

Minutes of a meeting of the Accounting Council held on Thursday 12 November 2015 in the Boardroom at 8th Floor, 125 London Wall, London, EC2Y 5AS

Present:

Pauline Wallace	Alternate Chair
Richard Barker	Council Member
Chris Buckley	Council Member
Michael Gallagher	Council Member
Gunnar Miller	Council Member
Veronica Poole	Council Member
Mark Smith	Council Member
Jeremy Townsend	Council Member

Observers:

Michael Kavanagh	IAASA Observer
Lee Piller	FCA Observer

In attendance:

Anthony Appleton	Director, Accounting & Reporting Policy
Francesca Carter	Council Secretary
Jenny Carter	Director of UK Accounting Standards, Accounting & Reporting Policy Team
Annette Davis	Project Director, Accounting & Reporting Policy Team
Seema Jamil'O'Neill	Project Director, Accounting & Reporting Policy Team
Andrew Lennard	Director of Research
Deepa Raval	Project Director, Accounting & Reporting Policy Team
James Smart	Audit Quality Review Team (minute 7 only)
Rosalind Szentpéteri	Project Manager, Accounting & Reporting Policy Team

Welcome and Apologies for absence

Apologies were noted from Roger Marshall (Chairman), Liz Murrall (Council Member), Melanie McLaren (Executive Director, Codes & Standards), Matt Blake (HMRC Observer) and Michael Sunderland (Interim HMT observer).

1. Minutes of the previous meeting and rolling actions

1.1 The minutes of the meeting held on 22 October were approved for publication.

2. Director of Accounting Report

2.1 The Council noted a paper that provided an update on developments relating to UK and international accounting standards, matters of policy and an overview of staff activities since the last meeting. Particular attention was given to the following matters:

International Accounting Standards Board (IASB)

2.2 The Council noted:

- The agenda of the IASB meeting held on 20-22 October and documents issued at that meeting.
- The latest IASB work plan.
- That the IASB had tentatively decided to require an entity to apply the new Leases Standard for annual periods beginning on or after 1 January 2019 and to permit an entity to apply the new leases standard early if the entity also applies IFRS 15 *Revenue from Contracts with Customers* at or before the date of early application. AA reported that it is expected that IASB will issue a final leases standard in December.

IFRS Advisory Council

- 2.3 AA reported that the Trustees have announced 16 appointments and reappointments to the IFRS Advisory Council and that Melanie McLaren, Executive Director Codes & Standards, had been appointed to represent the four largest European National Standard Setters. The Council placed on record their congratulation to Melanie McLaren in respect of her appointment.

European Developments

- 2.4 AA reported that the European Parliament's Policy Department *Economic and Scientific Policy* has released four studies for the Economic Monetary Affairs Committee (ECON) of the European Parliament related to the endorsement of IFRS9 Financial Instruments.

EFRAG

Insurance

- 2.5 The Council discussed a draft letter from the European Financial Reporting Advisory Group (EFRAG) to the European Commission in respect of its undertaking to provide further advice about its views on the IASB's proposals for IFRS 9. The Council noted the letter sets out the preliminary views of EFRAG based on the IASB's tentative decisions and seeks quantitative input from constituents on both the predominance criterion and expected costs involved in the implementation of the deferral approach at reporting entity level or below.
- 2.6 The Council discussed the tentative analysis set out in the paper in respect of the deferral approach and the suggestion that further consideration be given to the possibility of a deferral below the reporting entity level. The following observations were made:
- It was suggested that the IASB should be encouraged to focus on the principle underpinning the standard before considering the practicalities.
 - It was highlighted that those entities with both insurance and investment businesses already separate the two businesses when reporting and therefore, would be reasonable to encourage further consideration of whether an option below the reporting level should be developed.
 - It was noted that further consideration of the predominance criteria is necessary and suggested the concerns expressed by insurers in respect of the limitations of the proposed predominance criteria should be considered sufficient evidence.
 - Some concern was expressed that discussions between EFRAG and the European Commission could lead to the establishment of European 'carve-out'. Whilst the Council identified the need for EFRAG to identify the impact the IASB proposals would have in Europe, the Council highlighted the need to encourage the IASB to identify a solution that can be applied universally.
- 2.7 The Council also discussed EFRAG's request for quantitative evidence and suggested that entities may be hesitant to provide the level of detail requested. In noting the importance

of ensuring EFRAG has a sufficient evidence base upon which to support its argument the Council suggested EFRAG should be encouraged to liaise directly with insurers to encourage a response. Seema Jamil'O'Neill (SJON) undertook to prepare a response to the letter reflecting the views expressed by the Council.

EFRAG Technical Expert Group (TEG)

- 2.8 AA reported that TEG had met on 4-5 November. The Council noted TEG had discussed the questionnaire, developed and distributed in co-operation with the FRC, on the impact of accounting changes on financial covenants in light of the IASB's proposals in respect of leases. This had shown mixed views, which may reflect jurisdictional differences in lending contracts.

FRC Matters

- 2.9 The Council noted the Codes & Standards Committee had approved FRED 63 *Amendments to FRS 101 (15/16 cycle)* and FRED 64 *Amendments to FRS for Solvency II* subject to minor amendments.
- 2.10 The Council requested that the executive reconsider the decision not to issue a stand-alone press notice announcing the decision to defer the triennial review of FRS 102.
- 2.11 The Council requested the opportunity to note and comment on any publications or communications relating to financial reporting issued by other colleagues within the FRC prior to their issue.

3. Director or Research Report

- 3.1 Andrew Lennard (AL) reported on the areas of work that would be taken forward following submission of the FRC's response to the IASB's Exposure Draft of its Conceptual Framework. The Council noted work that AL would be progressing work on a paper for *Accounting Horizons*, restarting the work on cash flows; and contributing to a project forming part of a wider initiative on the Corporate Reporting Financial Environment, for which the FRC has agreed to provide some financial support. .
- 3.2 The Council noted that the next meeting of the FRC's Academic Panel would be on 4 March 2016.

4. Conceptual Framework

- 4.1 AL introduced a draft FRC response to the IASB's Exposure Draft: Conceptual Framework for Financial Reporting. AL reported that the draft had largely been drawn from the discussions of the Council over the previous 12 months.
- 4.2 The Council discussed views expressed by the Codes & Standards Committee (CSC) who, as the body responsible for final approval of the response, had considered the response on 10 and 11 November. Whilst the Council agreed with the view of the CSC that the Exposure Draft's content in relation measurement, the distinction between profit or loss and Other Comprehensive Income (OCI) is unhelpful, the Council did not support the view of the CSC that the Framework should be silent on those topics. The Council advised that the IASB should be encouraged to revise the CF to include basic principles from which standard setters can be based. The Council also advised that it is unrealistic to consider that the IASB would publish a Framework that is entirely silent on the topics identified. The

Council supported the view of the CSC to revise the introduction to clarify what the FRC considers the purpose and nature of the Framework to be.

4.3 The Council discussed the remainder of the response and identified a number of drafting amendments. The Council also suggested the response is:

- Reviewed to ensure a consistent view is expressed with regard to the scope of the Framework.
- Updated to set out that whilst the FRC welcomes the reintroduction of prudence, the way in which the concept has been introduced is inconsistent with the FRC understanding of prudence.

4.4 AL undertook to revise the draft to reflect the advice of the Council and to present the Council's advice as set out in paragraph 4.2 to the Codes & Standards Committee. AL undertook to circulate a revised draft to both the CSC and the Council for consideration and advice the following week.

4.5 The Council approved the draft FRC response to the related Exposure Draft ED/2015/4 *Updating References to the Conceptual Framework*.

4.6 The Council congratulated AL and the team for development of the response.

5. IFRS Foundation Trustees' Review of Structure and Effectiveness: Issues for the Review

5.1 AA introduced a draft response to the IFRS Foundation Request for Views *Trustees' Review of Structure and Effectiveness: Issues for the Review*. The Council noted the draft response had been updated to reflect the views expressed by the Council at its July and September meetings. AA reported that the draft response had been approved by the CSC the previous subject to:

- Greater emphasis on the representative and ambassadorial role individual Trustees hold and the importance of the link between the Trustees and the jurisdictions they represent.
- Removal of the suggestion that the number of Trustees be reduced, given the recognition of the representative nature of their role.
- Strengthening of the response to highlight the need for clarity over the role Trustees play in respect of standard setting and greater emphasis on the need for the Trustees to monitor the quality of output and hold the board to account.
- Strengthening the response in respect of the need to limit the volume of change.
- Highlight that the desire for uniformity should not be key driver of change and that there will always be differences in dialect and practice between jurisdictions that must be accepted.

5.2. The Council welcomed the advice of the CSC and supported the corresponding amendments to the draft response. Through discussion the Council suggested the draft response also be revised to:

- Express concern in respect of the proposed reduction in the number of face-to-face meetings of the IFRS Interpretations Committee and the impact a reduction in meetings would have in progressing projects.
- Encourage a review of the constitutional structure of the IASB where necessary to implement our suggestions.

5.3 AA undertook to update the response to reflect the advice of the Council and the views of the CSC.

6. IASB 2015 Agenda Consultation

6.1 AA introduced a draft response to the IASB Request for Views on its *2015 Agenda Consultation*. The Council noted the draft response had been developed in response to views expressed by the Council and highlights the need for improved co-ordination between decisions in respect of strategy and agenda-setting decisions.

6.2 Whilst the Council supported the content of the draft response, the Council suggested the draft be reworked so that the basis of the response is a promotion of the need for the IASB and IFRS Foundation to establish mechanisms through which a long-term strategy, which would underpin the granular agenda-setting exercise, could be established. The Council suggested that to be most effective, the Trustees should hold responsibility for taking long-term strategic direction of standard-setting and that the IASB Board should hold responsibility for consulting on, setting, and executing the granular standard-setting agenda. The Trustees would hold responsibility for overseeing the work of the Board and monitoring the execution and quality of the work of the IASB Board.

6.3 AA undertook to update the draft response to reflect the advice of the Council.

6.4 The draft response letter to EFRAG's *2015 Proactive Agenda Consultation* was approved.

7. IASB Insurance Contracts Project – update on status

7.1 SJON introduced a paper that provided an update on recent developments relating to the IASB's project on accounting for insurance contracts. SJON reported that the IASB staff and Board members expect to finalise their deliberations during 2015 and to publish the final standard in 2016.

7.2 SJON summarised the significant areas of discussion and tentative decisions taken by the IASB. The following observations were made:

Accounting for participating contracts – the variable fee approach

7.3 The Council:

- Noted and welcomed the tentative decisions taken by the IASB in respect of the variable fee approach.
- Noted that SJON expects the UK insurance industry to be content that the accounting requirements will not be dependent on the reporting entity holding the underlying items or retaining a minimum amount in order to qualify.
- Noted that whilst there will be practical considerations to address, the tentative decision to recognise the Contractual Service Margin (CSM) on all insurance contracts with participation features in profit or loss on the basis of the passage of time should be considered as a positive step for the industry on the basis that it provides extra flexibility to accommodate different risk management strategies.
- Suggested further consideration should be given to whether a change in the CSM over the passage of time would have an impact on the amortization of deferred acquisition costs.

Cross-cutting issues

7.4 The Council:

- Noted that the main issues discussed were in relation to the basis of disaggregating the changes arising from changes in market variables and the presentation of those changes.
- Noted that whilst the tentative decision to allow an entity to choose as its accounting policy to disaggregate changes in market variables between profit and loss or other comprehensive income (OCI) will have a significant impact in Europe, it is unlikely to have a significant impact the UK.
- Noted that the IASB has not responded to questions raised by the UK insurance industry about whether lapse rates are within the definition of market changes or questions about the unit of account to be used.
- Welcomed the proposal to remove the mirroring approach for the measurement and presentation of contracts which require an entity to hold and specify the link to returns on certain underlying items.

7.5 SJON reported that she would present a further update on the IASB's progress in developing the final Standard in due course.

8. Review of the impact of the Strategic Report

8.1 Rosalind Szentpéteri (RS) invited the Council to consider a revised draft report of the FRC's review of the impact of the Strategic report. RS reported the draft had been redrafted following the Council discussion in October so that the tone is more positive and encouraging to promote continuous change and evolution in reporting.

8.2 The Council noted that the draft report had been considered by the CSC the previous day and that the CSC had advised the report should be updated to:

- Clarify what is meant by 'forward-looking' information,
- Strengthen the section on placement and the use of signposting,
- Acknowledge the evolving nature of digital reporting;
- Reposition the report as a report on the general 'flavour' of what is happening in respect of corporate reporting with reference to the research of other organisations that we have included in our study, and using the evidence gathered by the FRC to corroborate its findings.

The Council welcomed the revisions that had been made to the report and welcomed the advice of the CSC.

8.3 RS undertook to update the draft to reflect the advice of the CSC and circulate the revised draft to the Council and the CSC by email for approval. The Council noted the intention of the executive to publish the report in mid-December to assist companies with 2015/16 reporting.

9. IFRS Practice Statement – Application of Materiality to Financial Statements

9.1 RS introduced a paper setting out the initial views of the executive in respect of the IASB's Exposure Draft ED/2015/8 IFRS Practice Statement: Application of materiality to the Financial Statements (ED) which has been issued as part of the IASB's Disclosure Initiative (DI). The Council noted that the objective of the Practice Statement is to provide a practical tool to assist preparers and management in applying the concept of materiality to general purpose financial statements and that it provides guidance in respect of the characteristics

of materiality, the presentation and disclosure in the financial statements and omissions & misstatements.

9.2 The Council was invited to comment on the initial views of the executive and provide input on possible lines to take in developing an FRC response to the ED. The following observations and advice was given:

- The Council noted that the draft Practice Statement brings together existing IFRS literature on materiality and primarily focuses on reiterating and explaining the concept and agreed that this approach is unhelpful and that the IASB should be encouraged to provide more practical guidance to help apply the concepts that are set out in existing IFRS literature.
- The Council supported the view that it would be more helpful and practical if existing IFRS literature was appended to the Practice Statement and not included in the body of the Practice Statement.
- The Council advised that the response should encourage the IASB to set out a series of practical steps and thought processes for preparers to follow when making materiality judgements and that the first step management and preparers should take is the consideration of the stakeholders they are reporting to and an identification of what information is relevant to those stakeholders.
- The Council suggested the FRC consider the section of the draft Practice Statement addressing instances where immaterial errors are made intentionally to ascertain whether the drafting is appropriate and reflects the correct intention.
- The Council discussed whether there is a need for the draft Practice Statement given that the Accounting Standards are drafted to support preparers in making decisions as to whether information is material, however, it was concluded that there is a demand for guidance in this area and that the Practice Statement provides a mechanism through which behavioural change in this area can be facilitated.
- The Council identified that it would be helpful if the language and approach to materiality in respect of auditing and accounting was consistent. The Council welcomed that the IASB and the International Auditing and Assurance Standards Board (IAASB) are working jointly in this area.
- The Council noted that a number of the issues identified in respect of materiality are a result of behaviours and practices that have developed over time and that the wider IASB DI is attempting to address these behavioural issues.
- The Council supported the view that the Practice Statement should include practical examples but suggested the response highlight the need for careful consideration to be given to the examples that are provided given the range of entities the Practice Statement will support.

9.3 The Council highlighted the importance of ensuring that colleagues in the FRC's Corporate Reporting Review Team have the opportunity to contribute to the development of the FRC response to ensure an aligned FRC view is presented.

9.4 RS undertook to prepare a draft response, reflecting the views expressed by the Council for discussion at the January 2016 meeting.

10. Any other business

10.1 There was no other business.