

Minutes of a meeting of the Corporate Reporting Council held on 4 October 2018 in the FRC Boardroom, 8th Floor, 125 London Wall, London EC2Y 5AS

Present:

Paul Druckman	Chairman
Michael-John Albert	Member
Chris Buckley	Member
Roger Marshall	Member
Sian Morgan	Member
Liz Murrall	Member

Observers:

Catherine Crowsley (BEIS)
Alison Ring (HMRC)
Linda Obiamiwe (HMRC)
Vicky Rock (HMT)

In attendance:

Anthony Appleton	Director, Accounting & Reporting Policy
Mei Ashelford	Project Director
Anu Bhartiya	Committee Secretary, Corporate Reporting Council
Jenny Carter	Director of UK Accounting Standards
Annette Davis	Project Director
Paul George	Executive Director, Corporate Governance & Reporting
Andrew Lennard	Director of Research
Deepa Raval	Director of Narrative Reporting
Susan Pust Shah	Project Director

1. Welcome and apologies for absence

The Chairman welcomed everyone to the meeting and in particular Vicky Rock (HMT Observer) who had returned from her maternity leave and Linda Obiamiwe (HMRC) who was job shadowing Alison Ring. Apologies were noted from Council Members Richard Barker, Michael Gallagher, Veronica Poole and Mark Smith and Council Observers Lee Piller (FCA) and Trevor Rushe (IAASA).

2. Declaration of conflicts of interests

There were none.

3. Minutes of the last meeting

Minutes of the Corporate Reporting Council meeting held on 11 September 2018

- 3.1 The minutes of the Corporate Reporting Council meetings held on 11 September 2018 were approved for publication subject to minor amendments.

Rolling actions

- 3.2 The matters arising log was noted.

4. Future of Corporate Reporting – Project Plan

- 4.1 Mr Appleton introduced the paper that outlines the project plan for the project on the 'Future of Corporate Reporting'. The objective of the paper was to seek Council's views on the various aspects of the project.

- 4.2 The Council considered the objective and the key components of the project as set out in the paper and made a number of comments, observations and suggestions including:

Objectives of the project

- The role of annual report in light of the focus on wider stakeholder reporting should be reviewed.
- While reflecting on wider stakeholder reporting and disclosure initiatives, consideration must also be given to the perspective of preparers, their reporting objectives and the cost and practical limitations of reporting.
- It is intended that reporting beyond the annual report is considered. There might be an information need, but the annual report may not be the best place for reporting that information. Therefore, one of the objectives of the project is to review the current regulatory framework and corporate reporting landscape.
- Consideration could be given to sources of information i.e. information reported directly by a company and information available in public domain generated by others. The assurance model element of the project would underpin the reliability of information from other sources.
- With regards to any future recommendations for regulatory changes, attention could be given to the flexibilities in the existing regulations.
- One of the key objectives of the project could be to develop principles that would future proof the process of corporate reporting, so that the process is nimble and adaptable for future changes.

Components of the project or their objectives

- Once the information needs are determined, consideration could be given to methods and practicalities of implementing the reporting which would include format of reporting, costs and technology. Consideration could also be given to frequency of reporting of information.
- Investor decisions rely heavily on reported information therefore consistency of communication and reporting could be one of the important components of the project.

Approach to research

- Review of all other important initiatives relating to corporate reporting including human rights, social impact, etc. would form part of research initiative of the project.
- It would be useful to note that investor groups within a particular category also have different needs. There is a question around the legitimacy of those information needs.
- The FRC Lab's work on digital reporting would be linked to the project.

Advisory Group

- A member queried if there would be merits in the advisory group being independent of the FRC. It was noted that current corporate reporting does not have such major shortcomings to justify a public enquiry or similar independent review. This is an FRC project and therefore should be managed and controlled by the FRC.
- The Advisory Group should consist of members with high credibility and respect in broader community.
- It is necessary to have broad stakeholder representation on the group. The group could include representations from investors, regulators, preparers and accounting bodies. It was suggested to hold debates in stages testing ideas with preparers and auditors.

Governance arrangements for the project

- Given uncertainties of the IFRS Endorsement Board and the future FRC governance structure, it would be difficult to form views on where our narrative reporting activities should fit within the FRC governance structure.

- 4.3 In light of Brexit, it was queried as to how the corporate reporting framework could be used to make UK competitive. The Council noted that BEIS have initiated the post implementation review of the current strategic and the non-financial regulations which includes review of the overall costs and impact assessment. The project would consider the future of corporate reporting and the ability of making changes more quickly.

- 4.4 The Council debated whether the project should be focused from the listed entities perspective only or considerations should be given to small and medium sized entities as well. It was argued that the purpose and frequency of financial reporting does not change whether the entities are listed or not. However, the size and types of entities would be considered when determining appropriate content elements. It was noted that the project would consider proportionality and the outcomes would be developed at high level for wider application.
- 4.5 The Executive agreed to take the Council's comments and suggestions into consideration while revising the project plan. The revised project plan would be presented to the Board on 17 October 2018.

5. Update from the Chairman

- 5.1 The Chairman provided an update on the Codes & Standards Committee meeting held on 25 September 2018. The discussion focussed on the revision of the Stewardship Code.
- 5.2 The Chairman also informed that the Board had met on 19 September and the discussion had included:
- FRC's Communications Strategy;
 - Developments in Audit Report;
 - The 'Future of Audit' project;
 - The amendments to the FRC Code of Conduct in relation to the publication of a Gifts & Hospitality Register and the Register of Interests.

6. Director of Accounting and Reporting

- 6.1 Mr Appleton introduced his report which provided an update on developments relating to financial reporting, wider corporate reporting and other FRC matters not covered elsewhere on the agenda.

Social Housing Pension Scheme

- 6.2 The Council was presented with an issue in relation to the multi-employer pension schemes, the Social Housing Pension Scheme (SHPS) and Scottish Housing Associations Pension Scheme (SHAPS). The Housing SORP Working Party has been working with the scheme administrators, The Pensions Trust, to explore whether it is possible to provide employers with sufficient information to apply defined benefit, rather than defined contribution, accounting. The Pensions Trust has confirmed that it will be able to do this from 2019. The Council noted that the SORP Working Party has been asked to consider issuing guidance to sector employers on the most appropriate transitional accounting treatment in moving from defined contribution to defined benefit accounting.
- 6.3 The Council noted that there are diverse views about the transitional accounting required by FRS 102 with no clear consensus. There are a number of views including that it should be accounted for as a change in accounting policy, with others considering it a change in accounting estimate.
- 6.4 The Council noted that consistency throughout the sector is desirable for users of the financial statements and that there is a possibility of setting a precedent for future similar events.
- 6.5 The Council advised that the Executive considers whether any action can be taken to promote consistency.

IFRS 17

- 6.6 The Council received an update on the issues relating to the implementation of IFRS 17 *Insurance Contracts*. The Council agreed that the topic would be discussed in more detail at the next meeting.

7. Director of Research Report

- 7.1 Mr Lennard reported on the FRC's presentation at the following events:

- IASB World Standard-setters Conference – The need for a conceptual framework
- The International Forum of Accounting Standard Setters (IFASS) – Financial Instruments with Characteristics of Equity and UK developments in narrative reporting

- 7.2 Mr Lennard informed about the ongoing research on reporting of intangibles. He also informed that a paper on contingent consideration would be included on the agenda for the FRC Academic Panel meeting on 6 November. The Council members were invited to the Panel meeting.

8. Annual Review of FRS 101

- 8.1 Mrs Carter introduced the paper and noted that no amendments have been identified that are required for the amendments issued by the IASB since the last annual review of FRS 101.

- 8.2 However, further consideration of IFRS 17 was required, as it had been held over from the previous year. The Council noted that there are several conflicts between the presentation of the financial statements under IFRS 17 and the formats that are required by Schedule 3 to the Regulations. Trying to force the requirements of IFRS 17 into the formats may not be possible and would result in confusing information. It is assumed that law cannot be changed within the necessary timescales, therefore possible solutions should be identified for consultation.

- 8.3 The Council discussed the option that entities with insurance contracts within the scope of IFRS 17, that are required to apply Schedule 3 to the Regulations, should be scoped out of FRS 101 which would mean that such entities would have to provide a cash flow statement and certain share-based payment and related party disclosures going forward if they opt to apply full IFRS. This would mean that such entities will lose the benefits of reduced disclosures under FRS 101. However, entities may choose to apply FRS 102, which continues to contain disclosure exemptions, although accounting policies would not be aligned with the group reporting.

- 8.4 The Council noted that an Exposure Draft would be prepared for Council's advice at the November 2018 meeting. Insurance companies will be invited to comment on the Exposure Draft and the FRC will issue a draft impact assessment as part of it.

9. Response to IASB Discussion Paper – 'Financial Instruments with Characteristics of Equity'

- 9.1 Mr Lennard introduced the paper and outlined the general comments and concerns that the FRC should include while responding to the IASB's Discussion Paper.

- 9.2 The Council was supportive of the contents of the draft response as set out in the paper. It was suggested and agreed that some of the points made would be more appropriate in a private communication with the IASB than in the FRC's public response to the Discussion Paper.

- 9.3 Mr Lennard agreed to take the Council's comments and suggestions into consideration while responding to the IASB.

10. Any other business

10.1 Ms Ring highlighted a couple of recent High Court decisions in relation to:

- The Union Castle Mail Steamship Company Limited – The Upper Tribunal Tax found that a loss triggered by the derecognition of derivative contracts did not ‘arise from’ derivative contracts.
- GDF Suez Teesside - the Court of Appeal found that a company could be regarded as having made a gain (or profit) on an asset disposal even though that gain was not required to be recognised by UK GAAP.

10.2 The Chairman reported that this was Roger Marshall’s last meeting of the Corporate Reporting Council. The Chairman thanked Mr Marshall for his significant contribution to the work of the Council and the FRC.

10.3 It was proposed and agreed that Mr Marshall would be invited to future meetings when the item on IFRS 17 is discussed. Mr Marshall informed that he is on EFRAG Board as the FRC representative until March 2019, therefore attending Council’s discussion on IFRS 17 would be helpful.

11. Date of next meeting

The Council noted that the next meeting will take place on 15 November 2018.