



ACCOUNTING COUNCIL

**Minutes of the First Meeting of the Accounting Council (2012:01)  
held on 5 July 2012 at Aldwych House, 71-91 Aldwych, London, WC2**

PRESENT

Roger Marshall	Chairman
Michelle Sansom	Director of Accounting
Nick Anderson	
Richard Barker	
Edward Beale	
Ken Lever	
Robert Overend	
Andy Simmonds	

IN ATTENDANCE

Matt Blake	HMRC
Andrew Lennard	Director of Research
Melanie McLaren	Executive Director, Governance, Codes and Standards (for Items 5-12)
Roger Nicklen	Minutes Secretary

Technical Staff: Jenny Carter, Jennifer Guest, Jessica Howard, Seema Jamil-O'Neill, Deepa Raval, and Joanna Spencer.

APOLOGIES FOR ABSENCE were received from Peter Elwin and Pauline Wallace (who submitted written comments).

1 MINUTES

1.1 The minutes of the final meeting of the Accounting Standards Board held on 14 June 2012 (2012:06) were agreed and approved for publication.

2 DIRECTOR OF ACCOUNTING REPORT

2.1 The Council received a report from the Director of Accounting and noted:

- a. IASB agreement on a compromise solution for lease accounting;
- b. IASB and FASB going separate ways in relation to whether a non-investment entity parent should retain the exemption from consolidation;
- c. the recent IFRS Advisory Council meeting;
- d. initiation by the IASB of the process for reviewing the IFRS for SMEs (on which a paper would be brought to AC in September);
- e. recent speeches on where the IASB was going by Michel Prada and Hans Hoogervorst;
- f. latest developments in relation to the EFRAG Governance Review;
- g. the recent meeting of EFRAG TEG with the Consultative Forum of Standard Setters;
- h. EFRAG TEG discussions on –

- i) put options written on non-controlling interests
    - ii) levies charged by public authorities on entities that operate in a specific market;
  - i. impact on FRS of the December 2011 offsetting amendments to IAS 32 'Financial Instruments: Presentation and IFRS 7 'Financial Instruments: Disclosures'.
- 2.2 The Council also noted publication of:
- a. a new Update for Directors of Listed Companies;
  - b. a report from the Financial Reporting Lab on a 'Single Figure for Remuneration'; and
  - c. the report of the Sharman Panel of Enquiry into Going Concern and Liquidity Risks.
- 2.3 The Council considered whether FRS 25 and FRS 29 should be amended in respect of the offsetting amendments to IAS 32 and IFRS 7 and agreed to recommend to the FRC Board that as users would get sufficient information from the current standards amending FRS 25 and FRS 29 for the relatively short period until introduction of new UK GAAP was not justified.
- 2.4 The Council agreed to recommend to the FRC Board that they should publish an Exposure Draft of a revised Foreword to Accounting Standards set in the context of the FRC's new status.
- 3 RESEARCH ACTIVITIES AND DEVELOPMENTS
- 3.1 The Council received a report from the Director of Research and noted the latest position on EFRAG PRC projects and reported on his attendance at a review of IAAER projects.
- 3.2 The Council agreed that a limited research project should be mounted, initially confined to looking at who used share-based payment information and whether any other research existed, with a target date of the end of the year.

3.3

4 FUTURE OF FINANCIAL REPORTING IN THE UK AND ROI – MATTERS ARISING FROM FRED 48

4.1 The Council considered:

- a. the principles and guidelines for amending the IFRS for SMEs;
- b. consolidation sweep issues, including the accounting for ESOPs and EBTs;
- c. issues relating to reporting by pension schemes; and
- d. definitions of performance-related conditions and restrictions in relation to income and liability recognition.

4.2 The Council agreed that its decisions on these issues would form the basis of its recommendation to the FRC Board.

4.3 The Council agreed to revise the guidelines for amending the IFRS for SMEs to allow non-IFRS based solutions that clearly better met the objective of providing high quality understandable financial reporting proportionate to the size and complexity of an entity and users' information needs.

4.4 The Council returned to the ASB's consideration of accounting by agricultural businesses and decided to allow an accounting policy choice between historical cost and fair value in relation to the valuation of biological assets and liabilities on a class by class basis.

4.5 The Council considered four issues raised by respondents on the consolidation proposals in FRED 48:

- 1 interaction with ESOPs/EBTs and Intermediate Payment Arrangements;
- 2 measurement of retained interests and interactions with exchanges of businesses for an interest;
- 3 definition of control, parent and subsidiary; and
- 4 accounting for step acquisitions and increases in stake.

4.6 In relation to the accounting treatment of ESOPs and EBTs the Council decided to amend its proposals and therefore recommend to the FRC that ESOPs and EBTs were never accounted for as subsidiaries.

4.7 In relation to the definitions of control, parent and subsidiary the Council agreed not to change the proposed definitions but to recommend to the FRC it make explicit both that it had widened the Companies Act definition to include SPEs in the requirement for consolidation and that ESOPs/EBTs were outside the requirement to consolidate.

4.8 In relation to measurement of retained interests in partial disposals and to step acquisitions the Council agreed to recommend to the FRC to retain the principle from UITF 31 of not remeasuring the retained part of a business and apply it also to loss of control and loss of significant influence. It commissioned the staff to review the approach to measurement of retained interests and step acquisitions in draft FRS 102 and the implications for Sections 9-12 and present their findings at a future meeting.

4.9 The Council considered the definition of a financial institution as it related to pension funds and the proposals for pension funds disclosures.

- 4.10 The Council considered respondents' comments in relation to inclusion of pension funds within the definition of financial institutions and agreed to recommend to the FRC that it keeps pension funds within the definition of financial institutions, but that disclosure requirements would be set out within a discrete section, rather than requiring application of the financial institution disclosure requirements.
- 4.11 The Council also considered respondents comments in relation to the disclosure requirements for pension funds and agreed to revise draft FRS 102 so that a discrete section on pension funds accounting included financial instruments disclosures for financial institutions, but excluded those disclosures from the financial institutions section that were not relevant to pension funds. The Council also recommended to delete the requirement for a defined contribution plan to provide a description of its funding policy and to leave non-financial disclosures to the SORP.
- 4.12 The Council deferred a decision on the option to include actuarial information until it had discussed the issue of liabilities in pension fund accounts.
- 4.13 The Council considered the responses in relation to the definitions of performance conditions and restrictions and agreed to recommend to the FRC
- a. to use the term 'performance-related conditions' in place of 'performance conditions'; and
  - b. revised definitions for performance-related conditions and for restrictions.

## 5 UK GAAP – GOING CONCERN REQUIREMENTS

- 5.1 The Council considered the implications for its proposals on the future of UK GAAP from the final report of the Sharman Enquiry into going concern, primarily in relation to disclosure of material uncertainties and to the length of the period to be considered.
- 5.2 The Council agreed that the definitions in draft FRS 102 should not be changed in the light of Sharman on the grounds that it would be better to keep current UK GAAP requirements in place until international agreement had been reached on any desired changes.

## 6 POSSIBLE DISSENTING OPINION ON FRS 102

- 6.1 The Council considered an outline of the basis on which a dissenting opinion on FRS 102 might be based.

## 7 PROPOSALS FOR THE FUTURE OF INSURANCE

- 7.1 The Council considered the responses to the staff paper 'Mind the UK GAAP' on dealing with the future accounting requirements for insurance.
- 7.2 The Council noted that there were considerable uncertainties over the timescales for the implementation of Solvency II and of IFRS 4 Phase II.
- 7.3 The Council agreed to recommend an interim position in relation to insurance accounting that IFRS 4 Phase II should be regarded as the long-term option for listed entities and qualifying subsidiaries (reporting under FRS 101) and that a solution for companies applying FRS 102 should be considered once IFRS 4 Phase II was completed.
- 7.4 The Council also agreed:
- a. to reaffirm the proposal to introduce IFRS 4 Phase 1 into UK GAAP so that insurance companies would have to take into account the definition of insurance contracts in IFRS 4 and account for financial instruments in accordance with IAS 39; and

- b. to review the accounting requirements in UK GAAP in the light of IFRS 4 Phase II once it was implemented.
- 7.5 The Council deferred a decision on whether FRS 27 would need to be retained in new UK GAAP or could be deleted.
- 8 DISCLOSURE FRAMEWORK
- 8.1 The Council considered the latest draft of the EFRAG/ANC/FRC Discussion Paper (DP) 'Disclosure Framework for the Notes and agreed to continue its support for publication of the DP.
- 8.2 The Council also considered a draft of a supplementary paper 'Thinking about Disclosure in an Broader Context'.
- 8.3 The Council discussed a number of improvements to the supplementary paper including the need to focus on the criteria for deciding where information should appear and commissioned its further development.
- 9 UPDATE ON IASB PROJECT ON INSURANCE
- 9.1 The Council noted an update on the IASB project on insurance.
- 10 IASB DUE PROCESS HANDBOOK
- 10.1 The Council considered a draft EFRAG comment letter on the proposed IASB Due Process Handbook making a number of observations on tone and content to be relayed to EFRAG.
- 11 NARRATIVE REPORTING
- 11.1 The Council agreed the staff project plan.
- 12 NEXT MEETING  
Thursday 26 July, 9.00 a.m.