Financial Reporting Council

Minutes of a meeting of the Corporate Reporting Council
held on Thursday 21 July 2016
at the Financial Reporting Council, 125 London Wall, London, EC2Y 5AS

Present:	
Roger Marshall	Chair
Chris Buckley	Council Member
Michael Gallagher	Council Member
Liz Murrall	Council Member
Jeremy Townsend	Council Member
Observers:	
Matt Blake	HMRC Observer
Lee Piller	FCA Observer
In attendance:	
Anthony Appleton	Director, Accounting & Reporting Policy
Mei Ashelford	Project Director, Accounting & Reporting Policy Team
Jenny Carter	Director of UK Accounting Standards, Accounting & Reporting Policy Team
Ufuk Cengiz	Economist, FRC
Annette Davis	Project Director, Accounting & Reporting Policy Team
Paul George	Executive Director, Corporate Governance & Reporting
Andrew Lennard	Director of Research
Deepa Raval	Project Director, Accounting & Reporting Policy Team
Rosalind Szentpéteri	Project Manager, Accounting & Reporting Policy Team

Welcome and Apologies for absence

Apologies for absence were received from Gunnar Miller, Richard Barker, Veronica Poole, Mark Smith (Council Members) and Michael Kavanagh (IAASA Observer).

1 Minutes of the previous meeting and rolling actions.

1.1 The minutes of the previous Corporate Reporting Council meeting were approved for publication subject to minor drafting amendments.

2 Director of Accounting and Reporting Report

2.1 Anthony Appleton (AA) noted that ECON had made positive comments about IFRS 9, but matters had been complicated by the points raised as to the deferral of IFRS 9 for insurers and concerns that IFRS 9 may hinder long-term investment. Neither of those issues would prevent the endorsement of IFRS 9, but ECON noted that these issues should continue to be monitored.

3 Director of Research Report

3.1 Andrew Lennard (AL) reported that IASB was still rigidly adhering to the timetable to finish the conceptual framework in early 2017. A paper on measurement had been presented to the Board, which the Board had felt had been broadly along the right lines but they had wanted it to be re-expressed and re-written. The cash flows paper had not received universal acclaim, but that was partly because it had been the first time people had thought about it. The research paper was a useful exercise that would identify specific topics and provide some background to what their strategy was on research.

4 Horizon Scanning

4.1 AA stated that Brexit was business as usual from a legal and regulatory perspective. The FRC had sent out a letter to preparers on reporting requirements that might be impacted by Brexit.

4.2 The Council discussed potential issues following Brexit; including

a. The need for legal uncertainty for company directors as to what they were required to apply;
b. The case for continuing to have IFRS-based standards applicable in the UK and the potential options for post-Brexit endorsement of IFRS;
c. Resource implications of any future endorsement process; and
d. Potential impacts on company law and, consequently, FRC issued accounting standards.

4.3 The Council noted Theresa May's statements on changes to corporate governance aligned with a number of recent developments and initiatives that were thinking more broadly about stakeholders. However, including more stakeholders could conflict with clear and concise reporting or cutting volume. It was suggested that there could be a separate stakeholder report.

4.4 On other horizon scanning issues, the Council suggested that the FRC could spend more time thinking about low or negative interest rates.

5 State of the Nation Report – Corporate Governance and Reporting

5.1 It was noted that the FRC was trying to broaden out the focus of its state of the nation report. The aim was for the report to be published by the end of September, to have the maximum impact for the next reporting season, which meant it had to go to the Board at its strategy away day on 22 September.

5.2 The conclusion of the audit report had been that they should place less emphasis on what they had done and focus on what they considered the quality of reporting to be externally. Board members had felt that the messages of the state of the nation report were broadly fine but the structure was somewhat flawed in that there needed to be greater focus on IFRS and less on UK GAAP.

5.3 The Council suggested some detailed points for improving the draft report.

6 Exposure Draft – Trustees' review of structure and effectiveness: Proposed amendments to the IFRS Foundation Constitution

6.1 Annette Davis (AD) stated that the FRC was writing a letter to respond to the proposed changes to the IFRS Constitution. The Council commented that the Feedback Statement was good, but overall it had seemed to be a justification for maintaining the status quo. They were disappointed that the Trustees had not followed up on their recommendations or those of other major stakeholders.

6.2 It was proposed that the Council should respond to the Exposure Draft by expressing disappointment and reiterate the major concerns raised in the previous consultation. This would include that the composition of the Trustees and the Board should be more aligned to those funding the IFRS Foundation. The letter should also highlight that the Trustees' oversight of the IASB should be more than just checking that the IASB has adhered to the due process requirements, whilst noting that making the DPOC meetings public was a step in the right direction and the Trustees should also set the strategic direction of the IASB's work plan.

7 Draft LLP SORP – small LLP Regulations

7.1 Mei Ashelford (MA) stated that they wanted small LLPs to disclose creditors. They had raised the issue of whether they should include the partners' remuneration as part of the disclosures and the small LLPs had fed back that they did not want them to require it because that would be more than what a small company did. They had suggested that small LLPs could consider disclosing partners' remuneration but they would not be required to do it.

8 Consultation Document Triennial Review – Draft consultation document and update

Consultation Document

8.1 It was queried whether the Consultation Document dealt clearly enough with IFRS 15, which does not form part of the proposals for the Phase 2 FRED. AA stated that they had agreed they would not deal with IFRS 15 concurrently with IFRS 9 and IFRS 16 because there needed to be more practical applications of IFRS 15 before they looked at it.

8.2 Jenny Carter (JC) reported that they had been able to bring the timetable for the Consultation Document forward so that it would be issued in September, which meant comments would be received by the end of December. It was noted that the Consultation Document set out the FRC's preferred solution to implementing the expected loss model, which was to send financial institutions (or a sub-set of them such as banks and building societies) directly to IFRS 9 with a simplified approach for other entities. The Council suggested that companies could choose to use the three bucket model from IFRS 9 if it suited their business model.

8.3 JC stated that they were considering adding an extra question on leasing requirements. The Council suggested that they should include something in the summary about FRS 101. AA stated that they had not included it because if a company chose FRS 101 none of the questions would be relevant.

IAS 39 and FRS 102

8.4 JC stated that there was a concern that once IAS 39 was no longer effective in the EU (because it was superseded by IFRS 9) the option in FRS 102 to apply IAS 39 recognition and measurement requirements would no longer exist. It should be made clear that companies could continue using the option until it was removed from FRS 102. The Council noted that in addition the references to IAS 39 being adopted for use in the EU should be removed as part of the triennial review. The Council agreed that the option to use IAS 39 should be retained until the accounting requirements of FRS 102 were replaced with something that was based on IFRS 9. JC suggested including it in the Consultation Document, which the Council agreed with.

8.5 JC stated that macro-hedging was not available in FRS 102. JC suggested that as part of the triennial review a specific requirement to implement the macro hedging requirements of IAS 39 could be included rather than entities needing to choose to implement all of IAS 39 in order to access macro hedging. The Council noted that if entities were doing macro hedging they were complicated enough to apply the whole of IAS 39, but agreed that it was worth exploring FRS 102's approach to macro hedging further.

Possible amendments as part of the triennial review

8.6 MA reported that for the FRED they were planning to issue in March 2017, work was underway on reviewing sources of feedback that might result in amendments to FRS 102. UK GAAP TAG had reviewed the work they had done. Issues relating to the undue cost or effort exemption, operating profit and some editorial amendments to the scope paragraph had been identified for debate by the Council.

8.7 IFRS for SMEs had been amended to include additional guidance on what was meant by undue cost or effort. When they had developed FRS 102 originally the Council had stated that they would not give any additional guidance even though some stakeholders had asked for it. The Council suggested that they could consult on the issue. The Council agreed that they could remove undue cost or effort for associates, joint ventures and investment properties.

Intangible Assets

8.8 It was noted that FRS 102 is not clear on when an intangible asset acquired as part of a business combination should be recognised. Different approaches for determining when an intangible asset should be recognised were discussed, including:

   a. The use of an undue cost or effort exemption;
   b. Distinguishing between those that can be reliably measured and those that cannot and
   c. Limiting recognition to those that arise from legal or contractual rights and are separable, as was previously required under IFRS 10

8.9 The Council agreed that further work should be done to limit the recognition of intangible assets.

Disclosure of operating profit

8.10 JC stated that when they had developed FRS 102, the three super-exceptionals in FRS 3 had not been replicated. They had decided not to fully define operating profit because it was not a required line in IFRS, but they had brought across some wording from IAS 1 that discussed what operating profit should include. They had defined discontinued operations differently from how it was defined under IFRS 5.

8.11 JC stated that a question had been raised at TAG about super-exceptionals because the discussion of operating profit referred to operating activities which were defined for the purposes of the cash flow statement and excluded elements that were put into investing activities, but may usually be part of operating profit for the income statement. In trying to resolve it they went back to what they believed had been the Council's original intention in developing FRS 102, which had been that all of those super-exceptionals should be above operating profit. Some members of TAG thought that the profit or loss on sale or termination of an operation should be allowed to be below operating profit. The staff view was that it should all be above operating profit.

8.12 The Council was unsure about the suggested approach because it had almost defined operating profit. JC said that they still did not require disclosure of operating profit, but they were being more prescriptive about what needed to be included if it was disclosed. The Council suggested removing the sentence that started 'for example' and if a company did not include something they had to justify why it was not an operating activity.

8.13 The Council suggested that an alternative would be to say profit or loss on the sale or termination of an operation should be outside operating profit. JC stated that the problem with the law was that turnover had to include all turnover, so they could not separate discontinued activities completely, as they are in IFRS. The Council noted that they were not helping people by forcing the profit or loss from the sale of an operation into operating profit. It was suggested that they could allow people to make their own choice.

8.14 The Council noted that another issue was whether they should consider AL's recommendations in his cash flow paper for possible changes to UK GAAP as part of this triennial review. It was agreed that it was too early at this stage to propose such changes.

8.15 In summary it was agreed that the discussion of 'operating profit' should be proposed for amendment, but profits or losses on the sale or termination of an operation would not be included, although profits or losses no on the sale of fixed assets would. JC added that they would change the examples consistently.

9 Any Other Business

9.1 There was no other business to discuss.

10 Date of next meeting

10.1 It was noted that the next formal meeting of the Council would be held on 21 September 2016.