

**Minutes of a meeting of the Corporate Reporting Council
held on 13 December 2017 in the FRC Boardroom, 8th Floor, 125 London Wall,
London EC2Y 5AS**

Present:

Paul Druckman	Chairman
Michael-John Albert	Member
Richard Barker	Member
Chris Buckley	Member
Michael Gallagher	Member (From Minute 1 to 10.4)
Sian Morgan	Member
Liz Murrall	Member
Veronica Poole	Member
Mark Smith	Member

Observers:

Lee Piller (FCA)	(From Minute 1 to 10.1)
Alison Ring (HMRC)	(From Minute 1 to 10.4)
Trevor Rushe (IAASA)	via teleconference

In attendance:

Anthony Appleton	Director, Accounting & Reporting Policy
Anu Bhartiya	Committee Secretary, Corporate Reporting Council
Debbie Crawshawe	Project Director
Annette Davis	Project Director
Paul George	Executive Director, Corporate Governance & Reporting
Jennifer Guest	Project Director
Andrew Lennard	Director of Research
Susanne Pust Shah	Project Director
Deepa Raval	Project Director
Rosalind Szentpeteri	Project Director

1. Welcome and apologies for absence

The Chairman welcomed everyone to the meeting. Apologies were noted from Council Member Roger Marshall and Observers Ian Bulmer (HMT) and Seema Jamil-O'Neil (BEIS).

2. Declaration of conflicts of interests

- 2.1 Liz Murrall declared her interest in the agenda item 'Annual review of the SORP for UK Authorised Funds'.

3. Minutes and rolling actions

Minutes of the Corporate Reporting Council meeting held on 1 November 2017

- 3.1 The minutes of the Corporate Reporting Council meeting held on 1 November 2017 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 Chairman provided an update on the matters considered at the Board meeting on 2 November 2017.

- 4.2 The Chairman also provided an update on the matters considered at the Codes & Standards Committee meeting held on 18 October 2017. Amongst other matters, the Committee had received an overview of responses to the Guidance on the Strategic Report. On the basis of the advice of the Corporate Reporting Council, the Committee had recommended to the FRC Board that *Amendments to FRS 102 – Triennial review 2017 – Incremental improvements and clarifications* is issued. The Committee had considered and approved the Digital Amendments to the FRC Taxonomies.
- 4.3 The Chairman reported that the FRC Board had met on 6 December and amongst other matters had approved the issue of *Amendments to FRS 102 – Triennial review 2017 – Incremental improvements and clarifications*.
- 4.4 The Secretary enquired if the Council Members had any queries / concerns relating to the revised Information Security Policies, so that Kate Cobill, Assistant General Counsel could be invited to the meeting to answer them. The Members had no queries and the Policies were taken as read.
- 4.5 The Chairman outlined the FRC's new mission and the strategic aim relating to corporate reporting. He noted that good corporate reporting influences behaviour and is core in building public trust in business. The Council discussed matters that could increase the relevance of corporate reporting. Some challenges were raised as part of the discussion and debated openly without conclusion, as there were supportive views by many and some challenges such as:
- Whilst the importance of wider corporate reporting including the reporting of non-financial matters was noted, a Member expressed a concern that this could lead to information overload and additional cost to business.
 - The focus should not be made on 'more reporting' but 'quality reporting' that would help stakeholders understand and build trust in business.
 - Whether this Council was the right body to focus and advise on wider corporate reporting matters.
 - To envisage how the reporting environment would look like in the coming years, and then evaluate the existing reporting framework and work towards achieving the vision.

5. IFRS 17 – Education session

- 5.1 Susanne Pust Shah (SPS) presented the education session on the IFRS 17 accounting requirements with the help of a numerical example applying the building block approach. The objective of the session was for Members to get a better understanding of how insurance contracts will be reflected on the balance sheet and income statement under IFRS 17.
- 5.2 It was discussed whether the issues that EFRAG will consult separately in 2018, i.e. 'contract aggregation criteria' and 'release of the contractual service margin' are problems for UK insurers. SPS confirmed and highlighted the importance for the FRC to get views from UK stakeholders on these topics and prepare responses. The FRC will set up an IFRS 17 advisory group in the New Year to ensure that the FRC is receiving evidence from a broad range of stakeholders and UK issues are considered during European endorsement.
- 5.3 The Council noted the expected short comment period on the draft endorsement advice. SPS explained that EFRAG is seeking to provide as long as possible for consultation. The consultation period will be limited to two months or less, to enable EFRAG to give advice to the European Commission by the end of 2018.

6. Amendments to the Guidance on the Strategic Report

- 6.1 Debbie Crawshawe (DC) summarised the main themes raised in the responses to the strategic report consultation, as set out in the paper.

Scope and content elements of the Guidance

- 6.2 DC highlighted some feedback received in respect of the scope of the Guidance that the new non-financial reporting requirements and the Guidance thereon have added a layer of complexity which is appropriate only for large companies. The Council discussed whether the scope of the Guidance on the Strategic Report should be for all companies or only for large companies and considered the benefits and disadvantages of its applicability to all companies. The Council supported the view of maintaining the position that the Guidance remain applicable to all companies.
- 6.3 DC noted that the content elements for the Strategic Report under section 7 of the Guidance are based on the legislative requirements for large quoted companies. There are different disclosures applying to different types of entities. With the implementation of the NFR Directive, a new threshold has been introduced and it is expected that BEIS would introduce a different threshold for reporting on section 172. It was noted that the guidance relating to the new NFR regulations to all companies is complex, burdensome and less relevant for smaller companies. Therefore, the Council discussed various options, as set out in the paper, in order to maintain the relevance of the content in section 7 of the Guidance to all entities. Through discussion, the following comments and observations were noted:
- Producing separate guidance for each type of company would be challenging.
 - All companies should be encouraged to provide minimum content elements as best practice but in a proportionate way.
 - A building block approach to section 7 with three layers to the guidance, split into sections by different types of companies – unquoted, quoted and large public entities with more than 500 employees would not impose additional reporting burdens on all companies due to the recent legislative changes.
- 6.4 After due consideration, the Council supported the view that all companies should be encouraged to provide the basic content elements as best practice but use a building block approach to structure the Guidance so that there is clear differentiation between the required content for quoted and unquoted companies.

Impact of company's activities

- 6.5 DC highlighted the need for further guidance on what reporting is required in respect of the effect of the impact of a company's activities that it has externally. The Council had a thorough discussion on this matter and the following points and observations were made:
- Whilst it would be helpful to explain the impact analysis with examples by referring to specific reporting frameworks in the Guidance, it could be seen as the FRC 'endorsing' a particular framework.
 - Companies should be encouraged to consider the impact of activities through the lens of the disclosures and materiality relating to its business model, principal risks and KPIs of the business.
 - Guidance should be comprehensive and should provide some reference material. However, given the expansion of number of voluntary reporting frameworks, if reference is made to any specific frameworks, some criteria for determining which to include is necessary.
- 6.6 Following a thorough discussion on the matter, the Council supported the view that care should be taken in explaining the impact of company's activities and not providing examples by referring to a specific reporting framework or organisation.

7. Director of Accounting and Reporting Report

- 7.1 The Council noted a report that provided an update on recent developments to financial reporting and wider corporate reporting and matters of policy. Anthony Appleton (AA) provided a brief update on the paper and noted that BEIS would issue a consultation on the new legislation to introduce reporting requirement on the directors under section 172 in early 2018 and lay the legislation before parliament in March / April 2018.
- 7.2 The Council noted that the IASB had decided to update its Practice Statement on *Management Commentary*. AA tabled a presentation that was given by the IASB staff at the meeting on 12 December 2017 and summarised the scope and the overview of what could a revised *Management Commentary Practice Statement* cover.

8. Director of Research Report

- 8.1 The paper, which provided an update on recent developments relating to research and events, was taken as read.
- 8.2 Andrew Lennard (AL) highlighted that the next meeting of the Corporate Reporting Council's Academic Panel will be held on 22 May 2018. He informed that the IASB's annual research forum was held in Brussels on 28 and 29 November and the paper on *Conceptual Frameworks* co-authored by Richard Barker was discussed and well received.
- 8.3 AL provided an update on the Datini project, the aim of which is to develop automated reading and analysis of financial information contained in pdf documents. This is potentially useful to a number of teams across the FRC. The lead researchers (Steven Young and Martin Walker) had provided an overview to FRC staff on 7 December, which had generated a great deal of interest. The next challenge is to develop research questions where Datini can profitably be employed, while maintaining an awareness that other electronic information sources may be better suited to some kinds of research questions.

9. Response to IASB ED/2017/6 Definition of Material (Proposed amendments to IAS 1 and IAS 8)

- 9.1 Rosalind Szentpeteri (RS) summarised the amendments as proposed by the IASB to amend the '*Definition of Material*' in IAS1 and IAS8 and noted the following:
- The FRC disagree the view that the materiality of information can be determined by considering the impact of misstating it. Immaterial information could be materially misstated and material information could be immaterially misstated.
 - The proposed revised threshold of materiality is appropriate and better reflects how the concept of materiality is understood and applied in practice.
 - It would be helpful to define both material information and material misstatements in the main definition. This is because, if information is misstated, one can only consider the impact on the decisions of the primary users by considering the materiality of the misstatement itself, rather than the materiality of the underlying information.
- 9.2 A Member sought an explanation on the statement 'Immaterial information could be materially misstated' which was included in the FRC's draft response to the IASB. It was clarified that an overstatement of immaterial information could be such that the misstated information is material and could mislead to such an extent that it affects economic decisions. It was agreed that the statement would be better explained with the help of an example.
- 9.3 Subject to the above, the Council supported the contents of the FRC's draft response to the IASB.

10. Preliminary Earnings Announcements

- 10.1 Jennifer Guest (JG) summarised the key points of the paper and noted the following:
- The main changes made to the Preliminary Announcements Bulletin included reference to the principle that all price sensitive market communication must be 'fair, balanced and understandable', the 2015 ESMA guidance on the use of Alternative Performance Measures referenced as best practice benchmark and inclusion of a 'voluntary' draft report to the preliminaries.
 - The Datini project team have taken on board the feedback provided by the FRC on the project to refine their system and have conducted a further analysis with the refinements in place on a full database of both the Annual Report and Accounts (ARR) and preliminary reporting.
 - A Round Table event was organized at the Investor Relations Society to gain views from companies on the outreach to date on the preliminary reporting project. In addition, the Academic Panel also considered and discussed the project on preliminary reporting.
- 10.2 In terms of what evidence can be drawn from the project findings and what are the next steps, the Council noted the following:
- The revised Bulletin on Preliminary Announcements might lead to greater dialogue between auditors and companies about what is 'fair, balanced and understandable' in the context of preliminary announcements. They may also consider inclusion of a 'voluntary' auditor's report which may provide more information on the status of audit at the time of release of the preliminaries.
 - It is planned to provide feedback to the Datini project team on the reaction from companies to their academic findings. Further, it is planned to request some illustrative examples from the Datini team on how exactly the phrases used in the preliminaries and the Annual Financial Statements differ for them to determine their conclusions i.e. assess nuances of tone.
 - Academics could look at a product called 'Tonality Tech', which is used by some companies to develop their preliminary announcements.
 - FRC could debate the timing, length, impact and usefulness of the ARR when addressing the needs of investors and users.
- 10.3 In response to a query, it was clarified that there is sometimes difference in the tone and language in preliminaries and ARR. The overall tone on average appears more positive in preliminaries, though this may be due to the additionally required information in the ARR.
- 10.4 A Member raised a concern that the FRC had issued the Bulletin on Preliminary Announcements before considering the reporting requirements. It was clarified that the scope of the reporting requirements fall within the remit of the FCA / Listing Authority and that the FRC had liaised with the FCA before the revised Bulletin was issued. The evidence from the consultation had been jointly considered which resulted in not much demand for change to the requirements for preliminaries.
- 10.5 The Council noted that the Bulletin on Preliminary Announcements was made in accordance with the UK Listing Rules and queried if there was any merit in issuing a bulletin on reporting, considering the growth in reporting in response to the market and investor expectations. It was noted that investors were satisfactory to a degree with the reporting and that their concerns were not in relation to regulatory changes.
- 10.6 The Council thanked JG for her work in the project.

11. SORPS annual review

- 11.1 AA reported that in line with the FRC's Policy on Developing Statements of Recommended Practice (SORPs), annual reviews had been received from the Charity

SORP making body, the Investment Association (SORP for authorised funds) and PRAG (SORP for pension schemes). It is anticipated that other reviews would be presented for consideration at the February, April and June Council meetings.

- 11.2 The Council noted that PRAG has issued guidance to its members relating to paragraph 3.24(a) of FRS 102, suggesting that it is not relevant to pension schemes. The FRC is not convinced with the suggestion as some pension schemes do provide equivalent disclosures. In issuing this guidance, PRAG did not follow the SORP Policy. However, FRC is informed that PRAG will be reconsidering this next year.
- 11.3 The Council noted the intention of reviewing matters relating to the FRC's SORP Policy at a future meeting. The Council also noted that apart from the guidance issued by PRAG, the FRC is content that the annual reviews of charity, authorised funds and pension scheme SORP making bodies have been carried out satisfactorily and necessary action to update the SORPs appears to be planned / in progress.

12. Any other business

Council Effectiveness Review – action log

- 12.1 The Council noted the paper and the action log.

Revised Information Security Policies

- 12.2 As stated in Minute 4.4, the Policies were taken as read.

Council meetings to be webcast

- 12.3 As part of the FRC's Governance Review, the Chairman shared the FRC Board's view of Council meetings to be transmitted via webcast. The Council Members understand the reasons for transparency in the discussions relating to certain matters. However, there were mixed views in the room.

Transitional reporting

- 12.4 A Member queried if there would be any merit in providing guidance on the preparation of 'transitional reporting' for IFRS 9.

13. Date of next meeting

- 13.1 The next meeting of the Council will take place on 15 February 2018 at 9:30am.