

**Minutes of a meeting of the Corporate Reporting Council
held on Thursday 17 November 2016
at the Financial Reporting Council, 125 London Wall, London, EC2Y 5AS**

Present:

Roger Marshall	Chair
Michael-John Albert	Council Member
Richard Barker	Council Member
Chris Buckley	Council Member
Sian Morgan	Council Member
Liz Murrall	Council Member
Veronica Poole	Council Member
Mark Smith	Council Member

Observers:

Alison Ring	HMRC
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In attendance:

Anthony Appleton	Director, Accounting & Reporting Policy
Mei Ashelford	Project Director, Accounting & Reporting Policy Team
Annette Davis	Project Director, Accounting & Reporting Policy Team
Paul George	Executive Director, Corporate Governance & Reporting
James Hewer	Partner, Structured Finance Group, PwC [Item 1 only]
Seema Jamil-O'Neill	Project Director, Accounting & Reporting Policy Team
Aaron Jones	Senior Manager, Accounting Consulting Services, PwC [Item 1 only]
Andrew Lennard	Director of Research
Deepa Raval	Project Director, Accounting & Reporting Policy Team
Roz Szentpeteri	Project Manager, Accounting & Reporting Policy Team

Apologies for Absence

There were apologies from Jeremy Townsend, Lee Piller, Michael Gallagher and Michael Kavanagh.

1 To approve the minutes and agree the notes of the previous meeting

- 1.1 The minutes of the Corporate Reporting Council meeting held on 19 October 2016 were approved for publication subject to some corrections which would be approved the Chair.

2 Director of Accounting and Reporting Report

- 2.1 Anthony Appleton (AA) stated that Stephen Cooper's term as an IASB member would expire in July. A Council member stated that somebody had expressed an interest in representing the UK and they would talk to them about this.
- 2.2 EFRAG had agreed the draft endorsement advice for the deferral of IFRS 9 for insurers. There would be a consultation of around four weeks. The Council suggested that a draft response be sent out by email and there should be a conference call before the due date. They would only be expressing a view on whether the standard should be endorsed.

- 2.3 With regards to the triennial review AA highlighted the success of the email address that they had set up. AA stated that there were around 60 pages of amendments for the ED they intended to issue in March, but many were editorial.
- 2.4 The Council noted a concern about the potential amendments and the timing of the meeting in February. Seema Jamil-O'Neill (SJO) stated that there was a meeting before this on 15 December. AA emphasised that there would be advanced notice of the amendments.
- 2.5 AA stated that they had submitted evidence to the BEIS Select Committee as part of their inquiry on corporate governance.

3 Director of Research Report

- 3.1 Andrew Lennard (AL) reported that the cash flow paper had been published on 20 October. EFRAG would convene in Brussels the following week and the research proposal they had approved was in the hands of AA. The academic panel papers would be distributed that day. A number of IASB members were attending – Stephen Cooper and potentially Darrel Scott.

4 IASB Conceptual Framework – update and paper on formal decisions of IASB meeting in relation to asymmetry

- 4.1 AL stated that the IASB had not fully met the FRC's requests with regards to the inclusion of prudence in the Conceptual Framework. At the IASB October meeting they had discussed that prudence did not require asymmetry. AL suggested that the FRC send a letter with regards to this matter.
- 4.2 The Council felt that they should keep putting forward their views. There is asymmetry in the standards and this should be reflected in the conceptual framework. It was suggested that they could see if EFRAG, ASAF or other national standard setters would work with them on the prudence issue.
- 4.3 The Council suggested that the IASB could change one of the phrases from, 'useful information' to 'relevant information', which would be a partial improvement.
- 4.4 The Council asked for thoughts about getting other parties involved. The Council surmised that they should write a letter directly or in an alliance to influence the IASB.

5 EFRAG Consultation on the endorsement of IFRS 16 Leases

- 5.1 Annette Davis (AD) referred to their discussion on the EFRAG consultation on the endorsement of IFRS 16 Leases. She asked for comments on the draft response in advance of its finalisation by 8 December.
- 5.2 A number of Council members supported the endorsement of IFRS 16 as soon as possible.
- 5.3 AD stated that the current consultation was an exercise in gathering evidence on the impacts of IFRS 16, as opposed to the usual questions on EFRAG's technical analysis. It was not clear what form the final consultation would take.
- 5.4 The Council asked if AD had concerns about the technical analysis. AD did not, but added that she had helped to compile this. The Council had no concerns on the draft response.
- 5.5 If EFRAG receives the research it has commissioned when expected in December, its completed draft endorsement advice should be ready in early January, with a one month comment period. An EFRAG conference call on 21 December is scheduled to approve the draft endorsement advice.

6 Amendments to FRS 101 – Notification of shareholders (FRED 65)

- 6.1 A minority of respondents, whilst supporting the removal of the requirement for companies to notify shareholders in writing, suggested the right for shareholders to object should be retained. The Council questioned whether a minority shareholder would look to the standard or the law regarding their rights. AA stated that the majority view was that they would continue with the proposal they had.
- 6.2 AA reminded the Council that before FRS 102, standards provided similar disclosure exemptions without any conditions for shareholder objections. AA noted that minority shareholders' rights under the law could be mentioned.
- 6.3 The Council was happy for this to be clarified. The decision was to remove pre-notification and the right to object but to note in advice that there were minority protections under the law.
- 6.4 A minor editorial change to paragraph 11 was recommended.

7 FRED 66 Draft amendments to FRS 101 (2016/17 cycle)

- 7.1 Mei Ashelford (MA) presented a draft of FRED 66 which reflected the Council's advice from its previous meeting.
- 7.2 Subject to minor drafting amendments, the Council approved its advice to the FRC Board to issue FRED 66 for consultation.

8 Triennial review of FRS 102

Control model "deep dive" – a presentation by James Hewer and Aaron Jones of PWC

- 8.1 James Hewer and Aaron Jones of PWC delivered a short presentation on the practical impact of the introduction of the control model in IFRS 10 *Consolidated Financial Statements*. The presentation considered the practical differences between IFRS 10 and IAS 27 *Separate Financial Statements* / SIC 12 *Consolidation – Special Purpose Entities*, if the accounting treatment had changed for certain types of structures / SPEs, if certain sectors / industries were affected more by the change and if these impacts and changes would be applicable to FRS 102 reporters.
- 8.2 The Council thanked James and Aaron for their input and concluded that they would consider it, alongside any feedback received from stakeholders to the current Consultation Document on the triennial review.

Definition of Financial Institution

- 8.3 SJO stated that she had shortlisted three solutions to amending the definition of a financial institution included in FRS 102. The paper included two extra issues for consideration, financial instruments classification and debt for equity swaps.
- 8.4 On amending the definition of a financial institution SJO stated that:
- a. A review of the ASB papers before the publication of FRS 102 highlighted that lenders to SMEs were the main users identified. They specified that they were interested in understanding the long term risks held by the entity;
 - b. Some constituents had asked for removal of certain types of entities from the list included in the definition; and
 - c. The principle incorporated into sub-paragraph 'i' of the definition had caused significant implementation issues.

- 8.5 The Council considered a number of solutions to these issues, including:
- a. Require all entities with material holdings of financial instruments to provide additional disclosures;
 - b. Remove some entities from the list; and
 - c. Amend bullet point 'I'.
- 8.6 During the Council's discussion it was noted that:
- a. Retirement benefit plans would be removed from the list in the disclosures for them were specified separately in Section 34 of FRS 102;
 - b. The principle in sub-paragraph 'i' of the definition was intended to capture entities involved that may be financial institutions in all but name;
 - c. There was not sufficient independent evidence of the type of entities that have been captured by the definition and the extra disclosures they are including in their financial statements under FRS 102; and
 - d. Of the different options to amend sub-paragraph (i) the Council preferred the solution that deleted the references to wealth generation and risk management. However, the price for this amendment was to include further guidance on disclosures in paragraph 11.42, which is applicable to all entities. The latter would also address the anomaly in relation to the different disclosure requirements applicable to group treasury functions and group treasury companies under FRS 102.

Classification of financial instruments

- 8.7 SJO stated that FRS 102 required two separate classifications for financial instruments, basic and other. During its 2014 review of the requirements the Council had decided not to include a principle-based solution for classification of financial instruments as the IFRS 9 principle was still developing and untested.
- 8.8 The responses from constituents highlighted that the FRS 102 rules-based classification had caused problems. A principle, based on one suggested by some constituents, was included in the paper and the Council agreed to its inclusion in FRS 102.
- 8.9 The Council requested further work to be conducted on whether the principle override the detailed conditions in FRS 102 paragraph 11.9 in the event that there is a clash.

Debt for equity swaps

- 8.10 The Council agreed that FRS 102 should be amended to introduce guidance based on IFRIC 19, aligned to the changes made to IFRS for SMEs during 2015.

Directors' and intragroup loans

- 8.11 AA stated that there was a lot of push-back on this issue. The central idea was that one could not properly reflect the economic substance of loan from a director/shareholder, especially within a small company, without considering the importance of his/her equity interest. A second critique of the proposed measurement of such transactions relates to the difficulties in determining market rates of interest.
- 8.12 AA stated that they may need to breach the principles that they had set (i.e. that small companies should follow the same measurement and recognition policies as larger companies); the proportional and balanced may be for small companies to not be required, with directors' loans, to impute a market rate of interest.
- 8.13 The Council agreed that a practical exemption be introduced for small companies but only in respect of loans from individual director/shareholders and not from corporate shareholders, thus excluding intragroup loans from any exemption.

- 8.14 The Council commented that the technical rationale would be difficult to incorporate. AA indicated that it would be presented as a practical expedient for small companies. The Council added that they should concentrate on directors rather than shareholders as the term 'shareholders' was too broad. AA added that they could make a link to related parties, using the related party definition.
- 8.15 The Council advised to give a practical exemption to small companies as discussed and not to change the accounting requirements in respect of intragroup loans.

9 Any Other Business

- 9.1 PG reported that the FRC Board had approved the appointment of Paul Druckman as Chair of the Corporate Reporting Council with effect 1 January 2017; Roger Marshall would remain as a member of the Council.