualifying Entity to all of IFRS 16's lessor disclosure requirements given that Qualifying Entities are granted substantial exemptions from the disclosure requirements in IFRS 15.

Our detailed responses to the questions asked in the Exposure Draft are set out in an appendix to this letter.

If you wish to discuss any of the points further, please do not hesitate in contacting me.

Yours sincerely,

Nicole Kissun
Partner
For and on behalf of BDO LLP



Appendix: Responses to the questions asked in the Exposure Draft**Question 1**

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

In particular do you agree that qualifying entities should be required to continue to provide detailed analyses of leases (with those required by IAS 17 Leases replaced with those required by IFRS 16 Leases)?

We agree with the proposed amendments to FRS 101 to the extent that they would result in a Qualifying Entity being subject to substantially all of IFRS 16's lessee disclosure requirements. However, we question whether it is necessary to also subject a Qualifying Entity to all of IFRS 16's lessor disclosure requirements.

Lessee disclosures

As leases are often an important and substantial cash commitment for a business, information on them will be of particular interest to providers of credit, who were identified in FRED 63 as the predominant external users of financial statements prepared by a Qualifying Entity.

We are, however, concerned about the consistency of approach taken in FRS 101 for different types of liability. The result of the approach proposed in FRED 66 would be that a Qualifying Entity that has entered into a long-term lease of a property would have to provide relatively detailed maturity analysis disclosures (together with all of the other IFRS 16 disclosures, to the extent they are considered material). In contrast, a Qualifying Entity that has chosen to acquire a similar property using long-term secured bank finance would often be exempt from providing a maturity analysis by virtue of the general exemption from IFRS 7 disclosures offered under FRS 101.8(d). We do not consider the requirement in section 61 of Schedule 1 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (to provide generally aggregated quantitative information on creditors due after more than five years) to address this inconsistency.

Whilst we accept that the inconsistency of approach noted above also exists in FRS 102, we do not understand the justification for it. As noted in our response to FRED 63, we do not consider paragraph 8 of the Accounting Council's Advice to FRS 101, on its own, to be sufficient for the purposes of determining whether disclosure exemptions from EU-adopted IFRSs should be available in FRS 101. We consider this inconsistency to be a practical example of that concern.

Lessor disclosures

We note that, following the publication of *Amendments to FRS 101 Reduced Disclosure Framework 2015/16 cycle*, a Qualifying Entity will be exempt from a substantial proportion of the disclosure requirements of IFRS 15. It is unclear why similarly generous disclosure exemptions have not been provided in respect of lease income.

Other proposed changes

We agree with the other proposed changes set out in the Exposure Draft.

Question 2

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 have no comments on the costs and benefits identified in the Consultation Stage Impact Assessment.