



Association of Accounting Technicians
response to the Financial Reporting
Council's invitation to comment on
“FRED 65, draft amendments to FRS
101, reduced disclosure framework –
notification of shareholders”

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1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the Financial Reporting Council's invitation to comment on "FRED 65, draft amendments to FRS 101, reduced disclosure framework – notification of shareholders", published in July 2016.
- 1.2. AAT is submitting this response on behalf of its membership and for the wider public benefit of trying to achieve financial reporting standards that are 'true and fair'.
- 1.3. AAT has focussed on the operational elements of the proposals and commented on the practicalities in implementing the amendments to FRS 101.
- 1.4. Furthermore, the comments reflect the potential impact that the proposed changes would have on smaller groups and subsidiaries, many of which employ AAT members or would be represented by our operationally skilled members in practice.

2. Executive summary and conclusions

- 2.1. FRED 65 proposes amendments to FRS 101 to remove the requirement for a company within a group to notify its shareholders in writing that it intends to take advantage of the disclosure exemptions in FRS 101 where the holding company's consolidated financial statements incorporate the company's financial statements.
- 2.2. AAT agrees that the amendment will not have an adverse effect on shareholders generally and removes some anomalies faced by companies regarding notification to shareholders, as well as providing a saving for the costs of notification. However, AAT has concerns with the cost benefits for smaller unlisted groups (see 3.5 below) and the broader principles of minority shareholders of subsidiaries not having ready access to the same information as shareholders in a company not in a group structure (4.1-4.4, below).

3. AAT response to the consultation paper

- 3.1. The following paragraphs outline AAT's response to the questions outlined in the consultation paper.

Question 1

Do you agree with the proposals set out in FRED 65? If not, why not?

- 3.2. AAT agrees with the proposals set out in FRED 65.

Question 2

Information will continue to be available to users of financial statements that explains any disclosure exemptions taken. Do you agree that the users, including minority shareholders, of financial statements are unlikely to be significantly disadvantaged by these proposals?

- 3.3. AAT agrees that users of financial statements where FRED 65 has been applied, including minority shareholders, are unlikely to be disadvantaged by the introduction of FRED 65. However there is a concern that such shareholders in an unlisted group may be disadvantaged already by the provisions of the current FRS 101 as referred to in 4.1-4.4 below.

Question 3

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.

- 3.4. AAT recognises that especially for larger groups, significant cost savings can be achieved by the implementation of FRED 65 without any significant disadvantage to users of the financial statements concerned, including minority shareholders, and that it is reasonable for minority shareholders in a company which is part of a listed group to expect that the company will take advantage of the provisions of FRS 101 for reduced disclosures in its financial statements.
- 3.5. However, for smaller groups, particularly those comprised of unlisted companies, where the number of minority shareholders is likely to be relatively small, the potential cost savings are also proportionately low but the potential inconvenience for those minority shareholders may not be justified by the cost savings. While this is of concern to AAT, it is not so significant in itself as to warrant a change to FRED 65 but the comments and suggestions which follow in 4.1-4.4 below in respect of the underlying FRS 101 are considered more significant and also address the issue of cost benefits.

4. Other comments

- 4.1. While not directly relevant to the subject matter of FRED 65, AAT has concerns with the broader principles of the possible impact on minority shareholders of subsidiaries not having access to the same information as a company not in a group structure, which is the consequence of applying the existing requirements of FRS 101.
- 4.2. It is AAT's view that, in principle, minority shareholders in a subsidiary company should not be at a disadvantage compared to those in a standalone company with regard to information to be made available in financial statements. While minority shareholders in companies ultimately controlled by a listed company might expect the company to take advantage of FRS 101, they may have some degree of confidence that they will not suffer any abuse by the controlling company due to the need to comply with listing regulations and ultimate control being in the hands of a wide spread of shareholders.
- 4.3. However, in smaller unlisted groups situations can arise, such as those resulting from shares held by family members passing down through generations, where there are minority shareholders in subsidiary companies who are not actively involved in the business, with the ultimate controlling shareholders representing the executive management of the group's business activities. Those ultimate controlling shareholders may be at variance with the minority shareholders and may be of a mind to minimise what they might consider to be unmerited entitlements and benefits attaching to the minority shares, possibly by the use of legitimate but subjectively biased inter-company charges, or aggressive inter group transfer pricing policies. Any such oppression of minority interests can be concealed as a result of the reduced disclosures permitted currently by FRS 101. Although FRS 101 provides for minorities holding either more than

5% of the allotted shares or more than 50% of the minority holdings to object to the use of reduced disclosures, AAT is concerned that this can still result in an element of minority holdings being exposed to potential oppression by the ultimate controlling shareholders and does not go far enough to provide protection to all potentially vulnerable minority shareholders.

- 4.4. AAT considers that, for the benefit of full transparency, where a subsidiary company which is not controlled by a listed company has minority shareholders, FRS 101 should not be applied unless **all** of the minority shareholders have explicitly agreed this (rather than having to exercise a veto when the company notifies shareholders of its intention to apply FRS 101, if sufficient are in agreement). FRED 65 provides an opportunity to include such an additional amendment to FRS 101 to address this issue but still retain the cost benefits for larger groups controlled by a listed company.

5. About AAT

- 5.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and 80,000 student and affiliate members worldwide. Of the full and fellow members, there are over 4,200 licensed accountants who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.
- 5.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

6. Further information

If you have any questions or would like to discuss any of the points in more detail then please contact Aleem Islan, AAT Technical Consultation Manager, at:

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