UK GAAP Update

Current and forthcoming standards and amendments

April 2021

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Summary of new and amended standards in issue

Effective from 1 January 2020 onwards

	Effective date	Effective for annual periods ending 31/12/2020	31/12/2021	31/12/2022	31/12/2023
FRS 100 ***Application of Financial Reporting Requirements***					
• Amendments to FRS 100 – UK exit from the European Union (December 2020)	1 January 2021	PA	FTA	✓	✓
FRS 101 ***Reduced Disclosure Framework***					
• Amendments to FRS 101 – 2019/20 cycle: Amendments to IFRS 6 and IFRS 5 (May 2020)	May 2020	FTA	✓	✓	✓
• Amendments to FRS 101 – 2018/19 cycle: Prohibiting insurers to apply FRS 101 (July 2019)	1 January 2021	PA	FTA	✓	✓
• Amendments to FRS 101 – UK exit from the European Union (December 2020)	1 January 2021	PA	FTA	✓	✓
FRS 102 ***The Financial Reporting Standard Applicable in the UK and Republic of Ireland***					
• Amendments to FRS 102 – Multi-employer defined benefit plans (May 2019)	1 January 2020	FTA PA for 31/12/2019	✓	✓	✓
• Amendments to FRS 102 – Interest rate benchmark reform (December 2019)	1 January 2020	FTA RA/TP for 31/12/2019	✓	✓	✓
• Amendments to FRS 102 – Covid-19-related rent concessions (October 2020)	1 January 2020	FTA	✓	✓	✓
• Amendments to FRS 102 – Interest rate benchmark reform Phase 2 (December 2020)	1 January 2021	RA/TP	FTA	✓	✓
• Amendments to FRS 102 – UK exit from the European Union (December 2020)	1 January 2021	PA	FTA	✓	✓
FRS 103 ***Insurance Contracts***					
• Amendments to FRS 103 – UK exit from the European Union (December 2020)	1 January 2021	PA	FTA	✓	✓
FRS 104 ***Interim Financial Reporting***					
• Amendments to FRS 104 – Going concern (October 2020)	1 January 2021	-	FTA	✓	✓
• Amendments to FRS 104 – UK exit from the European Union (December 2020)	1 January 2021	PA	FTA	✓	✓

Summary of new and amended standards in issue (continued)

	Effective for annual periods ending				
	Effective date	31/12/2020	31/12/2021	31/12/2022	31/12/2023
FRS 105 ***The Financial Reporting Standard Applicable for the Micro-entities Regime***					
• Amendments to FRS 105 – Covid-19-related rent concessions (October 2020)	1 January 2020	FTA	✔	✔	✔
• Amendments to FRS 105 – UK exit from the European Union (December 2020)	1 January 2021	PA	FTA	✔	✔

FTA First-time application - This is the first annual period when the new standard, amendment or interpretation is required to be applied.
RA Retrospective application - The new standard, amendment or interpretation is required to be applied on a retrospective basis.
TP Transitional provisions - There are specific transitional provisions that may be applied.
PA Prospective application - The new standard, amendment or interpretation is required to be applied on a prospective basis.

Effective prior to 1 January 2020

For detailed information about standards and amendments that apply to accounting periods beginning before 1 January 2020, please consult previous editions, which are available by contacting the Accounting Technical Services team.

In addition, please use the links below to access the latest version of each standard in issue and the subsequent amendments made:

FRS 100 ***Application of Financial Reporting Requirements***

- FRS 100 *Application of Financial Reporting Requirements* (March 2018)
- List of subsequent amendments

FRS 101 ***Reduced Disclosure Framework***

- FRS 101 *Reduced Disclosure Framework* (March 2018)
- List of subsequent amendments

FRS 102 ***The Financial Reporting Standard applicable in the UK and Republic of Ireland***

- FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (March 2018)
- List of subsequent amendments

FRS 103 ***Insurance Contracts***

- FRS 103 *Insurance Contracts* (March 2018)
- Implementation Guidance to accompany FRS 103 *Insurance Contracts* (March 2018)
- List of subsequent amendments

FRS 104 ***Interim Financial Reporting***

- FRS 104 *Interim Financial Reporting* (March 2018)
- List of subsequent amendments

FRS 105 ***The Financial Reporting Standard applicable for Micro-Entities***

- FRS 105 *The Financial Reporting Standard applicable for the Micro-entities Regime* (March 2018)
- List of subsequent amendments

Overview of the requirements of each new and amended standard in issue

Effective for the year ending 31 December 2020

FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (amendment) – Multi-employer defined benefit plans (May 2019)

Effective for accounting periods beginning on or after 1 January 2020, with early application permitted.

Key requirements

The amendment sets out requirements to Section 28 *Employee Benefits* ("Section 28") to specifically address the transition from defined contribution accounting to defined benefit accounting for a multi-employer pension plan.

Some multi-employer defined benefit plans are carrying out exercises with a view to being able to provide, for the first time, sufficient information to participating employers to facilitate the use of defined benefit accounting. As a result, the amendment sets out new and explicit requirements for how an entity shall transition from defined contribution accounting to defined benefit accounting when sufficient information becomes available.

The amendment requires that:

- An entity shall apply defined benefit accounting to the plan from the 'relevant date';
- The 'relevant date' is defined as: "the latter of the first day for which sufficient information to use defined benefit accounting becomes available and the first day of the current reporting period";
- An entity shall, at the relevant date, recognise in other comprehensive income the difference between:
  - the net defined benefit liability, or asset, as determined in accordance with Section 28, and
  - the carrying value of its liability for the contributions payable arising from an agreement to fund a deficit, if any, plus any liability recognised for contributions payable for the period; and
- An entity shall present the difference as a

separate line item in other comprehensive income.

Transition

The amendment shall be applied from the 'relevant date' in the applicable reporting period. Comparative information must not be restated.

FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (amendment) – Interest rate benchmark reform (December 2019)

Effective for accounting periods beginning on or after 1 January 2020, with early application permitted.

Key requirements

The amendment provided relief from specific hedge accounting requirements that could, previously, have resulted in the discontinuation of hedge accounting solely due to the uncertainty arising from the interest rate benchmark reform (the reform refers to the market-wide replacement of an existing interest rate benchmark, such as LIBOR, with an alternative interest rate based on the Financial Stability Board's recommendations). The amendment is therefore temporary until there is certainty from the reform.

Section 12 *Other Financial Instruments Issues* ("Section 12") requires entities to use forward-looking information and analysis to apply the hedge accounting criteria, such as:

- *Highly probable requirement* - when a forecast transaction is designated as a hedged item, that transaction must be highly probable to occur to meet the hedge accounting criteria;
- *Reclassification adjustment* - when determining if the cumulative gains and losses held in the hedging reserve should be reclassified to profit or loss, the forecast transaction (the hedged future cash flows) must no longer be expected to occur; and

Overview of the requirements of each new and amended standard in issue (continued)

Effective for the year ending 31 December 2020 (continued)

- *Prospective assessments* - when assessing the hedging relationship, there must be an economic relationship between the hedged item and hedging instrument.

While the interest rate benchmark reform is ongoing, uncertainty exists about when, and with what, the current interest rate benchmarks will be replaced,

and so the amendment provides relief by stating that, when carrying out each of the assessments above, it should be assumed that the interest rate benchmark on which the hedged cash flows are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of the interest rate benchmark reform.

Additionally, the amendment states that when designating a component of an item as a hedged item, specifically a hedge of a benchmark component of interest rate risk, identification of the risk component being separately identifiable need only be assessed at inception of the hedging relationship, rather than throughout the life of the hedge (when the reform may be likely to affect the market liquidity of LIBOR-based instruments).

Transition

The amendment shall be applied on a retrospective basis, only to hedging relationships that existed at the beginning of the reporting period in which an entity first applies the requirements, or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve that existed at the beginning of the reporting period in which the entity first applies the requirements.

FRS 101 *Reduced Disclosure Framework* (amendment) - 2019/20 cycle (May 2020)

Effective immediately from when the relevant standards (IFRS 6 *Exploration for and Evaluation of Mineral Resources* and / or IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*) are applied.

Key requirements

The amendment sets out two changes:

- to IFRS 6 *Exploration for and Evaluation of Mineral Resources* ("IFRS 16") – the amendment provides an exemption from the disclosure of operating and investing cash flows arising from the exploration for and evaluation of mineral resources, as required under paragraph 24(b) of IFRS 6. This is to align with the existing exemption from the presentation of a statement of cash flows provided in FRS 101; and
- to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* ("IFRS 5") – the amendment allows all qualifying entities applying FRS 101 to apply the exemption from the disclosure of net cash flows attributable to operating, investing and financing activities of discontinued operations, as required under paragraph 33(c) of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Previously the exemption was only permitted provided that equivalent disclosures had been made in the consolidated financial statements of the group in which the entity was consolidated. This is to align with the existing exemption from the presentation of a statement of cash flows provided in FRS 101.

FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (amendment) and FRS 105 *The Financial Reporting Standard applicable for the Micro-entities Regime* – Covid-19-related rent concessions (October 2020)

Effective for accounting periods beginning on or after 1 January 2020, with early application permitted.

Key requirements

The amendment provides relief to lessees, and to lessors, when accounting for temporary rent concessions within operating lease arrangements that have been provided as a direct consequence of Covid-19.

The concessions may be forgiveness of all lease payments for an agreed period (i.e. a temporary rent holiday), or a reduction in lease payments for an agreed period (i.e. a temporary rent reduction).

The amendment requires entities to recognise changes in operating lease payments (for lessees), or income (for lessors), within profit or loss that arise from Covid-19-related rent concessions on a systematic basis over the periods that the change in lease payments is intended to compensate i.e. where there has been a temporary reduction in the lessee's benefit from the use of the leased asset. This means that the treatment should reflect the economic substance of the benefit of these concessions and their temporary nature.

Overview of the requirements of each new and amended standard in issue (continued)

Effective for the year ending 31 December 2020 (continued)

For the amendment to apply, all the following conditions must be met:

- the change in lease payments results in revised consideration for the lease that is less than the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no significant change to other terms and conditions of the lease.

For lessees – the amendment introduces a new requirement to disclose “the amount of the change in lease payments recognised in profit or loss [associated with Covid-19 temporary rent concessions]”.

For lessors – the amendment does not introduce specific new requirements, however disclosures about Covid-19 temporary rent concessions granted would be expected to be included within the existing disclosure requirement in FRS 102 for entities “to provide a general description of their significant leasing arrangements.”

Amendments to FRS 105

The same accounting amendments have been included within Section 15 *Leases* of FRS 105 for micro-entities.

Overview of the requirements of each new and amended standard in issue (continued)

Effective for the year ending 31 December 2021

FRS 104 *Interim Financial Reporting* (amendment) - Going concern (October 2020)

Effective for accounting periods beginning on or after 1 January 2021, with early application permitted.

Key requirements

The amendment introduces explicit requirements within FRS 104 *Interim Financial Reporting* ("FRS 104") in relation to the going concern assessment and disclosure of any related material uncertainties, stating by adding paragraphs 4A and 4B:

"When preparing interim financial statements, the management of an entity applying this FRS shall make an assessment of the entity's ability to continue as a going concern. An entity is a going concern unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the date when the interim financial statements are authorised for issue.

When management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare the interim financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the interim financial statements and the reason why the entity is not regarded as a going concern."

These amendment is unlikely to result in any change when preparing interim reports in practice. These amendments are therefore made for clarification purposes and to ensure alignment between interim reporting under FRS 104 and the international equivalent IAS 34 *Interim Financial Reporting* ("IAS 34").

FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (amendment) – Interest rate benchmark reform Phase 2 (December 2020)

Effective for accounting periods beginning on or after 1 January 2021, with early application permitted.

Key requirements

The amendment deals with the accounting and financial reporting requirements when changes are made to the basis for determining contractual cash flows and hedging relationships as a direct consequence of the IBOR reform, by giving relief from certain accounting requirements.

As a reminder, the IBOR reform refers to the market-wide replacement of the existing interest rate benchmarks, such as LIBOR, with alternative risk-free rates, such as SONIA, by the end of 2021. For further details about the IBOR reform, please refer to our website.

Specifically, the amendments deal with:

- *Modification accounting (Amendments to Section 11)*

  A practical expedient is included that requires entities to account for changes to contractual cash flows required by the reform as if they were a re-estimation of the cash flows of a variable rate financial instrument.

  The relief allows for the original effective interest rate to be updated to reflect the changes made to the interest rate benchmark and for the changes to be accounted for on a prospective basis. The re-estimation of the cash flows is therefore not expected to change the carrying amount of the financial asset or financial liability. This applies to financial instruments that are accounted for on an amortised costs basis.

- *Hedge accounting (Amendments to Section 12)*

  The main amendments provide relief relating to hedge documentation in order to prevent the discontinuation of hedging relationships due to changes made as a result of the reform.

  The relief requires entities to continue to apply the hedge accounting requirements solely where changes to hedge items and hedging instruments arise from the reform, such as designating an alternative benchmark rate as a hedged risk; amending the description of a hedged item (or a portion of a hedged item) or a hedging instrument so that it refers to an alternative benchmark rate.

  To ease the operational burden, entities are allowed to make the necessary changes to their hedge documentation by the end of the reporting period, rather than immediately. This period has been extended to the date the financial statements are authorised for issue on first-time application of the amendments, to provide even greater flexibility to entities, particularly those that adopt these amendments early.

Overview of the requirements of each new and amended standard in issue (continued)

Effective for the year ending 31 December 2021 (continued)

Additionally, amendments are made to provide relief or simplifications when: reclassifying amounts accumulated in a cash flow hedge reserve; designating an alternative benchmark rate as a separately identifiable risk component; and grouping designated hedge items.

- *Disclosures (Amendments to Section 11)*

Additional qualitative disclosures are included to ensure that entities' financial statements provide useful information about the impact of the reform. The qualitative disclosures relate to the nature and extent of the risks arising from financial instruments subject to the reform, how an entity manages those risks and the progress in completing the transition process to alternative benchmark rates.

Transition

The amendments should be applied when the changes to the financial instruments and/or hedging relationships occur as a result of the reform, and should be applied retrospectively without restating prior year information.

Amendments to UK and Republic of Ireland accounting standards – UK exit from the European Union (December 2020)

Effective for accounting periods beginning on or after 1 January 2021, with early application permitted in some circumstances.

Key requirements

The amendments apply to all UK accounting standards: FRS 100 *Application of Financial Reporting Requirements* ("FRS 100"), FRS 101 *Reduced Disclosure Framework* ("FRS 101"), FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102"), FRS 103 *Insurance Contracts* ("FRS 103"), FRS 104 *Interim Financial Reporting* ("FRS 104") and FRS 105 *The Financial Reporting Standard applicable for the Micro-entities Regime* ("FRS 105").

The amendments to all the standards deal with the changes required to UK company law as a result of the UK's EU exit so as to ensure that the standards continue to operate effectively.

The majority of the changes are simple as they amend the references from 'EU-adopted IFRS' to read 'adopted IFRS', where 'adopted IFRS' incorporates the accounting standards referred to in both UK and Irish company law - UK-adopted international accounting standards ("UK-adopted IAS") for UK entities and EU-adopted IFRS for Irish entities.

Some of the changes have implications for UK entities going forward. The main changes are summarised as follows:

- *Preparation of group accounts (within FRS 100)* - Group accounts of parent entities that have securities admitted for trading on a UK regulated market are required by Section 403(1) of the Companies Act to be prepared in accordance with UK-adopted IAS. Early application of this amendment is not permitted.
- *Preparation of individual accounts (within FRS 100)* - All other entities, except those that are eligible and choose to apply FRS 105, must apply either FRS 102, UK-adopted IAS or FRS 101. UK entities are therefore no longer permitted to apply EU-adopted IFRS.
- *IAS individual, or group, accounts (within FRS 100)* - Accounts prepared in accordance with UK-adopted IAS are within the scope of the "IAS Regulation", either IAS individual accounts or IAS group accounts. All other accounts are classified as either 'Companies Act individual accounts', including those of qualifying entities applying FRS 101, or 'Companies Act group accounts' and are therefore required to comply with the applicable provisions of Parts 15 and 16 of the Companies Act and with the Regulations.
- *The interpretation of equivalence (within FRS 100) - Application Guidance: The Interpretation of Equivalence* will be updated for changes to UK company law and decisions on equivalence. This will be made available on the FRC's website. Early application of this amendment is not permitted.
- FRS 101 *Reduced Disclosure Framework (within FRS 101)* - For UK entities, FRS 101 can be applied to the individual financial statements of a qualifying entity that otherwise applies the recognition, measurement and disclosure requirements of UK-adopted IAS. Disclosure exemptions continue to be available to the qualifying entity in its individual financial statements.
- *Exemption from preparing consolidated accounts (within FRS 102)* - The amendments update the use of Section 400 and Section 401 of the Companies Act. For a UK entity reporting, when its immediate parent is established under the law of any part of the UK, Section 400 is applicable, and when its parent is not established under the law of any part of the UK, Section 401 is applicable. Early application of this amendment is not permitted.

Overview of the requirements of each new and amended standard in issue (continued)

Effective for the year ending 31 December 2021 (continued)

- *Developing accounting policies (within FRS 102)* - When management uses judgement to develop and apply an accounting policy for a transaction, other event or condition that is not specifically dealt with in FRS 102, management may also consider the requirements and guidance in 'adopted IFRS' dealing with similar and related issues. For UK entities, this will be UK-adopted IAS, rather than EU-adopted IFRS.
- *Accounting policy choice for financial instruments (within FRS 102)* - When choosing to apply either: (i) the recognition and measurement requirements of IAS 39 *Financial Instruments: Recognition and Measurement*; or (ii) the recognition and measurement provisions of IFRS 9 *Financial Instruments*, for UK entities the standards should be those as adopted by the UK.

Transition

The amendment is effective for accounting periods beginning on or after 1 January 2021. However, early application is permitted, in some circumstances, by UK entities for:

- accounting periods beginning before, and ending on or after, 31 December 2020;
- accounting periods ending before 31 December 2020, when the period for filing the accounts (as set out in Section 442 of the Companies Act) ends after 31 December 2020.

Subject to the exceptions below, early application will provide UK entities:

- That are FRS 101 reporters or IAS-reporters, with the option to use IAS that are adopted for use within the UK after 31 December 2020, in addition to IFRS that have been adopted in the EU as at this date. This is consistent with the transitional arrangements provided in UK company law for entities preparing 'IAS accounts'.
- That are FRS 102 reporters, to use IAS that are adopted for use within the UK after 31 December 2020 in their individual accounts, which would be relevant when FRS 102 permits or requires the application of a specific IFRS, such as the accounting policy option with Section 11 and Section 12.

From the main changes summarised above, the following are not permitted to be adopted early:

- Preparation of group accounts (within FRS 100);
- The interpretation of equivalence (within FRS 100); and
- Exemption from preparing consolidated accounts (within FRS 102).

Overview of the requirements of each new and amended standard in issue (continued)

Effective for the year ending 31 December 2023

FRS 101 *Reduced Disclosure Framework* (amendment) - Effective date of IFRS 17 (October 2020)

FRS 101 *Reduced Disclosure Framework* (amendment) - 2018/19 cycle: Prohibiting insurers to apply FRS 101 (July 2019)

Effective for accounting periods beginning on or after 1 January 2023, which aligns with the effective date of IFRS 17. Early application is only permitted where IFRS 17 is adopted early.

The October 2020 amendment postpones the effective date of the amendments made in July 2020 from 1 January 2021 to 1 January 2023.

This amendment means that insurers, who are currently applying FRS 101 *Reduced Disclosure Framework* ("FRS 101") do not need to change their accounting framework until 1 January 2023; thereby allowing two additional years to prepare for the change.

The amendment made in July 2019 changes the definition of a 'qualifying entity' such that entities that are both required to comply with Schedule 3 to *The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008* (SI 2008/410) ("Regulations"), or similar, and have contracts that are within the scope of IFRS 17 *Insurance Contracts* may not be qualifying entities for preparing FRS 101 accounts.

For entities preparing FRS 101 accounts, which therefore comply with the Companies Act, certain requirements of IFRS 17 conflict with requirements of company law.

The amendment therefore ensures that entities that are not required to, and choose not to, prepare IFRS accounts, continue to comply with company law requirements by only applying FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102") and FRS 103 *Insurance Contracts* ("FRS 103").

This means that entities that currently apply FRS 101 and have contracts that will fall within the scope of IFRS 17 will not be permitted to apply FRS 101 when the IFRS 17 becomes effective. Accordingly, such entities will be required to either: a) transition to full IFRS and prepare financial statements that comply with IFRS and IFRS 17; or b) transition to FRS 102 and prepare financial statements that comply with FRS 102 and FRS 103.

Proposed changes to standards and forthcoming developments

FRED 77: Draft amendments to FRS 101 *Reduced Disclosure Framework*: 2020/21 cycle – disclosure exemption relating to IAS 16

The comment period closed on 28 February 2021.

The proposals set out to amend FRS 101 *Reduced Disclosure Framework* ("FRS 101"), through the annual minor improvements cycle for 2020/21, in relation to a narrow-scope disclosure exemption from within IAS 16 *Property, Plant and Equipment* ("IAS 16").

The proposed amendment provides FRS 101 reporters with a disclosure exemption from the requirement of paragraph 74A(b) of IAS 16. This requirement requires the disclosure of: (a) the amount of proceeds and costs relating to selling items produced by PPE before they are available for their intended use (i.e. the sale of sample items produced by PPE during the testing phase), where those items are not an output of the entity's ordinary activities; and (b) which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

This disclosure requirement has been added to IAS 16 as a result of the amendment to IAS 16: Property, Plant and Equipment: Proceeds from Intended Use (amendment to IAS 16) (issued in May 2020), which requires any proceeds and related costs arising from selling items produced by an item of PPE before the PPE becomes available for its intended use, to be recognised within profit or loss (as income and expenditure), rather than being deducted against the cost of the item of PPE. This amendment is effective for accounting periods beginning or after 1 January 2022.

FRED 78: Draft amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102") and FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* ("FRS 105"): Covid-19-related rent concessions beyond 30 June 2021

The proposals set to extend the application period of the existing accounting requirements to support how lessees, and lessors, must account for Covid-19-related rent concessions. These requirements (as set out in the October 2020 amendments to FRS 102 and FRS 105) require entities to recognise changes in operating lease payments (for lessees), or income (for lessors), within profit or loss that arise from Covid-19-related rent concessions on a systematic basis over the periods that the change in lease payments is intended to compensate i.e. where there has been a temporary reduction in the lessee's benefit from the use of the leased asset. This means that the treatment should reflect the economic substance of the benefit of these concessions and their temporary nature.

For the accounting treatment to apply, one of the conditions requires that any reduction in lease payments must affect only payments originally due on or before 30 June 2021. These proposals therefore extend the period of this condition so that it applies to payments originally due on or before 30 June 2022 (previously 30 June 2021). There are no other proposed changes to the conditions, and so all other conditions must continue to apply for the accounting treatment to be applied. These proposals therefore allow for rent concessions being granted that reduce lease payments due after 30 June 2021, which are similar in substance to those concessions, where the requirements currently apply.

Proposed changes to standards and forthcoming developments (continued)

BEIS Consultation: Requiring mandatory climate-related financial disclosures by publicly quoted companies, large private companies and Limited Liability Partnerships (LLPs)

The consultation closes on 5 May 2021.

The proposals set out in the Government's Department for Business, Energy & Industrial Strategy ("BEIS") *consultation* require mandatory climate-related financial disclosures to be provided in the annual reports of certain publicly quoted companies, including AIM companies, and larger private companies and LLPs based on size thresholds. The proposals will therefore expand the scope of UK companies who will mandatorily be required to report on climate-related financial information so that the scope includes a much wider base of quoted and private businesses.

Currently, only commercial companies with a UK premium listing are required to reporting on climate-related financial information, by including a compliance statement in their annual report, stating whether they have made disclosures consistent with the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"), or if not providing an explanation (i.e. a 'comply or explain' basis). This requirements is applicable for accounting periods beginning on or after 1 January 2021.

Who are the proposals applicable to?

The proposals state that the following entities would be required to comply with the new climate-related financial disclosures:

- All UK Public Interest Entities ("PIEs") that have more than 500 employees (hence are required to produce a non-financial information statement) - PIEs include companies that have transferable securities admitted to trading on a UK regulated market, banking companies and insurance companies;
- UK AIM companies that have more than 500 employees; and
- UK companies and LLPs (which are not included in the categories above) that have more than 500 employees and a turnover of more than £500m.

What climate-related financial information is required to be disclosed?

The objectives of the proposed new disclosure requirements are to "increase the quantity and quality of climate-related financial disclosures in a proportionate manner, both to ensure market participants have sufficient information to smooth the transition to net zero, but also to facilitate the process that companies need to go through to recognise climate change as an important risk and opportunity to their business as a whole".

The proposals require companies within the scope to disclosure climate-related financial information in line with the four overarching pillars of the TCFD recommendations as follows:

1. Governance - Provide a description of the governance arrangements in place to identify and manage risks and opportunities arising from climate change; who has operational responsibility for climate change, including the experience of that executive or committee; and if the company has an audit committee, whether climate change is a matter considered by the company's audit committee

2. Strategy - Provide a brief description of the company's business model and strategy (to the extent that the company is not already required to report such information), and a description of how the company's business model and strategy may change in response to effects relating to climate change, and the trends and factors that affect this change.

3. Risk Management - Provide a description of the principal risks and principal opportunities, including material financial risks and opportunities, relating to transition risk, physical risk and regulatory risk arising from climate change, which may affect the business, and a description of how the company manages those areas of risk and opportunity including:

- a description of its business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and
- a description of how it manages the principal risks.

Additionally, provide a description of the risk management policies pursued by the company in relation to climate change, any due diligence processes implemented by the company in pursuance of those policies and a description of the outcome of those policies

4. Metrics and Targets - Provide a description of the key performance indicators relevant to the company's exposure to climate change risk and opportunity, and the targets set by the business for those key performance indicators; "key performance indicators" means factors by reference to which the development, performance or position of the company's business, or the impact of the company's activity, can be measured effectively.

When are the proposals applicable?

The expected plan is for the proposals to become regulations by the end of 2021 such that they will become applicable for accounting periods beginning on or after 6 April 2022.

Proposed changes to standards and forthcoming developments (continued)

BEIS Consultation: Requiring Restoring trust in audit and corporate governance

The consultation closes on 8 July 2021.

The Government's Department for Business, Energy & Industrial Strategy ("BEIS") consultation sets out a number of significant proposals that seek to strengthen the UK's framework for major companies and the way they are audited. The proposals set out how companies should report on their governance and finances, how reports should be audited, how audit and the audit market should change and how these should be overseen by a new regulator, the Audit, Reporting and Governance Authority ("ARGA").

What do the proposals require for corporate reporting and who are they applicable to?

Included within the consultation are important proposals that impact corporate reporting. The proposals look to progress director accountability in relation to dividends and capital maintenance and corporate reporting. Specifically, there are six proposals that impact companies' corporate reporting:

- Proposal 1: The consultation proposes to assign responsibility for defining realised profits and losses to the new regulator, ARGA, and enhance the legal status and enforceability of the definition, meaning that the requirements surrounding determining a company's distributable reserves will in the future become enforceable.
- Proposal 2: The consultation proposes to introduce a new requirement to disclose distributable reserves in the financial statements of individual companies, or of the parent company in the case of a group.
- Proposal 3: The consultation proposes to introduce a new requirement to disclose estimates of a group's dividend-paying capacity, including narrative disclosure to explain any major constraints on the ability of a subsidiary undertaking to pay its distributable reserves up to the parent.
- Proposal 4: The consultation proposes to introduce a new directors' 'compliance and solvency' statement making directors more accountable for the legality of any proposed dividends and the resulting effects on the future solvency of the business, covering a period of two years.

  Proposals 2, 3 and 4 are proposed to only be applicable to publicly listed companies and AIM companies, rather than being applicable to companies covered by the new wider definition of a 'public interest entity'.
- Proposal 5: The consultation proposes to introduce a new reporting requirement to publish an annual Resilience Statement that covers the short-term, medium-term and long-term of the business.

  Proposal 5 is proposed to be applicable to all PIEs, however there would be a phasing-in approach that starts with premium listed companies, and then moves to all other PIEs within two years. Recently listed companies would, however, be out of scope.
- Proposal 6: The consultation proposes to introduce a new reporting requirement to provide enhanced disclosures surrounding supplier payment practices. The Group may not be impacted by this potential new requirement based on the proposed scope applying to only listed companies with more than 500 employees or large listed companies.

  Proposal 6 is proposed to be applicable to either: (a) PIEs that are large companies (i.e. those who are already required to report under the Payment Practices Reporting Duty ("PPRD") requirements; or (b) PIEs with more than 500 employees (i.e. those who are already required to provide a non-financial information statement).

When will the proposals become effective?

There is no clear time frame for when the various aspects of the proposed changes may come into effect, however the general approach is to quickly bring in the measures that do not directly impact businesses, with all other measures being brought in with a transition period and/or a phasing-in approach. For the proposals in respect of dividends and capital maintenance and the new corporate reporting requirements, there will likely be a phasing-in approach, for example applying the new requirements to premium listed companies and then, over time, to other companies falling within the scope.

Further information: For further information about the details of the proposals for corporate reporting, refer to our Mind the GAAP blog article: *BEIS consultation: Restoring trust in audit and corporate governance – Focusing on the proposals for corporate reporting (part 1)*

For further information about the details of the proposals in relation to audit reform, refer to our website.

Proposed changes to standards and forthcoming developments (continued)

Discussion paper: A Matter of Principles - The Future of Corporate Reporting

The comment period closed on 5 February 2021.

This discussion paper sets out proposals for a new corporate reporting framework which, if supported, could be phased in to corporate reporting by 2030. This is the first step being taken by the Financial Reporting Council ("FRC") to prompt discussions from stakeholders on how they think the corporate reporting framework should be developed.

Some of the key proposals are:

- To abolish the paper-based annual report and replace it with a series of interconnected 'network reports' including:
  - A stakeholder-neutral Business Report that centres on companies' long-term value creation;
  - Financial Statements that are prepared in accordance with applicable UK or International Financial Reporting Standards and be subject to audit, as a stand-alone report; and
  - A new Public Interest Report that focuses on companies' obligations in respect of the public interest including wider stakeholders, the society and the environment.
- To have a corporate reporting framework that is objective-driven – meaning that the framework takes account of different communication objectives of all stakeholders (rather than solely focusing on the needs and objectives of a primary (investor) user), and each network report has a distinct communication objective which is driven by its content.
- To ensure that companies' corporate reporting continues to focus on the wider stakeholders of companies, such as the impact that companies' activities have on society and the environment.
- To move towards a framework that centres around technology, rather than paper-based reporting.
- To establish international non-financial information standards to provide comparability across reporting in this increasingly prevalent area, such as climate change reporting.
- To change to a new corporate reporting framework that is consistent with the recommendations made in the independent reviews by Sir John Kingman and Sir Donald Brydon.

Contact

Mazars has a specialist Accounting Technical Services team dedicated to providing support on accounting and corporate reporting matters.

This technical publication aims to provide you with a high-level briefing of the changes and developments impacting accounting and corporate reporting. For more detailed information and a comprehensive understanding of how these issues impact your business, please contact:

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