Group of Accountants

MEMORANDUM

To: **Technical Representatives**

From: **Robert Shaw**

Date: **9 May 2017**

Ref: **TM 07/17**

AMENDMENT TO FRS 102 (MAY 2017): DIRECTORS' LOANS – OPTIONAL INTERIM RELIEF FOR SMALL ENTITIES

FRS 102 was amended by the FRC yesterday to include the following paragraph. This amendment has both immediate and retrospective effect.

1.15A ~ A small entity, as an exception to paragraph 11.13, may measure a basic financial liability that is a loan from a director who is a natural person and a shareholder in the small entity (or a close member of the family of that person) initially at transaction price. Subsequently, for the same financial liability, a small entity is also exempt from the final sentence of paragraph 11.14(a).

In simple terms this means that long-term non-commercial loans from and to Directors of small companies (irrespective of whether Section 1A is adopted or not) can be accounted for as they would have been historically, rather than discounting them using an appropriate internal rate of return.

However, this amendment is unlikely to be significant in real terms as most Directors' loan accounts are classed as creditors due within one year (i.e. payable on demand) which were never required to be discounted. Also, care needs to be taken that this change does not encourage clients to show Directors' loan accounts as due over more than one year when legally the company does not have the right to defer payment.

Full details of the change can be found in:
https://www.frc.org.uk/News-and-Events/FRC-Press/Press/2017/May/Amendment-to-FRS-102-(May-2017)-Directors%E2%80%99-loans.aspx.

The exemption only applies to directors (who are **also** shareholders) who are 'natural persons', so loans with corporate directors would not qualify. Also, other non-commercial long-term related party loans such as intra-group loans, loans from shareholders who are

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not Directors, and Directors who are not shareholders will still need to be accounted for on an amortised cost basis.

This amendment arises out of the triennial review of the Standard which has resulted in the publication of FRED 67 which proposes a number of welcome simplifications. Whilst the majority of the proposals are expected to be finalised in December 2017, the FRC wanted to bring this provision in early to avoid the need for clients with a December 2016 year-end (who have not already filed) to discount their long-term directors' loan accounts. It should be noted that all small entities are still required to disclose these transactions, as they represent uncommercial transactions with a related party which are caught by the related party disclosure requirements in Section 1A.

There is no word from the FRC as yet as to whether they intend to introduce any other proposals early such as the introduction of an exemption for intra group "Investment Properties", thus allowing them to be classified as tangible fixed assets. Accountancy practices may consider that the FRED's proposal lends weight to the argument that there is "undue cost and effort" (FRS102 para 16.1) in obtaining a valuation, as if so under the current standard the asset can be held at cost as part of tangible fixed assets.