

**Minutes of a meeting of the Corporate Reporting Council
held on 10 April 2018 in the FRC Boardroom, 8th Floor, 125 London Wall,
London EC2Y 5AS**

Present:

Paul Druckman	Chairman
Richard Barker	Member
Chris Buckley	Member
Roger Marshall	Member
Sian Morgan	Member
Liz Murrall	Member
Veronica Poole	Member
Mark Smith	Member

Observers:

Seema Jamil-O'Neil (BEIS)	(From Minute 1 to 6.2)
Lee Piller (FCA)	
Alison Ring (HMRC)	
Trevor Rushe (IAASA)	

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
Debbie Crawshawe	Project Director
Susan Currie	Chief of Staff
Paul George	Executive Director, Corporate Governance & Reporting
Deepa Raval	Director of Narrative Reporting
Susan Pust Shah	Project Director
Rosalind Szentpeteri	Project Director

1. Welcome and apologies for absence

The Chairman welcomed everyone to the meeting. Apologies were noted from Council Members Michael Gallagher and Michael-John Albert and Observer Ian Bulmer (HMT).

2. Declaration of conflicts of interests

There were none reported.

3. Minutes and rolling actions

Minutes of the Corporate Reporting Council meeting held on 13 March 2018

3.1 The minutes of the Corporate Reporting Council meeting held on 13 March 2018 were approved for publication subject to minor amendments.

Rolling actions

3.2 The matters arising log was noted.

4. Chairman's update

4.1 The Chair reported that the FRC Board had met on 14 March 2018. Amongst various matters, the discussion at the Board meeting had included the appointment of Non-Executive Directors to the FRC, Board Effectiveness Review and the approval of the 2018/21 Strategy document. It was reported that an independent review of the FRC would be commissioned by BEIS and the terms of reference of the review would be announced shortly.

4.2 The Council noted that the CSC had met on 21 March and the discussion had included the responses received on the UK Corporate Governance Code Consultation. Mr George provided a brief update on the themes emerging from the early read of the Consultation responses.

4.3 In response to a query, it was noted that the FRC would be exploring additional work in relation to strengthening the viability statement and internal controls underpinning risk reporting.

5. Director of Accounting and Reporting Report

5.1 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. Particular attention was drawn to the following matters:

- The IASB publication of the revised *Conceptual Framework* for Financial Reporting on 29 March 2018. A report would be presented to a future Council meeting which would include a comparison of the recommendations made by the FRC and how they have been addressed in the finalised Framework. The Council briefly discussed the removal of the probability threshold and how this might influence future changes to standards.
- EC Consultation on Fitness Check on the EU Framework for Public Reporting by companies. One of the questions asked in the questionnaire is whether the EU should introduce a mechanism to allow changes to be made to IFRS Standards as used in the EU, known as 'carve-ins'. This would be in addition to the EU's existing powers to choose not to endorse an IFRS Standard or parts of it, known as 'carve-outs'. It was reported that the FRC will consider, in liaison with the BEIS, the form and extent of any response to the Consultation. Staff are encouraging other UK constituents to respond. The Council noted that the scope of the Fitness Check also included reviewing the requirements for a non-financial information statement recently introduced by the NFR Directive. The Council noted that the changes would be effective after Brexit and queried and discussed how influential the UK's input would be in the process. The Council discussed how the terms 'long-term investment', 'sustainability' and 'investing in infrastructure' appear at times to be used interchangeably.

5.2 The Council considered EFRAG's Invitation to Comment on the draft endorsement advice on *Plan Amendment, Curtailment or Settlement (Amendment to IAS 19)*. The Council supported the FRC's draft response to the Invitation to Comment, which supports adoption of the amendment.

5.3 Following a query in respect of the IFRS 17 endorsement process, the Council noted the timeframe of the EFRAG endorsement process, which would be followed by the EC scrutiny process with the adoption decision expected in 2019. It was noted that there would be a clear view of the transitional agreement between the UK and the EU by the end of 2018.

6. Strategic Report Guidance - Update

6.1 Ms Raval provided an update on the ongoing liaison with the BEIS on the presentation of non-financial information required by the new regulation and, in particular, whether the disclosures to meet the new requirements should be separately identifiable. It was reported that the matter is still under discussion between BEIS and FRC.

6.2 Ms Crawshaw reported that in order to make the guidance proportionate for entities within its scope, the content element Section 7 of the guidance has been split into two parts 7A and 7B; one for entities that are required to comply with the non-financial reporting requirements (NFR) and other for entities that are outside the scope of the new NFR requirements. The Council considered the revised Section 7 and during the resulting discussion the following points were made:

- The definition of a quoted company, traded company, banking or insurance company were well explained in the Frequently Asked Questions that was issued by the FRC in December 2017. Ms Crawshawe confirmed that the introductory part of this section will include the flowchart from the FAQs.
 - Ms Crawshawe highlighted that all of the encouraged content elements from the section have been removed, as these relate to the new s172 disclosures that are yet to be finalised by BEIS, and the business model section has been expanded, in order to improve the clarity of the discussion of the sources of value. The Council were informed they will have the opportunity to review the s172 section at a later date.
 - Ms Crawshawe explained that those entities applying the NFR Regulations provide exemptions from some of the pre-existing similar requirements, but also provides an exemption from the reporting requirements on trends and factors. However, the redrafted guidance encourages such disclosures as best practice to provide important contextual information. The Council queried whether it was necessary to mention that this is not a requirement under the NFR Regulations. Ms Crawshawe agreed to review whether the relevant paragraphs are required.
 - The Council noted that the references to any external frameworks including TCFD have been removed and the guidance has been expanded in relation to environmental disclosures using terminology from the TCFD in relation to the potential impact of climate risks on the business model.
- 6.3 The guidance on impact has been expanded with most of the content incorporated from the Commission's guidance. The Council discussed the difficulty in measuring 'impact' as there is no framework for measuring and reporting the impact of entity's activities. A number of comments, queries and suggestions were made including:
- It could be useful to explain the process of cash generation and how it is allocated based on entities' strategic decisions.
 - It was suggested to reflect on the different approaches that the entities take to monitoring their impact and to not necessarily develop specific metrics.
 - With reference to the statement that 'some stakeholder groups may require greater level of detail in certain areas', it was queried whether stakeholder groups could demand further information because shareholders are the primary users of strategic report. It was felt useful to have clarity on who the stakeholders could be and whether primary means exclusively.
 - It was suggested providing examples of good strategic reports of companies on the FRC website. This would allow FRC to have control over refreshing the links.
 - It was queried whether the reference '... the impact of the business of the entity on society' in paragraph 7.42 should be to 'appropriate stakeholders'. Whilst the Council acknowledged that the impact could not be only referenced to shareholders and their returns, it was noted that the statement was broad to include wider society.
 - It was suggested presenting the paragraph 7.44 at the beginning of the *Impact* section as it would help in setting the context. However, it was noted that there is no single coherent framework by which 'materiality' could be assessed. The term is used in different context at different places and is based on relevant tests.
- 6.4 It was noted that the Narrative Reporting Advisory Panel was meeting later in the day to discuss the papers on Section 7. Ms Crawshawe thanked the Council for their input and agreed to take the suggestions into consideration in drafting the first draft of the complete revised Guidance which would be presented to the Council at its May meeting.
- 6.5 The Council acknowledged that the guidance was flowing well by splitting the content element section. It was noted that the final guidance could incorporate colour codes and icons as required.

7. Response to EFRAG's Discussion Paper – Equity Instruments – Impairment and Recycling

7.1 Mr Appleton briefly introduced the paper that sought Council's views on the lines that should be taken in the FRC's response to the EFRAG's Discussion Paper.

7.2 The Council had a thorough discussion on the matter and made a number of comments including:

- There is merit in exploring the recycling of gains and losses on equity instruments in light of the changes to the Conceptual Framework and the requirements of IFRS 9 in respect of other investments accounted for at FVOCI.
- The prohibition of recycling in respect of gains or losses on disposal of equity instruments is inconsistent with other classes of assets, for e.g. property and investment in debt instruments.
- EFRAG's work could be used to influence development of IFRS 9 through the PIR of IFRS 9 if there was evidence of adverse economic impacts. It was queried whether the body of evidence that EFRAG has gathered is strong enough to support the need for change.
- It needs further debate to decide whether recycling should be required or permitted. As part of due process, there is also a need for wider debate on the question whether recycling needs an impairment model.
- A Council Member expressed the view that regardless of whether there is recycling for equity instruments at FVOCI, impairments should be separately identified and possibly recycled from equity.

7.3 Mr Appleton thanked the Council for their views and agreed to take the comments into consideration while drafting a response to the EFRAG's Discussion Paper.

8. FRS 101 review – 2017/18 cycle FRED 69

8.1 Mrs Ashelford provided a brief update to the Council on this topic, reminding that FRED 69 had proposed no amendments to FRS 101 in the 2017/18 cycle but had acknowledged that further consideration of IFRS 17 *Insurance Contracts* is needed. Such consideration would be deferred until the standard's process was further advanced. The Council noted that, despite no amendments being required to the standard itself, there is a plan to issue a final amendment document as some amendments to the Basis for Conclusions are required. A feedback statement would also be issued as normal. The Council considered these documents and agreed to advise the FRC to issue the final amendments and feedback statement.

8.2 The Council was informed that since this is not a contentious matter, the FRC Board would be updated through the Chief Executive's Report.

9. Housing SORP annual review

9.1 The Council considered the Housing SORP-making body's annual review and noted that the FRC is satisfied that the body has complied with the SORP Policy and taking necessary actions to maintain its SORP.

9.2 The Council noted the composition of the SORP Working Party, which included a number of users such as UK Finance (previously the Council of Mortgage Lenders) and observers from the relevant jurisdictional regulators. It was noted that the UK Finance position is temporarily vacant, but that the SORP-making body is seeking a replacement representative from UK Finance and the position would be filled in due course. Subject to that, the FRC is satisfied with the composition of the SORP Working Party.

10. Insights for corporate reporting from the collapse of Carillion

- 10.1 The paper was taken as read. The Chair suggested that, in order to have a detailed discussion on all five areas of issues relating to the collapse of Carillion as set out in the paper, a few issues be discussed at a future meeting.
- 10.2 The Chair opened the discussion inviting Members to highlight any corporate reporting issues that were not covered in the paper and could be considered for discussion. A number of suggestions were made including:
- Realised and distributable profits: It was noted that the issue relating to this matter could emerge for consideration within the BEIS's consultation on Insolvency and Corporate Governance. The Council noted that the guidance on realised and distributable profits under the Companies Act is issued by the ICAEW.
 - Viability statement: It was reported that this matter is closely linked to the work on the revision of the UK Corporate Governance Code and that the FRC would be undertaking additional work in respect of strengthening of the viability statement and internal controls.
 - Institutional shareholders engagement with companies and disclosures: The Council discussed the lack of reporting on the extensive engagements that had taken place between Carillion and the institutional shareholders over concerns with their strategy, business model and funding structure. Reporting on these issues and engagement could be further analysed.
- 10.3 The Council discussed various situations that can take place with the supply-chain financing and the accounting for reverse factoring arrangements. Through discussion, the Council highlighted the importance of the disclosure of clear information on the levels of debt, cash flows and the conversions including reverse factoring which would give clear indication of the state of the business. The Council considered the disclosure requirements of IFRS 7 *Financial Instruments: Disclosures*, and in particular, the overall disclosure objectives on the significance of financial instruments and on the nature and extent of risks arising from financial instruments. The Council acknowledged the need for clear set of requirements for the presentation of reverse factoring arrangements in the balance sheet and cash flow statement and liquidity disclosures to assist users' understanding of the connectivity between cash management and principal risks.

11. Risk Management Report

- 11.1 The paper was taken as read.
- 11.2 In response to a query in relation to the list of FRC Principal Risks, Ms Currie informed that the first nine risks were agreed by the Board in July 2017 and the tenth risk was added in December 2017. The Executive Committee review the Risk Register on quarterly basis and the last review was undertaken in March 2018.
- 11.3 With regard to the Principal Risk 5, the Council highlighted that the risk was more focused in relation to costs than quality. It was noted that the Risk register was subject to review in light of the FRC's new mission. The Council also highlighted that there was no Principal Risk listed which related to accounting standards. It was noted that the Council's feedback would be reported to the Audit Committee which will review the Principal Risks in May 2018.
- 11.4 The Council noted that the key risk management activity over the next six months would include a programme of 'deep dive' into each of the Principal Risks. The Council would be updated about the developments in risk management on a six-monthly basis and Council's advice to the Board on risk matters relating to the FRC's corporate reporting responsibilities would be sought.

12. Any other business

The Chair invited the Members to submit their suggestions to the Secretary on topics for discussion at the Council Dinner on 9 May 2018.

13. Date of next meeting

The next meeting of the Council will take place on 10 May 2018.