

Minutes of a meeting of the Corporate Reporting Council held on 27 June 2019 in the FRC Boardroom, 8th Floor, 125 London Wall, London EC2Y 5AS

Present:

Liz Murrall	Interim Chair
Richard Barker	Member (From Minute 4)
Chris Buckley	Member
Michael Gallagher	Member
Sian Morgan	Member
Veronica Poole	Member
Mark Smith	Member

Observers:

Trevor Rushe	IAASA
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In attendance:

Anthony Appleton	Director, Accounting & Reporting Policy
Anu Bhartiya	Committee Secretary
Jenny Carter	Director of UK Accounting Standards
Debbie Crawshawe	Project Director
Jennifer Guest	Project Director
Andrew Lennard	Director of Research
Deepa Raval	Director of Narrative Reporting
Susanne Pust Shah	Project Director
Rosalind Szentpeteri	Project Director

1. Welcome and apologies for absence

The Chair welcomed everyone to the meeting. She informed that the FRC Board is undertaking due process to appoint a new chair for the Council and therefore, she is chairing the meeting in the interim. Apologies were noted from Council Member Michael-John Albert and Council Observers Catherine Crowsley (BEIS), Lee Piller (FCA), Alison Ring (HMRC) and Vicky Rock (HMT).

2. Declaration of conflicts of interests

Liz Murrall informed that the Investment Association is a member of the European Fund and Asset Management Association (EFAMA). EFAMA has responded to the EFRAG's Consultation on Equity Instruments. Though Liz is employed by the Investment Association, she declared that she had not participated or contributed to EFAMA's response to EFRAG.

3. Minutes of the last meeting

Minutes of the Corporate Reporting Council meeting held on 23 May 2019

- 3.1 The minutes of the Corporate Reporting Council meeting held on 23 May 2019 were approved for publication subject to minor typographical amendments.

Rolling actions

- 3.2 The matters arising log was noted.

4. Update from the Chair

- 4.1 The Chair reported the matters discussed at the Codes and Standards Committee meeting held on 12 June which had included:

- The Future of Corporate Reporting project; and

- The UK Stewardship Code.

5. Director of Accounting and Reporting

5.1 The Director of Accounting and Reporting Policy 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 given to the following topics:

- *The Future of Corporate Reporting Project*: It was noted that the Future of Corporate Reporting Board Sub-Committee and Advisory Group had met in June 2019. Both groups had discussed the definition of the purpose of Corporate Reporting for the project and a Hub and Spoke model for future reporting.
- *IFRS 17*: The EFRAG Board and EFRAG TEG had held a joint meeting on 4 June 2019 and the focus at that meeting was on considering the extent to which the IASB's proposals for amending IFRS 17 responded to the issues raised by EFRAG in its letter to the IASB.
- *Brexit project*: In response to a query as to which matters would be included under this project, it was noted that following Britain's exit from the EU, consequential amendments to accounting standards for compliance with the law and references to EU-adopted IFRS will be required. Consideration would need to be given to necessary changes to the guidance on equivalence.

6. Director of Research Report

6.1 The Director of Research provided an update on the research activities and noted that:

- He was invited to join a panel at the IFRS Conference held in London in June 2019 to discuss how investors use information on intangibles provided in the annual reporting package. He will also be presenting papers on 'Business Reporting of Intangibles: Realistic Proposals' and 'Variable and Contingent Consideration' at the Accounting Standards Advisory Forum in July 2019.
- Professor Colin Mayer has agreed to present his work which is relevant to the Future of Corporate Reporting project at the Academic Panel meeting on 13 November 2019. The Council members were invited to attend the Panel meeting.

7. EFRAG Consultation on Equity Instruments – Research on Measurement

7.1 The Chair introduced the topic and noted that EFRAG has been asked by the European Commission to explore alternative accounting treatments for equity instruments to avoid detrimental effects on long-term investments in sustainable activities. EFRAG has produced a questionnaire and a background paper for consultation.

7.2 The Council considered the FRC's draft letter to EFRAG and the draft response to EFRAG's questionnaire. Through discussion, the Council made a number of comments and suggestions including:

- It should be emphasised that there is no conclusive evidence to support immediate changes to IFRS 9. Time is needed for IFRS 9 to be embedded in financial reporting and changes should only be considered after the Standard has been implemented long enough to assess its impact as part of the IASB's Post-implementation Review process.
- Acknowledgement of concerns with the measurement of strategic non-listed investments, where the cost of remeasurement at fair value may outstrip the benefits. Concerns about the impact on investments in funds where all underlying investments are equity instruments were also noted.
- These concerns may be addressed by expanding the scope of the existing measurement bases, although it was noted that the IASB had deliberated on these alternative approaches during the development of IFRS 9.
- There was no support expressed for the adjusted cost and adjusted or average fair value approaches proposed in the EFRAG background paper.

- 7.3 The Project Director agreed to take the above discussion into consideration when finalising the FRC's response to EFRAG. Subject to that, the Council was supportive of the FRC's views as set out in the draft response letter and the questionnaire.

8. IASB Consultation Responses

- 8.1 The Chair introduced the two Exposure Drafts issued by the IASB in June 2019 – ED/2019/2 *Annual Improvements to IFRS Standards 2018-2020* and ED/2019/3 *Reference to the Conceptual Framework: Proposed amendments to IFRS 3* and noted that the lines taken on these proposals were agreed at the Council meeting in April 2019.

Annual Improvements to IFRS Standards 2018-2020

- 8.2 The Council considered the Exposure Draft, the FRC's draft comment letter and EFRAG's draft comment letter. In relation to the proposed amendments to IFRS 16 *Leases* it discussed the example of the cost of leasehold improvements reimbursed by the lessor. Whilst the Council supported the view that the reference to leasehold improvements in Illustrative Example 13 should be removed, it suggested that the treatment of leasehold improvements should be consistent with the treatment for dilapidation charges. Subject to this, the Council was supportive of the FRC's views set out in the Draft comment letter.

Reference to the Conceptual Framework: Proposed amendments to IFRS 3

- 8.3 The Council was supportive of the FRC's views as set out in the Draft comment letter.

Next steps

- 8.4 The Council noted that the response to the Exposure Draft proposing amendments to IAS 12 in respect of deferred tax related to assets and liabilities arising from a single transaction would be presented for discussion at the Council meeting in October 2019. The Council also noted that an educational session in respect of IFRS 17 would be arranged in July/August. This meeting would also be used to seek the Council's comments on the 'Staff working draft' in respect of the IASB's ED/2019/4 *Amendments to IFRS 17*. A conference call meeting in September 2019 would be set up to seek advice in respect of the FRC's draft response to the ED/2019/4.

9. Draft response to Exposure Draft Proposed amendments to the IFRS Foundation Due Process Handbook

- 9.1 The Chair introduced the topic and noted that the FRC's draft comment letter is mainly supportive of the IFRS Foundation's proposed changes to the Due Process Handbook. However, there are several of the proposed amendments to the Handbook which are not sufficiently clear and require redrafting.
- 9.2 The Council discussed the Exposure Draft, the draft EFRAG response and the FRC's draft response to the Exposure Draft. Through discussion, the Council considered the due process associated with agenda decisions and expressed a view that the status of the agenda decisions should be properly recognised, and the Board should undertake appropriate due process.
- 9.3 A conflicting statement in respect of financial information enhancing financial stability in financial markets was identified in the draft revised *Handbook*.
- 9.4 The Director of Accounting and Reporting Policy agreed to take the Council's comments and suggestions into consideration in finalising the FRC's response to the Exposure Draft. Subject to that, the Council supported the views expressed in the FRC's draft response to the Exposure Draft *Proposed amendments to the IFRS Foundation Due Process Handbook*.

10. Annual review of SORPs

- 10.1 The Director of UK Accounting Standards introduced the paper and noted that all seven SORP annual reviews had been completed. It was highlighted that following the revision

to the FRC's SORP Policy, the quality of engagement by SORP-making bodies continues to be patchy but a number of initiatives to enhance engagement have been seen. Another development included a number of SORP-making bodies thinking ahead to possible future changes to FRS 102, particularly in relation to IFRS 16 *Leases*.

Housing

10.2 The Council considered the Housing SORP-making body's Annual Review 2019 and supported the view that the annual review has addressed the issues as required by the SORP Policy.

Further and Higher Education

10.3 The Council considered the FEHE SORP Board's Annual Review 2019 and supported the view that the annual review has addressed the issues as required by the SORP Policy.

11. FRED 72 – Interest rate benchmark reform

11.1 The Director of UK Accounting Standards introduced the paper and noted the proposal to issue *FRED 72 Draft amendments to FRS 102 – Interest rate benchmark reform* to provide relief, similar to those proposed by the IASB, from some of the financial reporting impacts of uncertainties around IBOR reform. The Council noted that, to avoid confusion, FRED 72 is based solely on the IASB's ED/2019/1 and any changes that are subsequently made by the IASB will be considered for the amended standard post-consultation.

11.2 The Council noted that although not all entities applying FRS 102 will have chosen to apply hedge accounting, for those that have, the uncertainties around hedge accounting when the instruments involved refer to LIBOR are essentially the same as for IFRS reporters.

11.3 With regards to paragraph 9 of the Draft amendments to Section 12 *Other Financial Instruments Issues*, the Council suggested minor drafting amendments to keep the requirement simple with generalised disclosures.

11.4 The Director of UK Accounting Standards agreed to take the Council's suggestion into consideration while finalising FRED 72. Subject to that, the Council advised the FRC Executive to recommend that the Board approves *FRED 72 Draft amendments to FRS 102 – Interest rate benchmark reform* for issue.

12. AIC SORP Amendments

12.1 The Project Director introduced the paper that set out a summary of the responses to the AIC SORP Consultation which closed at the end of May 2019. The Council noted that the UK GAAP TAG had recommended that the two key paragraphs in relation to the guidance on additional voluntary disclosure should form part of the SORP. The AIC has moved the two paragraphs to form part of paragraph 16 of the SORP.

12.2 The Council considered the AIC SORP public consultation feedback and the draft revised AIC SORP and agreed to advise the FRC Executive to issue the FRC's statement on the revised AIC SORP.

13. Any other business

There was none.

14. Date of next meeting

The Council noted that the Secretary will set up meetings in July/August for an educational session on IFRS 17 and a conference call in September 2019. (Post meeting note: These meetings have been arranged to take place on 5 August 2019 and 17 September 2019).