

**Minutes of a meeting of the Corporate Reporting Council  
held on 15 February 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                   |
| Michael Gallagher   | Member (from Minute 4.2) |
| Roger Marshall      | Member                   |
| Sian Morgan         | Member                   |
| Veronica Poole      | Member (from Minute 4.1) |

Observers:

Trevor Rushe (IAASA)

In attendance:

|                      |  |
|----------------------|--|
| Anthony Appleton     | Director, Accounting & Reporting Policy (via teleconference) |
| Anu Bhartiya         | Committee Secretary, Corporate Reporting Council             |
| Jenny Carter         | Director of UK Accounting Standards                          |
| Debbie Crawshawe     | Project Director   |
| Annette Davis        | Project Director   |
| Paul George          | Executive Director, Corporate Governance & Reporting         |
| Jennifer Guest       | Project Director   |
| Andrew Lennard       | Director of Research   |
| Deepa Raval          | Director of Narrative Reporting                              |
| Rosalind Szentpeteri | Project Director   |

**1. Welcome and apologies for absence**

The Chairman welcomed everyone to the meeting. Apologies were noted from Council Members Liz Murrall and Mark Smith and Observers Ian Bulmer (HMT), Lee Piller (FCA), Seema Jamil-O'Neil (BEIS) and Alison Ring (HMRC).

**2. Declaration of conflicts of interests**

There were none reported.

**3. Minutes and rolling actions**

*Minutes of the Corporate Reporting Council meeting held on 13 December 2017*

- 3.1 The minutes of the Corporate Reporting Council meeting held on 13 December 2017 were approved for publication subject to a minor amendment.

*Rolling actions*

- 3.2 The matters arising log was noted.

**4. Chairman's update**

- 4.1 The Chairman provided a high-level update on the matters considered at the Board meeting held on 7 February 2017.

- 4.2 The Chairman informed that the FRC Priorities Meeting was held on 6 February 2018. He opened a wider discussion in relation to the FRC's main priorities for 2018/19. Through discussion a number of points and comments were noted including:

- The Priorities Meeting had topics which covered the FRC mission and its work in the public interest, the Corporate Governance Code Consultation, the guidance on strategic reporting, the future of audit, Enforcement and the independent sanctions review, actuarial work and the IFOA's work on implementing actuarial monitoring regime.
- A Member highlighted an expectation gap between what the FRC encourages as good corporate culture in the best interest of wider stakeholders and how much of that encouragement could be enforced and monitored.
- In the wake of Carillion's collapse, Paul George (PG) informed that a paper will be presented to the Codes & Standards Committee meeting on 28 February with an aim to brainstorm on various issues and their potential impact on ongoing projects i.e. finalising the consultations on the Strategic Report Guidance and the UK Corporate Governance Code, consultation on revisions to the UK Stewardship Code and commencing the work on the future of corporate reporting and the future of auditing. The paper would be presented to the Council at a future meeting for discussion.
- Deepa Raval (DR) informed that a project plan on wider corporate reporting would be presented to the Council in March. The project work would begin after the strategic report guidance is finalised. Consideration would be given to how information needs are developing for shareholders, the additional information needs of other stakeholders and how each of these can be met most effectively.

4.3 The Chairman noted that wider topics relating to corporate reporting are discussed under this agenda item and invited Members to comment in case they had any views on including such topics. (Post meeting Secretary's note: A few Members informed the Chairman that the discussions were found useful and informative as it enables members to understand what is happening in the wider FRC world. It provides additional context to what is discussed at Council meetings. The update on the direction of the FRC also assists in forming opinions with regards to placing appropriate emphasis on various matters that are discussed at Council meetings.)

## 5. Director of Accounting and Reporting Report

5.1 Anthony Appleton (AA) introduced the report and highlighted the following key points:

- In the light of the collapse of Carillion plc, the FRC has announced its investigation into KPMG's auditing of Carillion and have issued guidance aimed at the boards of construction and business support services companies urging the need to pay particular attention to accounting issues, including going concern, risk and viability reporting and their business models.
- PG and AA had attended the Multilateral Network Group on 29-30 January 2018. The agenda included discussions on jurisdictional updates, digital reporting, local interpretation processes, improving IFASS communication, digital currencies, pensions accounting, discounting and non-GAAP measures/APMs.
- The IASB intends to set up a working group to provide input to the development of its revision to the Practice Statement *Management Commentary* and the FRC has expressed its interest in being a member of this group.

5.2 The Council considered the two completed Invitations to Comment, which support EFRAG's draft endorsement advice, on *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)* and *Annual Improvements to IFRS 2015 – 2017 Cycle*. The Council supported the views expressed in the draft responses.

### *Gift Aid*

5.3 AA presented the concerns raised in relation to Gift Aid about how the change in accounting should be presented following the issue of the Triennial review 2017 amendments in December 2017. As per the requirements of FRS 102 it could be considered to be the correction of a prior period error, albeit that those applying other accounting policies were doing so in good faith at the time. In particular, the implications of the legal opinion that the payment is a distribution for the accounting may not have

been fully understood. The Council members expressed their views on the matter and through discussion, the following comments and observations were noted:

- Within the IASB framework, if a clarification was issued by IFRIC which changed the accounting policy, it would not always be explicitly described as an accounting error but provided as a clarification around the accounting treatment.
- The change in accounting policy is a result of standard-setting intervention, therefore it should not be viewed as an accounting error.
- In response to a query whether the FRC should make a public comment on the issue or communicate with the Charity Commission in this regard, it was noted that the issue affects the accounts of subsidiaries of charities which would not fall within the remit of Charities SORP. However, it could be communicated to the Charity Commission which could share the message further through the SORP Committee.

5.4 JC thanked the Council for their views and agreed to take the comments into consideration while exploring mechanisms to resolve the issue and implementing it.

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

6.1 Andrew Lennard provided an update on the research matters that were progressing and noted that:

- The FRC would be presenting papers on *Intangibles* and *Primary Financial Statements* at the IFASS meeting which will take place in April 2018.
- FRC has suggested to EFRAG to split the work on *Variable and Contingent Consideration* which both bodies are researching on so that the work is constructive and not duplicated.
- The IASB have informed that the final version of the work on *Conceptual Framework* would be published in March 2018.

6.2 Annette Davis (AD) informed that the draft response to EFRAG's Discussion Paper on the research project *Equity Instruments – Impairment and Recycling* would be presented to Council in April 2018.

## **7. Amendments to the Guidance on the Strategic Report**

7.1 DR highlighted the purpose of the paper which was to seek Council's input on the key issues arising from the detailed comments to the consultation.

### *Primary users of the Strategic Report*

7.2 DR noted that the guidance refers to shareholders as the primary users of the strategic report and annual report. Section 3 'Purpose of the annual report' sets out that other users that may have an interest in a company's strategic report and annual report and makes reference to investors and other stakeholders. The comments received from the respondents identified that multiple references to other stakeholders in the guidance is confusing the purpose and audience of the strategic and annual report.

7.3 The Council considered the proposal that the companies should be encouraged to consider the interests of wider stakeholders in fulfilling their section 172 duties and the references to other stakeholders should only be used when the context is appropriate, with some of the additional references to 'other stakeholders' being removed. Through discussion, the Members made a number of comments and suggestions including:

- While addressing the respondent's comments, focus on the Non-Financial Reporting Directive requirements should not be lost.
- The risk section in the reports could be strengthened to encourage companies to think about other stakeholders in relation to the business model and understanding the risks and impact associated to them.
- It was highlighted that discussion should not be just on the shareholders and wider society; the non-shareholder group closest to the organization that the business depends upon should be considered.

- The strategic report is not the sole vehicle for this wider view and that the Stewardship Code should also shift the emphasis to a broader lens.
- Sometimes, the term ‘primary users’ is confused to be understood as ‘exclusive users’ and therefore it could be useful to clarify the meaning and the focus of ‘primary users’.
- Whilst in the short term a company decision having impact on society may not always have impact on shareholder interest, both are aligned from the point of view of the long-term viability of company and therefore reporting on more than the financials is of interest to investors; it impacts long-term success of the company.

### *Approach to Materiality*

7.3 DR introduced the topic and highlighted a few points including:

- The materiality principle as set out in the Guidance is consistent with that in accounting and auditing standards and therefore no changes should be made to the basic principle.
- Respondents are concerned that the reference to information being material to ‘stakeholders as a whole’ detracts from the principle of including information that is relevant to shareholders in the annual report, which is confusing. Therefore, this reference should be removed but should retain the need to consider the long term as part of the assessment.
- The guidance needs to be clear on the application of the legal terms used to apply the materiality filter.
- Audit materiality definition covers both qualitative and quantitative matters and therefore no separate assessment should be required for non-financial information.
- The audit regime in place currently focuses on the financial statement and not non-financial information and the growing importance of reporting of outcomes. The discussion in Council was founded on the current regime not the potential evolution of audit.

7.4 The Council viewed that audit materiality should not be confused. Therefore, it should be ensured that any references to ‘impact of the company’s activity’ in the context of materiality are only applied when referring to the assessment in company law for disclosure of non-financial information for companies within the scope of the new NFR requirements.

7.5 The Council was, in principle, supportive of the recommendations made for amending the materiality section, as set out in 2.9 of the paper.

### *Impact of activity*

7.6 DR outlined that the term ‘impact of its activity’ as introduced in the consultation was found confusing. It is not easy to articulate this term as it could have different interpretations. Therefore, it was recommended and supported by Council, that the term should be used specifically when referring to the non-financial reporting requirements or section 172. It was noted that that the term “outcomes” was more popular globally and that consideration would be given to its use.

### *Key aspects of the new legislative requirements on reporting on section 172*

7.7 DR noted that in reporting an effective disclosure on section 172, it would be helpful for the reporting requirement to include a broad principle with elements of identification of the key stakeholders, explain how companies engaged with those stakeholders and how their interests have been considered in making key decisions. In terms of the scope of the new section 172 reporting requirements, the government’s initial view is that a threshold of 1,000 employees should be used. However, the FRC encourages BEIS to use existing thresholds in Strategic Report to avoid complexity for companies. The Council highlighted that the duties under section 172 are placed on individual directors whereas strategic reports are signed off by boards which may have divergence of views on board decisions.

- 7.8 A Member viewed that the term 'non-financial' could be confusing as the matters on strategic report and annual report relate to either financial, sustainable or intangible matters. It was noted that companies do consider broader factors and metrics while making key decisions.
- 7.9 In response to a question relating to the timing for finalising the work on the guidance, it was noted that the intention is to publish the guidance in June 2018 which depends upon BEIS timelines in publishing the final legislation. FRC will work towards finalising the guidance but will need to keep the timeline under review based on BEIS developments.
- 7.10 The Chair thanked the Council for their views and DR undertook to take the comments and suggestions into consideration while updating the guidance.

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

- 8.1 Jenny Carter (JC) highlighted the purpose of the paper which was to review potential issues relating to the operation of the SORP regime that had been brought to the FRC's attention.
- 8.2 Through discussion, the Council raised a range of queries in relation to the SORP regime and the purpose of SORPs including the compliance and oversight process for the work arising from the perceived gap in applicable standards. It was suggested and agreed that a paper be presented to the Council at a future meeting, incorporating the risks associated with the SORP processes, what mitigations are in place to address those risks and whether those mitigations are adequate.
- 8.3 With regards to the composition of the SORP-making body working parties, it was viewed that there should be wider stakeholder representation.

## **9. UK GAAP & SORP Update**

- 9.1 JC introduced the paper which presented draft amendments to the AIC and Charities SORPs and the annual review from the AIC and LLP SORP-making bodies.

### *AIC SORP*

- 9.2 It was noted that the proposed amendments to the AIC SORP were to reflect changes arising from the triennial review 2017 amendments and therefore do not require consultation. There were no additional amendments that were identified. It was also noted that the effective date of the SORP is being amended to 1 January 2019 and the AIC will keep both editions of the SORP available on the website, so that entities can choose which edition to apply prior to the mandatory effective date of the updated SORP.
- 9.3 The Council recommended that the Codes & Standards Committee approve the FRC Statement on the SORP for issue.

### *Charities SORP*

- 9.4 It was noted that the Charities SORP-making body is proposing to update the Charities SORP for the triennial review amendments only. This does not require consultation but they wish to do so to raise awareness of the upcoming amendments within the sector. The Charities SORP-making body proposes to issue the amendments in the form of Update Bulletin 2. The FRC has reviewed the draft update bulletin and is content that it captures all the necessary amendments to the SORP arising from the *Triennial review 2017 amendments*.
- 9.5 It was also noted that any amendments to the SORP arising from the research exercise undertaken by the SORP-making body during 2016 will not be incorporated into this update, but will be considered for a future rewrite of SORP (provisionally penciled in to be

effective from 2022). Considering the attention that the charities sector receives, the Council advised that the timeframe for rewriting the SORP should be challenged.

- 9.6 Subject to two drafting points, the Council approved the draft Invitation to Comment and draft Update Bulletin 2 for issue.

*Annual Reviews – AIC SORP and LLP SORP*

- 9.7 The annual review received from the AIC SORP-making body incorporates the proposed amendments to the SORP. There is an outstanding technical query in relation to the disclosure of gains and losses on investments in an investment company's annual report and accounts, which is subject to further discussion with the SORP-making body and is not included within the scope of the amendments to the SORP.

- 9.8 In response to a query in relation to the FRC's oversight of the amendments proposed by SORP-making bodies, JC noted that the FRC receives all meeting papers, attends and contributes to the meetings of the SORP-making bodies.

- 9.9 The Council was content with the findings of the AIC SORP and LLP SORP annual reviews and encouraged the SORP-making bodies to resolve any outstanding issues on a timely basis.

**10. Any other business**

There was none.

**11. Date of next meeting**

The next meeting of the Council will take place on 13 March 2018 at 9:30am. [Secretary's post meeting note: The start time was subsequently changed to 9am].