

**Minute of an Accounting Council
Conference Call held on Tuesday 16 June 2015**

Present:

Pauline Wallace	Alternate Chair
Chris Buckley	Council Member
Michael Gallagher	Council Member
Liz Murrall	Council Member
Veronica Poole	Council Member
Mark Smith	Council Member

Observers:

Ian Ogilvy	HMRC Observer (in place of Matt Blake)
Michael Kavanagh	IAASA Observer

In attendance:

Anthony Appleton	Director of Accounting and Reporting Policy
Francesca Carter	Council Secretary
Jenny Carter	Director of UK Accounting Standards, Accounting & Reporting
Melanie McLaren	Executive Director, Codes & Standards

Welcome and Apologies for absence

Apologies were noted from Roger Marshall (Chairman), Gunnar Miller, Richard Barker, Jeremy Townsend (Council Members) and Lee Piller (FCA Observer).

1. Amendments to FRS 100, 101 and 102

- 1.1 Jenny Carter (JC) introduced a paper that provided an update on the proposed Amendments to FRS 100 and FRS 101 and addressed the final issues relating to the proposed Amendments to FRS 102 – *Small entities and other minor amendments* and the Impact Assessment & Feedback Statement.

FRS 100 and 101

- 1.2 The Council noted that members of the UK GAAP Technical Advisory Group (UK GAAP TAG) have undertaken a ‘fatal flaw’ review of the Amendments to FRS 100 and FRS 101 and that a small number of editorial amendments have been made as a result of that review. The Council discussed a suggestion from the UK GAAP TAG to insert a paragraph in to the Accounting Council’s Advice in relation to the amendment of the guidance on equivalence relating to intra-group balances eliminated on consolidation. Whilst the Council supported the inclusion of the proposed paragraph the Council advised that the paragraph should be amended to clarify the circumstances in which the exemption would be permitted.

FRS 102

- 1.3 JC reported that the Accounting Council’s Advice in relation to the issues discussed at the June meeting had been reflected in the proposed amendments to FRC 102 and that

further, editorial amendments had been made including those identified by the UK GAAP TAG as part of the 'fatal flaw' review. JC invited the Council to consider four significant amendments and issues that had been identified by staff and the UK GAAP TAG whilst updating the draft. Through discussion of those amendments and issues the following observations were made and advice was given:

Section 3

1.4 The Council noted that, as discussed at the June meeting, Section 3 had been updated to replace 'fair presentation' or 'present fairly' with '[give a] true and fair view. JC reported that the amendments simply align the standard with the legal position and that a paragraph had been inserted in to the Accounting Council's Advice to clarify the point. JC also reported that the approach had been supported by the Codes & Standards Committee.

Section 26 – Share based payments

1.5 The Council noted that, as discussed at the June meeting, the amendment proposed in FRED 61 has been revised to address only the situations where the entity and the counterparty have the choice of settlement. The Council supported the revision but advised that the scope of application should be made clearer in the Accounting Council's advice. On a related point it should be clarified that the transitional arrangements are applicable to all small entities and not just those small entities applying Section 1A.

Legal appendix

1.6 The Council noted that a number of new paragraphs had been included to address LLPs and the differences between company law and the requirements to LLPS, given that the LLP legislation has not been updated. JC reported that this approach is not ideal and more complicated for LLPs than it was in the past as LLPs now have to determine for themselves whether there are certain requirements of FRS 102 that they cannot apply. Through discussion it was noted that whilst BIS has not committed to a timescale for making the relevant changes to LLP legislation it is expected that the changes will be made in the future and once the legislation has been changed these conflicts with FRS 102 should be eliminated.

Residents' Management Companies (RMCs)

1.7 Whilst the Council noted that the inclusion of detailed requirements on accounting by RMCs would address the calls to be clear in order to reduce diversity in practice, the Council considered that:

- No consensus about the appropriate accounting can be reached through an analysis of responses to the consultation.
- There is a consensus that the issue is too narrow and sector-specific to be addressed in the main bodies of FRS 102 or FRS 105.
- The approach of prescribing what accounting should be followed in the Accounting Council's Advice, rather than in the standard is inconsistent with the approach taken elsewhere.
- The cost of RMCs changing their bases of accounting would outweigh the benefit to users, particularly as RMCs are also required to prepare Service Charge Accounts for tenants.

- The scope of any requirements would be very narrow affecting generally very small entities that are not public interest entities.
 - The Council is not concerned about systemic risk to the economy as a whole arising from the diversity in practice and does not consider there to be any risk to the public interest.
- 1.8 The Council advised that an analysis against the FRC's *Principles for the development of Codes, Standards and Guidance* should be undertaken to support the Council's advice and to inform any future deliberations as to whether guidance or a discussion paper in this area should be issued. Anthony Appleton (AA) noted that he expected such an analysis to be consistent with the points raised in the above discussion. Subject to this being confirmed, the Council advised that a statement should be inserted into the Accounting Council's Advice to set out that the issue is very narrow in scope and so it would not be in the public interest to address the issue in the standard.
- 1.10 The Council provided its advice to the FRC Board to issue the Amendments to FRS 102, subject to the amendments set out at minute 1.5 and 1.8 and any further editorial amendments identified.
- 1.11 The Council also provided its advice to the FRC Board to issue the Impact Assessment and Feedback Statement, noting that minor editorial amendments would be made to reflect the discussion above, subject to the addition of reference to the various outreach events that had been held in the pre-amble.
- 1.12 JC reported that legislation to prohibit the reversal of impairment losses on goodwill and legislation in the Republic of Ireland is outstanding and that the amendments to FRS 100, FRS 101 and FRS 102 would be updated to reflect any changes in legislation as necessary.

2. FRS 105

- 2.1 JC introduced FRS 105 and reported that it had been updated to reflect the issues discussed at the May and June Council Meetings. The Council noted that the standard was currently out for 'fatal flaw' review by UK GAAP TAG and that further editorial amendments may be necessary.
- 2.2 The Council discussed key amendments / issues that had been made to the standard. Through discussion the following observations were made and advice was given:

Scope

- 2.3 JC reported that the executive has discussed its proposals for describing the scope of FRS 105 with HMRC, following stakeholder feedback relating to unincorporated businesses. The Council welcomed amendments to the Scope section and related paragraphs in the Accounting Council's Advice and noted that HMRC reported no concerns with the proposed wording. The Council suggested that the executive should take out the word 'however' from the Advice paragraph to make it clearer.

Layout

- 2.4 The Council noted that, as advised by the Council in June, the section numbering and paragraph numbering had been amended and all sections are now in sequential order.

Financial Instruments

- 2.5 The Council noted that, on the advice of the UK GAAP TAG, some of the accounting requirements for financial instruments have been revised to make them clearer and easier to apply.

Investment Property

- 2.6 JC reported that, since the June meeting, the executive had identified a new issue in relation to transitional provisions for the accounting for investment property. The Council noted that:
- Previous UK and Irish GAAP required the measurement of investment property at fair value and provided an exemption from depreciation for investment property.
 - The micro-entities regime prohibits fair value measurement and requires that all tangible fixed assets, including investment property, are measured at cost subject to depreciation (and impairment), which should be on a component basis.
 - Accordingly, micro-entities applying FRS 105 will be required to restate their investment property from fair value to historical cost less accumulated depreciation calculated from the date of acquisition to the date of transition for each of the major components of the investment property.
- 2.7 JC invited the Council to consider the proposal that on first-time adoption of FRS 105 a micro-entity should be permitted to approximate the net book value of each major component based on the useful economic life of the major component and the cost or replacing the major components. Whilst the Council noted this is not the simplest approach, and it would be simpler to allow investment properties to continue to be measured at fair value without depreciation, JC reported that FRS 105 cannot require this treatment since it is not permitted in law. The Council discussed the proposal and a number of alternative solutions in detail, although the Council concluded that the proposed approach is the most appropriate given the restrictions in the law. In making this conclusion the Council highlighted that micro-entities that wish to avoid the complexity do have the option to adopt FRS 102 (including the small entities regime within FRS 102) which requires the measurement of investment property at fair value. The Council requested that its concerns be reflected in the Accounting Council's Advice.
- 2.8 The Council discussed its Advice and suggested that paragraph 16 should be revised to include more examples, including making reference to the need for greater consideration of disclosures.
- 2.9 Subject to the amendments discussed and any further editorial amendments made to reflect the 'fatal flaw' review being undertaken by the UK GAAP TAG the Council provided its Advice to the FRC Board for FRS 105 to be issued.
- 2.10 The Council noted comments from the ICAEW criticising draft FRS 105 (as set out in FRED 58) in a recent edition of 'Economia' and it was suggested that the executive compare the comments to the consultation response submitted by the ICAEW, and

assess whether the concerns had been addressed. AA undertook to action this and to liaise with the ICAEW as appropriate.

3. Any other business

- 3.1 The Council approved the Charities SORP Invitation to Comment to be issued by the SORP making body.