

**Minutes of a meeting of the Corporate Reporting Council  
held on 13 March 2018 in the FRC Boardroom, 8<sup>th</sup> Floor, 125 London Wall,  
London EC2Y 5AS**

Present:

Paul Druckman	Chairman
Michael-John Albert	Member
Richard Barker	Member
Chris Buckley	Member (From Minute 5)
Michael Gallagher	Member
Sian Morgan	Member
Liz Murrall	Member
Veronica Poole	Member
Mark Smith	Member

Observers:

Seema Jamil-O'Neil (BEIS)  
Lee Piller (FCA) (From Minute 1 to 11)  
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
Annette Davis	Project Director
Mario Dunn	Director of Strategic Communications
Paul George	Executive Director, Corporate Governance & Reporting
Andrew Lennard	Director of Research
Erica Nicholson	Project Director
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 Member Roger Marshall 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 15 February 2018*

3.1 The minutes of the Corporate Reporting Council meeting held on 15 February 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 Chairman provided a brief update on the ICGN – IIRC Conference held in Tokyo which had been focused on reporting on governance and stewardship reforms. He also provided

a brief update on the Annual Conference on Inclusive Capitalism held in London on 9 March 2018.

- 4.2 The Council was informed that the Codes & Standards Committee meeting had met on 28 February 2018 and the matters were broadly included in the Executive Director's Report to the CSC as attached with the meeting papers. The Council noted that the FRC Board will be meeting on 14 March 2018.
- 4.3 The Chairman informed that, arising from the FRC Governance Review, the Board will be discussing the draft Terms of References of all governance bodies including the Corporate Reporting Council at its meeting on 14 March 2018. The Chairman sought the Council Members' views on the term 'Corporate Reporting' in an FRC context which was included in the draft Terms of Reference of the Council.
- 4.4 During the discussion the following points were noted:
- One opinion is that it implies periodic reporting (annual, interim and prelims), a Member queried whether the Council should also consider Regulatory News Service announcements. It was noted that some reporting falls within the remit of other regulators, particularly the FCA.
  - Some members noted the importance of the financial statements to the Council's role and advocating this should be its focus. An opinion was registered that the expertise needed for such work is not always consistent with that needed for wider reporting such as environmental reporting. The Council noted that there are broader sources of value than just the CSR line of challenge.
  - However, other Members noted the importance of combined quantitative and narrative reporting being cohesive; that financial and non-financial information are closely related and are both relevant.

## **5. Director of Accounting and Reporting Report**

- 5.1 Mr Appleton introduced the report.
- 5.2 The Council agreed to appoint Mark Kenny as a member of UK GAAP TAG. Mark Kenny would be an Irish representation on the UK GAAP TAG.
- 5.3 The Council noted that the IASB's IFRS 17 Transition Resource Group (TRG) had met for the first time on 6 February 2018. The IASB Board members on the TRG had noted during the meeting that the purpose of the TRG was to help preparers understand how they should apply IFRS 17 and that the IASB is not inclined to review its decisions on IFRS 17, unless in exceptional circumstances. Following the meeting with the Association of British Insurers, the FRC will be holding bilateral meetings with the UK Insurance companies to discuss UK specific issues for consideration at EFRAG.
- 5.4 It was reported on the matter relating to the Gift Aid issue that after further consideration of the nature of the entities and the risks associated with the issue, the executive decided not to intervene in the matter. This had been discussed at a recent Technical Partners meeting and the feedback received was that the FRC should not intervene in the matter and let the practice develop.
- 5.5 The Council noted that the FRC had a meeting with BEIS to discuss interpretations of the new non-financial reporting regulations, and the extent to which a non-financial information statement needs to be separately identified. The Council viewed that a separate statement within the strategic report could have detrimental impact on the quality of cohesive reporting. BEIS noted that the paper suggested one option as a potential solution but disagreed that this was viable. Mr Appleton noted that this was only intended to be an example of what might be considered as discussions continued with BEIS.

- 5.6 It was highlighted that the UK Financial Conduct Authority has signalled the end of LIBOR and called for reliable alternatives to be introduced by 2021. It was queried whether this would raise any UK specific reporting issues and was noted that this should be raised with the IASB for further discussion.

## **6. Director of Research Report**

- 6.1 Mr Lennard provided a brief background on the papers that will be presented at the IFASS meeting to be held in Mumbai from 12-13 April 2018. He noted that the papers do not set out the views of the Council or the FRC. The papers would be presented to obtain participants' views on the topics. The Council considered the papers and made a number of comments, queries and suggestions including:

### *Intangibles: First thoughts from Council members:*

- The paper presents thoughts on how the presentation on intangibles could be improved by way of narrative reporting and how metrics might be developed and reported. Reference would be made to the FRC's proposals for changes to the guidance on the strategic report.
- Intangibles is a complicated topic and the Council felt that the paper was well drafted and the ideas were clearly presented.
- A Member queried whether financial standard setters have the right expertise on metrics that are involved in presenting intangibles in annual reports.
- There are variety of intangibles, some are easy to value while some like workforce is difficult to value.
- There could also be 'intangible liabilities' such as future operating losses. One view was that these are reflected in current accounting standards which, for example, require recognition of impairment and provisions for onerous contracts while this was not agreed by some.
- Valuing intangibles is judgmental and valuation should not be pursued at the cost of neglecting information that would assist the prediction of future cash flows. Although valuation may not be the only area to explore in such deliberations.
- One of the possible outcomes of the project might be to influence the IASB's work on Management Commentary. Disclosure of metrics about intangibles in the management commentary could support financial statements.

### *Primary Financial Statements: Some issues arising in IASB's current project*

- The paper includes discussion of a selection of issues that arise in the context of the IASB's current research project on 'Primary Financial Statements'.
- A Member queried as to how management performance measure could help in presenting operating profit. It was suggested that it might be useful to compare any proposals from the IASB with the ESMA guidance on Alternative Performance Measures.

## **7. Housing SORP 2018**

- 7.1 Mrs Ashelford introduced the paper and noted that the proposed amendments to the Housing SORP 2018 were to ensure the SORP continues to comply with the requirements of FRS 102 following the triennial review. There are no additional amendments proposed therefore no public consultation is required. The Council noted that the executive is satisfied with the draft SORP that reflects the triennial review amendments appropriately, subject to some outstanding minor drafting improvements. Subject to that, the Council recommended to the Codes & Standards Committee to approve the issue of the FRC Statement on the Housing SORP.

## **8. Review of SORP regime**

- 8.1 Mrs Carter gave an overview of the paper highlighting the risks around the SORP regime and the mitigations in place. The Council noted that in general the risks are sufficiently mitigated through the requirements of the SORP Policy, but in some areas, in particular the involvement of users and those with a wider public interest perspective, more could be done by the SORP-making bodies to meet the requirements of the SORP Policy.
- 8.2 Whilst the Council encouraged effective participation by users and stakeholders with a wider public interest perspective, the Council was sympathetic to the difficulties that the SORP-making bodies face in outreach with stakeholders who do not want to be engaged. The Council acknowledged the challenge in demonstrating effective participation by wider stakeholders through membership but suggested demonstrating appropriate outreach activity. The Council advised that all SORP-making bodies should be reminded of the need to provide greater focus on meeting the principles of the Policy.
- 8.3 The Council discussed the overall development process and annual reviews of the SORPs and how a SORP, following the identification and evidence of practice issues in sectors, addresses the need for accounting and reporting consistency within a specific industry.
- 8.4 It was highlighted that some SORPs do not provide much explanation for the accounting treatments recommended, though the exposure drafts for those SORPs may include such reasons. The Council was supportive of the suggestion that explanation be included within future SORPs.

## **9. FRC Stakeholder Survey 2016/17**

- 9.1 The Chairman introduced Mario Dunn, Director of Strategic Communications to the meeting. Mr Dunn introduced the paper which highlights the outcome of the 2016/17 survey of FRC stakeholders and noted that nearly 300 respondents participated in the survey which included qualitative interviews with 32 stakeholders.
- 9.2 The Council noted that the overall feedback for the FRC in terms of familiarity and favourability was high. The responses from the feedback had been taken into consideration to inform the FRC Strategy 2018–21.
- 9.3 In response to an observation in respect of a disconnect in the results of the survey and public sentiment as seen in social media, it was noted that organisations would have a reasonable view of the relationship with stakeholders with whom the FRC interacts in professional capacity but that view tended to become less favourable with those who rarely if ever interact. The FRC is looking at opening up and establishing effective communication with those wider constituencies. It was mentioned that the FRC has a strong social media focus and as a regulator, it should follow a set of protocols while communicating with wider constituencies.
- 9.4 In terms of matters to be communicated to wider audiences the Council highlighted the need to address the public expectation gap in respect of the FRC's position to influence through guidance and the authority to enforce and monitor such guidance. The Council also highlighted the need for clarity around the FRC's role in setting accounting standards post Brexit.
- 9.5 A Member noted the recommendations arising from the survey as set out in the paper and, in particular, noted that 'nearly all stakeholders would like to see corporate reports shortened. As annual reports are primarily used to assess the financial performance of a company, there is an opportunity to address whether non-financial matters covered in reports should be made available on corporate websites instead.' The Member urged that the FRC take this stakeholder view into consideration.

9.6 In response to a query in relation to the stakeholders consensus for a need for increased transparency and visibility of the FRC's processes and outcomes, it was reported that the FRC has already taken actions to provide more narratives around enforcement decisions, starting with the HBOS report, published the register of interest of the Board and the Committees and will be transparent in taking further actions in investigating the Carillion case and disclosing organisation's gender and pay gap.

9.7 The Council noted that the results of the survey had been published on the FRC website.

9.8 The Chairman thanked Mr Dunn and the Council for their contribution in the matter.

## **10. Future of Corporate Reporting**

10.1 Ms Raval introduced the topic and outlined the purpose of the paper which was to seek initial views of the Council on the FRC's plans for a project on the future of corporate reporting.

10.2 The Council had a thorough debate around various aspects of corporate reporting which included focus on the interests of wider stakeholders and non-financial reporting. A number of comments, observations and suggestions were made including:

- The government is facing increasing pressures from the Task Force on Climate-related Financial Disclosures and the 'Growing a Culture of Social Impact investing in the UK' (the Corley Report) and therefore, companies might report on a broader range of factors beyond purely financial results.
- To the contrary, a Member suggested that the feedback from the stakeholders is that annual reports are primarily used to assess financial performance of a company. Therefore, if the FRC is considering reporting to wider stakeholders, then alternative forms of reporting could be explored.
- It is important to identify the primary users of an annual report and then have a clear focus and objective as to what should be included in the report so as to fairly present the information to the users taking into consideration the legislation and guidance and then consider the methodology of presenting the information.
- In terms of wider corporate reporting, there needs to be a debate around the content and format of 'other information' and discussion on how relevant the information would be to the investors. The information might be seen as more credible if it is included in annual report.

## **11. IFRS 17 – Education session**

The Council received a presentation on the IFRS 17 *Insurance Contracts* based around an investor view on the new standard.

## **12. Any other business**

There was none.

## **13. Date of next meeting**

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