

Minutes of a meeting of the Corporate Reporting Council of the Financial Reporting Council held by conference call on 22 June 2016

Present:

Roger Marshall	Chair
Richard Barker	Council Member
Chris Buckley	Council Member
Gunnar Miller	Council Member
Liz Murrall	Council Member
Veronica Poole	Council Member
Mark Smith	Council Member
Jeremy Townsend	Council Member
Pauline Wallace	Council Member

Observers:

Lee Piller	FCA Observer
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In attendance:

Anthony Appleton	Director, Accounting & Reporting Policy
Francesca Carter	Council Secretary
Jenny Carter	Director of UK Accounting Standards, Accounting & Reporting Policy Team
Paul George	Executive Director, Corporate Governance & Reporting
Sue Harding	Director, Financial Reporting Lab
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 were noted from Matt Blake (HMRC Observer), Michael Gallagher (Council Member) and Michael Kavanagh (IAASA Observer).

1. Minutes of the previous meeting and rolling actions.

- 1.1 The minutes of the Corporate Reporting Council meeting held on 24 March 2016 were approved for publication subject to an amendment at minute 2.3.
- 1.2 The note of the Corporate Reporting Council conference call held on 31 May 2016 was approved.
- 1.3 The rolling action log was noted.

2. Director of Accounting and Reporting Report

- 2.1 The Council noted a paper that provided an update on developments relating to UK and international accounting standards, matters of policy and an overview of staff activities since the last meeting. Particular attention was given to the following matters:

IASB

- 2.2 The Council noted that the Trustees of the IFRS Foundation have concluded the 2015 Review of Structure and Effectiveness of the IFRS Foundation and that the Trustee' plan to undertake activities on governance and funding arrangements, relevance of IFRS standards and consistent application of IFRS Standards. Anthony Appleton (AA) reported that, on governance and funding, steps will be taken to enhance the visibility of Trustee oversight of the Board; in particular, the meetings of the Due Process Oversight Committee will be made public. The Council also noted that the geographical distributions of both the Trustees and the Board will be changed by combining North and South American allocations in to a single 'Americas' category.

Accounting Regulatory Committee (ARC)

- 2.3 The Council noted a vote on endorsement of IFRS 9 *Financial Instruments* will be held at the ARC meeting on 27 June and that a positive vote is expected.

European Parliament (EP)

- 2.4 The Council noted the EP had discussed and voted on the report 'International Accounting Standards (IAS) evaluation and the activities of the International Financial Reporting Standards (IFRS) Foundation, the European Financial Advisory Group (EFRAG) and the Public interest oversight Board (PIOB)" (2016/2006/9INI))⁶. AA reported that the report is not legally binding but is an EP resolution which will serve as guidance and reference in future EU law-making processes.

EFRAG

- 2.5 The Council noted that Jean-Paul Gauzes has been proposed by the European Commission for the position of President of EFRAG and the processes to finalise his appointment will complete in July.
- 2.6 The Council also noted that EFRAG has launched a call for new members for its Insurance Accounting Working Group and its Financial Instruments Working Group.

Alternative performance measures

- 2.7 The Council noted that the FRC had issued a Frequently Asked Questions on Alternative Performance measures (APMs) in response to questions raised relating to the application of ESMA Guidelines on APM. The Council highlighted an uncomfortable disconnect between the regulatory requirement, which requires the strategic report to be fair, balanced and comprehensive and the reporting requirement which requires the strategic report to be fair, balanced and understandable.

3. Director of Research Report

- 3.1 Andrew Lennard (AL) introduced a paper that provided an update on accounting research activities.

Consultation on research activities

- 3.2 AL reported that, in light of recent Council discussions, the FRC is planning to prepare material for a consultation on its research activities in the area of financial reporting. AL reported that the aim of the consultation will be to develop material that would assist the FRC in the development of UK GAAP or influence the IAASB in the development of future standards.
- 3.3 The Council noted a summary of the projects the IASB has on its draft research programme, its 'research pipeline', the projects the IASB is proposing to remove from its work plan and projects proposed by respondents to the Agenda Consultation that have not been included in the draft work plan. AL reported that the FRC has indicated that it would be willing to join a project on 'transactions with governments' and that the FRC is already working in collaboration with other standard setters through the Multinational Network group on research in pensions. The Council expressed disappointment that the IASB had dropped intangible assets from its work plan and expressed interest in understanding more as to the scope of the proposed project on primary financial statements.
- 3.4 While the Council supported the development of the consultation materials it was suggested that the approach, specifically the formality of the consultation, should be reviewed once the material had been prepared. The Council supported the proposal to exchange views with the principal accountancy bodies in order to minimise duplication and identify opportunities for collaboration.

Multilateral Network Group meeting

- 3.5 AL reported that the Group had met on 26-27 May. A key topic of discussion had been pensions accounting and a sub-group, of which the FRC will be a member and been formed to progress thinking on the matter. The Council noted that the FASB would take the lead on developing a paper for presentation to the IFASS in September on an issue relating to hybrid pensions schemes.

IASB Conceptual Framework

- 3.6 AL provided an update on the IASB's thinking in finalising its conceptual framework. It was noted that the IASB are working to meet a publication date in early 2017.

4. Horizon Scanning

- 4.1 The discussion on horizon scanning was deferred to the July meeting.

5. Improving the Statement of Cash flows

- 5.1 The Council considered a draft Discussion Paper (DP) entitled 'Improving the Statement of Cash Flows' that had been prepared with the objective of stimulating debate and to influence the IASB's project on 'Primary Financial Statements'. AL highlighted the importance of attracting responses from countries outside of the UK in order to maximise influence of the debate and that the IASB staff had suggested the IASB would support publication of the discussion paper by issuing a press notice and drawing attention to it on the IASB website.
- 5.2 The Council noted that the draft DP does not represent an official FRC position. The Council also noted that, in response to the Council discussion in March, an addendum had been inserted to address the issue of the disclosure of non-cash transactions.

5.3 The Council discussed the draft DP in detail, the following observations and suggestions were made:

- It was commented that investors use the cash flows as an indicator or 'sense check' on performance and that the drafting does not adequately reflect this role.
- It was noted that proposals for reconciling operating profit and operating activities depend on there being a robust definition of operating profit in IFRS.
- It was suggested that it would be helpful to place greater emphasis / make clearer linkage across the three financial statements.
- It was suggested it would be helpful to provide an explanation of the reconciliation of working capital and reconsider the treatment of PPE as working capital.
- It was suggested that grouping operating capital and investment capital gives rise to a risk to the communication of performance. While operating capital can be used as a measure of performance, investment cash flows relate to investment decisions and one off changes in the asset base – accordingly, it is unhelpful to group the two.
- It was suggested it would be helpful to provide greater clarity / explanation of 'netting'.
- It was suggested it would be helpful to expand the section on investments to include a sentence on managing cash and net treasury.
- The importance of ensuring that investors engage with the discussion paper was highlighted.
- It was noted that the DP does not address net debt reconciliations on the basis the IASB have concluded discussions on the topic and that the conclusions have been supported by the FRC. However, it was suggested it might be useful to include a question on the matter in the invitation to comment.

5.4 AL undertook to update the draft DP taking into account the Council's advice and to re-circulate the updated draft, showing tracked changes, to the Council prior to publication.

6. Future of Corporate Reporting – Response to FEE

6.1 AA invited the Council to consider a draft response to the Federation of European Accountants (FEE) discussion paper on the future of corporate reporting. AA reported that the proposed response is positive and welcomes the debate, highlights the importance of both financial and non-financial information in understanding a business and sets out that any CORE report should focus on the needs of shareholders rather than multiple stakeholders. AA reported that the response also identifies that many elements of the UK legal and regulatory requirements and FRC guidance already achieve many objectives of the proposed model.

6.2 The Council discussed the draft response and suggested:

- The focus on UK model could be perceived as self-congratulatory. While it should be acknowledged that elements of the UK model achieve a number of the objectives of the proposed model, the response should acknowledge that more can be done and that the UK is willing to work with international stakeholders and continue to drive improvement and consistency.
- The response should place greater emphasis on the importance of the annual report, specifically the strategic report, to equity shareholders and reiterate the FRC view that the primary audience of the Annual Report is the equity investor.
- The response should highlight the practical difficulties the FRC has identified in identifying who stakeholders are and what their needs are coupled with the fact that many stakeholder will change annually.

- Greater emphasis should be given to the impact the development of complex reports has on timescales and threats to timely reporting.

6.3 AA undertook to update the response to reflect the advice of the Council. The final response will be agreed with the Chair and the Executive Director.

7. Triennial review consultation document

7.1 Jenny Carter (JC) introduced a draft consultation document *Triennial review of UK and Ireland accounting standards – Approach to changes in IFRS*. JC reported that, as discussed with the Council and in response to feedback from stakeholders, the triennial review would be in two components in order to allow entities the opportunity to assess the incremental improvements and clarifications, including those arising from changes in IFRS, separately from the more significant changes, and, provide stakeholders with a chance to consider the approach to reflecting changes in IFRS is FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* at a high level before detailed amendments are drafted. JC also reported that the draft consultation document had been kept deliberately short in order to facilitate engagement and avoid consultation fatigue.

7.2 The Council considered the proposed timetable and noted that, by delaying the effective date for the significant amendments, entities should have time to prepare for the changes.

7.3 Through discussion of the draft consultation document the following suggestions were made:

- In noting that a cost benefit analysis has not yet been undertaken it was suggested the statements at paragraphs 3.11 and 3.18 should be revised to reflect that the statements of the expected impact are assumptions.
- The tone of the document could be more consultative, to show that the FRC is in 'listening' mode
- The document should make clearer, earlier, that some of the changes are being made in response to changes to international standards, which are being introduced in response to the financial crisis.
- It would be helpful to indicate that the definition of a financial institution will be reviewed.
- The drafting of paragraph 3.6 and 3.25 should be reviewed to make clear that while the intention is not to introduce any further changes, this is not guaranteed.
- The consultation question on share-based payment transactions should be open ended and invite suggestions on alternative options.

7.4 JC undertook to update the draft consultation document to take into account the discussion and to present a final draft to the Council for advice in July.

8. Any Other Business

8.1 The Council and Executive placed on record their thanks to Pauline Wallace for the contributions she had made to the work of the Council over the previous 6 years.

9. Date of next meeting

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