

**DRAFT Minutes of a meeting of the Corporate Reporting Council held on Thursday 25
May 2017 in the Boardroom, 8th Floor, 125 London Wall, London EC2Y 5AS**

Present:

Paul Druckman	Chairman
Michael-John Albert	Member
Richard Barker	Member
Chris Buckley	Member
Michael Gallagher	Member
Roger Marshall	Member (from Minute 1 to 7.2)
Sian Morgan	Member
Veronica Poole	Member
Mark Smith	Member
Jeremy Townsend	Member

Observers:

Michael Kavanagh (IAASA)
Alison Ring (HMRC)
Vicky Rock (HMT)

In attendance:

Anthony Appleton	Director, Accounting & Reporting Policy
Mei Ashelford	Project Director
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	Project Director

1. Welcome and apologies for absence

The Chairman welcomed everyone to the meeting. Apologies were noted from Liz Murrall and Lee Piller (FCA Observer).

2. Declaration of conflict of interest

2.1 There was none to be reported.

3. Minutes and rolling actions

Minutes of the Corporate Reporting Council meeting held on 27 April 2017

3.1 The minutes of the Corporate Reporting Council meeting held on 27 April 2017 were approved for publication, subject to minor amendments.

Rolling actions

3.2 The matters arising log was noted.

4. Chairman's update

The Chairman reported that the Codes & Standards Committee had not met since the last meeting of the Corporate Reporting Council. The Board had met on 24 May and amongst other matters had discussed the following:

- CEO Report – a discussion on the role of the FRC in a post-Brexit IFRS endorsement process for the UK.

- The appointment of a new Chair of the Audit & Assurance Council with effect from 6 July 2017.
- FRC Mission – a debate on what should be the contents of the new mission.
- FRC Classification – to note the FRC’s classification under Central Government rules and focus attention on ensuring that the FRC retains regulatory and operational independence to the greatest extent possible.
- Audit firm supervision – the framework for the FRC’s monitoring and enforcement of the audit firms.
- Accountancy Scheme – a discussion on its operation and co-ordination with the professional bodies.
- Risk Management Report – a review of the Principal Risks identified for inclusion in the Risk Statement in the draft Annual Report 2016/17

5. Director of Accounting and Reporting Report

5.1 Anthony Appleton (AA) introduced his report which provided an update on recent developments relating to financial reporting and wider corporate reporting and an overview of the activities during April – May 2017.

5.2 AA opened the discussion on how a post-Brexit IFRS adoption process might be designed and the FRC’s role in it. Through discussion, various comments and observations were made including:

- That there had been a high level discussion on the options for adopting or endorsing IFRS for application in the UK after Brexit and there is a general, though not absolute, consensus that there should be a UK specific process for new standards issued by the IASB.
- The publication of IFRS 17 *Insurance Contracts* has focused attention on the fact that it may constitute a test case for any UK specific endorsement process.
- Endorsement processes followed in other countries, such as Canada, Australia and Japan as well as that in Europe should be reviewed and considered.

5.3 Following the discussion, it was noted that there was a general consensus within the Council that the FRC should be the authority to assess and endorse amendments and new standards issues by the IASB. These initial views of the Council members would be built into a paper that will be discussed at the Codes & Standards Committee in June and form part of the preliminary proposals to the BEIS officials.

5.4 In response to the proposed contents for the *Annual Review of Corporate Reporting* report 2016/17, it was suggested that reference should be made to developments in other countries. However it was acknowledged that obtaining evidence of the impact of such developments outside of the UK would be a challenge. A Member highlighted that matters relating to corporate governance reporting were absent. AA noted that such matters would be covered more fully in the Corporate Governance monitoring report but there would be some reference to them in the Corporate Reporting report. Following a query, it was reported that an outline draft of the report would be presented to the Council for further input and advice in July.

6. Director of Research Report

6.1 Andrew Lennard (AL) provided an update on the matters that were discussed at the Corporate Reporting Council’s Academic Panel meeting held on 8 May 2017. The agenda included the following:

- Value creation and reporting by Deepa Raval and Debbie Crawshaw. The discussion had been constructive and interesting.
- Professional Investors and the Decision Usefulness of Financial Reporting by Mark Clatworthy which had received good feedback on the survey work.

- Impaired translation: IFRS from English and annual reports into English by Chris Nobes.
 - Gaps in the IFRS Conceptual Framework by Richard Barker and Alan Teixeira.
 - Have the standard setters gone too far, or not far enough, with fair value? By Ken Peasnell.
- 6.2 The meeting was attended by a Council Member, who found it to be useful and interesting. All Council Members were invited to attend future meetings of the Panel and AL would inform members of the dates at future meetings.

7. Preliminary Earnings Announcements

- 7.1 Jennifer Guest (JG) provided a brief background on the Preliminary Earnings announcements research which was being undertaken with a view to identify how preliminary reporting has changed over recent years and how investors use the information contained in preliminary statements to make investment decisions. The update included the following points and reports:
- In February and March of 2017 a series of interviews took place with investors in relation to preliminary reporting to elicit their views.
 - The initial findings from the outreach and the audit policy team's related work were discussed with the FCA and they were interested in further research to inform their policies.
 - This project is linked to further FRC sponsored research work from the Corporate Financial Information Environment (CFIE) project.
- 7.2 The Council noted that the Annual Report was the detail of the Preliminary Earnings Announcement and was an essential part of the process of transparency. The Council discussed the use of preliminary reporting and how reporting differs globally across different sectors. The Members made various comments and observations including:
- Any inconsistency in preliminary reporting would present a challenge in analyzing information. There was a need to link the preliminary announcements with annual reports creating a framework that ensures consistency. However, the onus on linking the two should be on the preparers.
 - Timing of reporting and brevity of content is key as investors act on preliminary reporting in making investment decisions.
 - The preliminary reporting is not audited but it was viewed that the information therein was extremely unlikely to be subject to material change in the Annual Report.
 - A Member noted that the simplified US style formatted reporting could help introduce efficiencies.
- 7.3 JG agreed to take the above discussion into consideration on the next steps for outreach with companies. A paper would be presented to the Council which would include initial analysis on the feedback on the Audit Discussion Paper.
- ## 8. FRS 101 Review – 2016/17 cycle
- 8.1 Mei Ashelford (MA) reminded the Council of the pushback on the inconsistency of not giving lessees an exemption from the requirement to provide a maturity of lease liabilities when an exemption from the equivalent disclosure for other financial liabilities already exists. The Council had advised that the FRS 101 should give lessees this exemption provided the qualifying entity presents the company law requirement to provide details of indebtedness separately for leases. Further, the Council had agreed with the recommendation that certain additional disclosure exemptions should be given to lessors, but lessors should be required to provide maturity analyses of lease receivables as no equivalent company law disclosure requirement for assets exists.
- 8.2 It was outlined that as IFRS 9 had now been endorsed, one respondent reminded the FRC that it had stated it would revisit the issue of potential conflict between the law and

the requirement to present changes in the fair value of financial liabilities that arise from changes in own credit risk within Other Comprehensive Income. The proposal to insert paragraph A2.7E into the legal compliance appendix of FRS 101 would make it consistent with that in FRS 102 on this issue.

- 8.3 Ongoing, a Member highlighted an inconsistency in the wording relating to credit risk in the paragraph A2.7E and MA agreed to incorporate the changes.
- 8.4 A Member raised a query relating to the lease liability disclosure and how to avoid duplication in order to comply with Company Law. The Member agreed to obtain clarification from MA outside of the meeting.
- 8.5 The Council agreed to approve its Advice to the FRC to issue the *Amendments to FRS 101 – 2016/17 cycle*.

The Council observed one minute silence at 11am to pay respect to those who lost lives or were affected by the Manchester terror attack.

9. Triennial Review – Consultation Document

- 9.1 MA reminded the Council of the discussion at the last meeting regarding the approach to the expected loss model in IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*. The Council had agreed not to issue a Phase 2 FRED as previously suggested in the September 2016 Discussion Paper, as further work was required before any decisions could be made with regards to timetables and approach.
- 9.2 The Council agreed to advise the Codes & Standards Committee to issue the feedback statement as set out in the paper. It was noted that a press notice would also be released in this regard.

10. Overview of responses to the Discussion Paper – Improving the Statement of Cash Flows

- 10.1 Annette Davis (AD) provided a brief overview on the initial analyses of the responses received in relation to the FRC Discussion Paper *Improving the Statement of Cash Flows*. It was noted that 22 responses were received which included three standard setters and four user representative groups.
- 10.2 The Council noted the five high level messages, as set out in the paper that were drawn from the responses to the questions contained in the Discussion Paper.
- 10.3 In response to a query, it was clarified that the FCA and PRA had not responded to the Discussion Paper as this was not unexpected given the paper did not make firm proposals and was intended to stimulate debate to inform the IASB's thinking in its primary statements project.
- 10.4 It was noted that a draft Feedback Statement would be presented to a future Council meeting and would be discussed with the IASB.

11. Update to Guidance on the Strategic Report

- 11.1. The Chairman reported that the Board had received a useful presentation at its last meeting which provided an insight into the work of the Corporate Reporting Review Team, including their approach to reviewing Strategic Reports. It was agreed that a similar presentation would be arranged for the Council at a future meeting.
- 11.2 Debbie Crawshawe (DC) provided a brief background on the work undertaken in updating the Guidance on the Strategic Report to reflect the NFR Regulations, to strengthen the link between s172 and the strategic report and to reflect other

developments that have occurred since the Guidance was published in 2014. Following the discussions at previous Council meetings, the purpose and the content element sections had been revised and were presented to the Council for further comments.

- 11.3 The Council discussed *The strategic report: purpose* and made various comments and observations including:
- Point 2 of the Purpose section should be reviewed in order to bring consistency in using the words 'maintain value'. It was also viewed that the success of a company is dependent on its ability to create and maintain value in a sustainable manner.
 - The words relating to the information that would allow shareholders to understand the strategy, development, performance, position and impact of the entity's activities, including potential long term effects and outcomes in point 3 of the 'purpose' section had been derived from the NFR Regulations.
 - The purpose of s172 related to the duty of an individual director. However, the strategic report should reflect the collective view of the Board and not individual directors.
- 11.4 The Council noted the changes to *The strategic report: content elements* which included the main themes of the Culture Report, Alternative Performance Measures, trends and factors within the business performance section and providing more clarity on aspects of the Guidance that arise from legal requirements and those arising from best practice. Through discussion, various points and observations were highlighted including:
- Detailed examples in the Guidance may lead to a checklist style approach which could inhibit relevant reporting.
 - It was necessary to have linkage to risk appetite within the business model section.
 - The use of the word 'should' should be reviewed in paragraph 19 of the section.
 - Entities might have to put in place a system to validate and monitor adherence to practices and policies across its supply chain.
 - The report should expand on intangible sources of value such as culture and brand.
- 11.5 The Council had a thorough discussion in relation to the 'value allocation' statement that highlighted some differences of interpretation of the term and indicated alternative terminology should be used. The following comments were noted:
- The principle behind this statement was to encourage an entity to explain how it intends to allocate the value amongst different type of stakeholders.
 - There is a difference between value creation and value allocation.
 - The value allocation was not about philanthropic activities but could imply capital allocation which could benefit the company and in doing so, to the wider society.
 - Some members viewed 'value allocation' as relating to capital allocation as shareholder value which is not within the control of a company cannot be allocated.
 - Some members saw 'value allocation' as an analysis of the market capitalisation of the company and thought that value distribution was a better term. Other members saw value distribution as being too aligned with distributions to shareholders.
 - Some members would not view investment on the development in the work force as capital allocation.
- 11.6 It was noted that a vocal minority of those attending a recent roundtable interpreted the changes to UK law on transposing the NFR Directive differently to the rest. This minority felt that the new requirements were subject to a different materiality test to the rest of the strategic report, both in terms of disclosures on the impact of a company's activities and the identification of principal risks. Following that meeting, the FRC has repeated its request to BEIS to provide clarification on the interpretation of this issue. The Council, consistent with the majority of those attending the roundtable, considered that the NFR regulations should be an integral part of a single, cohesive Strategic Report.

- 11.7 DC agreed to take the above discussion into consideration and present the first draft of the consultation document to the Council at the next meeting and to Codes and Standards Committee in June with a view to present the final version to Council in July.

12. Wider Corporate Reporting

- 12.1 AA provided a brief update on the purpose of the paper which was to stimulate discussion and debate in Council as to whether the FRC should focus some attention on other parts of the wider corporate reporting landscape, and if so, how could this be justified without legislative underpinnings. The debate was centred on whether the exclusive focus on the annual report and accounts was consistent with the FRC's stated mission, and, if the FRC's mission was broadened to encompass broader issues of public interest or trust and confidence in the corporate sector, how might this change the focus on corporate reporting.

- 12.2 The Council discussed the FRC mission and considered its future role in the broader corporate reporting landscape to investors and other stakeholders and made various comments. The Council noted the importance of other information to investors' capital allocation decisions, stressed the importance of consistency across communication media and recognised the case for further exploration and research. However, the balance between regulatory intervention and the avoidance of additional burdens was stressed. It was recommended that a summary of the roles and responsibilities of the FRC and other regulators in respect of the different forms of communication is prepared.

13. Any other business

Corporate Reporting Council Effectiveness Review Action Log

- 13.1 The CRC Effectiveness Review action log was noted.
- 13.2 Michael Kavanagh informed that this was his last Council meeting as he was moving to a new role. The Chairman thanked him for his contribution to the Council and wished him well for the future.

14. Date of next meeting

22 June 2017 at 9am.