

**Minutes of a meeting of the Accounting Council held on Thursday 10 September 2015 in the Boardroom at 8<sup>th</sup> Floor, 125 London Wall, London, EC2Y 5AS**

**Present:**

Pauline Wallace	Alternate Chair
Richard Barker	Council Member
Chris Buckley	Council Member
Liz Murrall	Council Member
Veronica Poole	Council Member
Mark Smith	Council Member
Jeremy Townsend	Council Member

**Observers:**

Michael Kavanagh	IAASA Observer
Alison Ring	HMRC Observer (in place of Matt Blake) (to minute 6)

**In attendance:**

Anthony Appleton	Director, Accounting & Reporting Policy
Francesca Carter	Council Secretary
Jenny Carter	Director of UK Accounting Standards, Accounting & Reporting Policy Team
Annette Davis	Project Director, Accounting & Reporting Policy Team
Andrew Lennard	Director of Research
Ros Szentpéteri	Project Manager, Accounting & Reporting Policy Team

**Welcome and Apologies for absence**

Apologies were noted from Roger Marshall (Chairman), Michael Gallagher, Gunnar Miller (Council Members), Lee Piller (FCA Observer) and Michael Sunderland (HMT Observer (in place of Vicky Rock)).

**1. Minutes of the previous meeting and rolling actions**

- 1.1 The minutes of the meeting held on 15 July 2015 were approved for publication subject to a minor typographical amendment.
- 1.2 The rolling action log was noted.

**2. Director of Accounting Report**

- 2.1 The Council noted a paper which 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:

- The IASB held its monthly meeting on 20, 22 and 23 July. The agenda for the meeting had included a session on insurance contracts and a session on the potential deferral of the effective date of IFRS 15 *Revenue from contracts with customers*.
- The latest IASB work plan published on 31 July 2015 and that a number of narrow-scope amendments projects appear to have been delayed. AA highlighted that the presentation of the work plan has changed so that direct comparison with the status of the 30 June work plan is difficult as the attribution to quarters has been abandoned.
- The IASB had issued Exposure Draft ED/2015/6 *Clarifications to IFRS 15*, Exposure Draft ED/2015/7 *Effective date of Amendments to IFRS 10 and IAS 28* and, the IASB Request for Views 2015 *Agenda Consultation*.

#### European developments

- 2.3 *IFRS 9 Financial instruments*. The Council noted that the EFRAG Board has continued to discuss the endorsement advice on IFRS 9 *Financial Instruments* and that the Board is expected to approve its final endorsement advice by written procedure. Annette Davis (AD) reported that although it is expected that EFRAG will give the endorsement of IFRS 9 the 'green light', a majority of EFRAG Board members consider the concerns raised by some life insurance companies in respect of the mismatch in implementation dates between IFRS 9 and the revised IFRS 4 *Insurance Contracts* to be significant enough to merit a qualified opinion setting out an 'except for' clause where the Board cannot be certain that the implementation of IFRS 9 for insurance companies is conducive to the European Public good. The Council discussed the potential 'qualified opinion' in detail, noting that not only would this be the first time EFRAG had issued a qualified opinion, but also, that the issue of a qualified opinion could be considered inconsistent with the IAS Regulation. Following a detailed discussion the Council concluded that the objective for both the ARC and BIS should be to ensure IFRS 9 is endorsed for all entities, other than insurance companies, and that work to identify a suitable solution for insurance companies continue.
- 2.4 *EFRAG Governance*. The Council noted that EFRAG has issued a request for candidates for its Technical Expert Group (TEG) and a request for candidates to fulfil the position of EFRAG TEG Chairman and CEO. The Council also noted that the European Commission issued a call for applications for the President of the Board of EFRAG.

#### UK GAAP

- 2.5 The Council noted that:
- On 16 July 2015 the Amendments to FRS 100, FRS 101 and FRS 102, and the new standard FRS 105 had been issued. Fully revised editions of FRS 100, FRS 101 and FRS 102 would be available before the end of September.
  - The UK GAAP TAG had met on 30 July, the Accounting Council noted the matters that it had considered.
  - Proposals to revise the Charities SORPs were issued for comment on 18 June and the outcome of that consultation will be presented to the Council in due course.
  - The FRC has been discussing with other SORP-making bodies the impact of the amendments to FRS 102 that had been issued in July 2015 and that the extent to which SORPs are likely to require updating will vary. The Council supported the proposal that for SORP-making bodies that propose amendments that might be seen as creating new requirements or limiting entities accounting policy choices, the usual three month consultation period should apply, however, for those SORP-making bodies that propose making only limited factual amendments to the SORP for compliance with the amended requirements of FRS 102 flexibility over the consultation period should be permitted.

## Clear and Concise

- 2.6 The Council discussed proposed 'initial lines to take' in response to the HMRC consultation 'Improving Large Business Tax Compliance' published on 22 July, noting that the FRC intends to respond only to questions relevant to reporting. Whilst the Council supported the general thrust of the response it was suggested that response could be read as dismissive and that the FRC could be perceived as giving insufficient prominence to the importance of reporting on tax strategies. The Council agreed that the response should suggest the annual report is not the right place for the detailed disclosures HMRC is proposing be made but highlighted that it is important for a brief description of tax strategy to be included in the strategic report. AA undertook to revise the proposed response to respond to the views expressed by the Council.

### **3. Director or Research Report**

- 3.1 The Council noted that the International Forum of Accounting Standard Setters will meet in London on 29 and 30 September and that the Multilateral Working Group will meet the following week. Andrew Lennard (AL) reported that he is preparing a paper on pensions, building on work developed a few years earlier, in preparation for the Multilateral Working Group meeting.

### **4. Conceptual Framework: Exposure Draft**

- 4.1 AL introduced a suite of papers continuing the Accounting Council's development of the FRC response to the IASB's Exposure Draft: Conceptual Framework for Financial Reporting (ED/2015/3). AL reported that the proposed approach to responding to the ED had been presented to the Codes & Standards Committee on 8 September, whilst the Committee had been broadly supportive of the approach, and in particular, the need to recognise where the IASB has responded to the suggestions put forward by the FRC, the Committee highlighted the need to continue to push in areas where the IASB has not responded to the FRC view.
- 4.2 AL also reported on a joint FRC / ICAEW stakeholder outreach event that had been held on 3 September to discuss the IASB's Conceptual Framework. The Council noted that the event had been well attended and that the Ian Mackintosh, IASB Vice Chairman, had suggested that the Conceptual Framework will be a 'living document' and will continue to evolve.
- 4.3 AL invited the Council to comment on the issues addressed in the suite of papers and to provide advice on lines that should be taken in the FRC response. The Council noted that the tentative views expressed by the Council would be published on the FRC website following the meeting. Through discussion of those issues the following observations and suggestions were made.

## Elements and Recognition

- 4.4 The Council noted that the IASB's proposals in respect of Elements and Recognition largely reflect the proposals the FRC supported when made in the IASB's Discussion Paper, together with amendments and clarifications that are consistent with the comments made in the FRC response.
- 4.5 The Council supported the proposals that the FRC response should:

- Agree with the proposed definitions of assets and liabilities but suggested the response highlight that whilst there should be symmetry in the definitions of asset and liability, there should be no requirement for symmetry in the recognition of assets and liabilities.
- Repeat the FRC's previous views that it would be better to define the performance elements as 'gains' and 'losses' rather than 'income' and 'expenses'. The Council suggested the response should draw attention to the importance of the two concepts in respect of the balance sheet and reporting on operating activities.
- Highlight that, the primary financial statements should include only defined elements, and therefore, if recycling is required or permitted, it would be necessary to provide definitions of 'reclassifying adjustments'.
- Encourage the IASB to consider defining as elements contributions and distributions of equity, so that only elements are recognised in financial statements.
- Encourage the IASB to consider whether it is necessary to define elements for the statements on cash flows as part of the current project on Primary Financial Statements.
- Note that the existing definition of equity should be retained, subject to possible revision in light of work on 'Financial Instruments with Characteristics of Equity' project.
- Agree that the material on recognition is appropriate, given its treatment of the qualitative characteristics, but highlight that, should the FRC's views on reliability and measurement uncertainty presented in response to the DP be taken forward, significant revisions would be necessary. The Council suggested that the executive might consider reiterating the views presented in response to the DP on this matter in the response.
- AL noted that the ED goes further than the DP in describing the implications of faithful representation by emphasising the importance of considering the effect on related income and expenses and of providing the view of the overall transaction, addressing a concern raised by the FRC in its response to the DP.
- Support the discussion of derecognition.

#### Measurement

4.6 The Council supported the proposal that the FRC response to the Exposure Draft's proposals on measurement should:

- Welcome that cash flow techniques are used for estimating the measure of an asset on a particular measurement basis rather than as a separate category of measurement basis, and welcome the introduction of the term 'measurement basis' as distinct from 'measure'.
- Urge further consideration of entry and exit values, highlighting their importance, in particular where an entity cannot sell an asset on the same market as it buys.
- Highlight that a debate on the concept of 'fair value' has never been held and make reference to the Richard Barker and Sebastian Schutle's paper 'Fair Value for non-financial assets' that was presented to the Council at its July meeting.

4.7 The Council discussed in detail the conclusions reached by the IASB in respect of the need for further analysis and research on the concept of measurement and supported the proposal that the FRC should urge the IASB to continue undertaking research in this area. The Council highlighted the need for the IASB to continue to develop its thinking in respect of measurement and suggested the IASB be encouraged to consider developing principles that can be used to determine what measurement basis is followed. The Council suggested that it would be useful to highlight that the conclusion that no further thinking in this area is inconsistent with the proposal that the CF be a living document.

#### Presentation and Disclosure

4.8 The Council noted that:

- Whilst the EDs proposals in respect of presentation are relatively light and do not go in to

the level of detail the FRC would have wished for, it is possible that additional principles may be developed through the Disclosure Initiative and Primary Financial Statements projects and the CF updated at a later stage.

- The ED proposes not to introduce the term 'primary financial statements' and does not propose separate objectives for the individual financial statements or the notes to the financial statements.

4.9 Through discussion of the proposed response to the ED the Council:

- Agreed that the FRC response should encourage the IASB to reinstate 'primary financial statements' and highlighted the need for the IASB to consider and establish a clear objective for the term.
- Agreed that the IASB be encouraged to clarify the boundary between (i) the financial statements and the financial report, and (ii) the boundary between the primary financial statements and the notes.
- Suggested that the IASB be encouraged to clarify the definitions and objectives of 'presentation' and 'disclosure' before attempting to identify communication principles for the two concepts.

Amendments to other standards and implications for preparers.

4.10 The Council noted that the IASB's Exposure Draft (ED/2015/4) *Updating References to the Conceptual Framework* proposes to update some IFRSs that contain references to, and quotes from, the existing CF so that they refer to the revised CF.

4.11 AD reported that the only entities likely to be affected by the transition will be those that developed accounting policies on issues that are not dealt with in an IFRS or those who have used the CF to guide their selection of an option within a Standard. Evidence collected to date to determine the scale and nature of any such difficulties suggests there will be no issues.

4.12 The Council discussed the proposed response to the ED and agreed that the response should agree that the references in existing IFRS be updated and should agree with the proposed amendments. The Council discussed in detail the ED proposal not to amend IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IAS 38 *Intangible Assets* to reflect the revised definitions on a liability and an asset. Whilst the Council noted that consistent application of IFRS requires the use of consistent terms and concepts across all of IFRS, the Council highlighted the challenges and difficulties that had arisen in previous attempts to amend IAS 37 and the risk of there being unintended consequences should minor amendments be made. Accordingly, the Council suggested that the response to the ED propose that the IASB undertake a fundamental review of IAS 37 and IAS 38.

4.13 AD undertook to revise the response to reflect the advice given. The Council noted that the updated response would be circulated to Council as part of the full response to the ED.

## 5. Clarifications to IFRS 15: Exposure Draft

5.1 RS introduced a paper setting out a draft response to the IASB Exposure Draft ED/2015/6 *Clarifications to IFRS 15* (The 'ED'). The Council noted that the executive do not consider some of the proposed clarifications to IFRS 15 to be necessary and suggest that lengthening IFRS 15 without significantly clarifying the requirements of the Standard is likely to make the Standard more difficult to follow and could raise further queries on

implementation. The Council also noted that it is likely that IFRS 15 and Topic 606 Revenue from Contracts with Customers will cease to be converged standards as the IASB has been unable on certain issues to reach agreement with the FASB who are issuing separate consultations on more extensive amendments to Topic 606 later in 2015.

- 5.2 The Council discussed the proposed response in detail and expressed disappointment that the FASB and the IASB had failed to reach agreement, highlighting the difficulties non-converged standards in this area could result in in practice. Whilst the Council agreed that the response should encourage the IASB to prioritise the development of a high quality Standard over convergence the Council suggested the response should also:
- Acknowledge what has been achieved in terms of convergence so far;
  - Highlight that the terminology used in IASB standards does not have to be identical to the terminology used by the FASB, but IFRS 15 should include an explicit statement in the basis of conclusions setting out, whenever there is divergence, an acknowledgement of that divergence, an explanation of what the IASB intention is and an explanation as to whether the same outcome (or a different outcome) is expected as would be expected following the FASB requirements.
- 5.3 The Council noted that the IASB has not advised stakeholders whether further meetings of the Joint Transition Resource Group for Revenue Recognition (TRG) will be scheduled for 2016. The Council supported the proposal that the IASB should be encouraged to continue TRG meetings in 2016, highlighting that not all stakeholders have yet reached implementation stage and therefore it is possible that further concerns may be identified. The Council suggested it might be helpful to highlight to the IASB that stakeholders find the TRG forum very helpful and that a number of concerns have been addressed via the TRG without the need for amendments to the Standard.

## **6. IFRS Foundation Trustees' Review of Structure and Effectiveness: Issues for the Review**

- 6.1 AD introduced a draft response to the IFRS Foundation Request for Views (RFV) *Trustees' Review of Structure and Effectiveness: Issues for the Review*. The Council noted that the draft had been developed in response to the views expressed by the Council at its July meeting and:
- Supports the goal of the IFRS Foundation being publicly funded.
  - Expresses concern that the IFRS Foundation is working to increase the contribution from the accounting firms.
  - Encourages the IFRS Foundation to review the appropriateness of the current focus on geographical split for IASB members.
  - Encourages the IFRS Foundation to consider decreasing the number of Trustees.
  - Highlights the need to ensure any changes do not bring political or other influence in to the standard setting process.
- 6.2 The Council supported the proposed response but suggested that the response should also:
- Highlight the importance of interaction with other standard setters in order to achieve, as far as possible, converged / comparable standards.
  - Encourage routine effectiveness reviews of the Board by the Trustees. The reviews should focus on whether the IASB undertook the due process in the spirit in which it is intended when responding to stakeholder concerns, rather than focus solely on whether the IASB has adhered to the due process requirements.

- Highlight the need for improved quality control processes.
- Highlight the insight Trustees could bring to the agenda setting process.

6.3 The Council also suggested the response in respect to the scope of wider corporate reporting should be toned down in relation to alternative performance measures. Instead it should highlight that APMs have a role to play. AD undertook to update the response to reflect the advice given by the Council.

## 7. IASB 2015 Agenda Consultation

7.1 AD introduced the IASB's Request for Views (RFV) *2015 Agenda Consultation* and invited the Council to discuss a range of issues identified in respect of the Agenda Consultation and the approach the FRC might take in publicising the IASB's proposals. AD confirmed that relevant points raised during the discussion of the previous two agenda items would be considered in preparing the draft response.

7.2 The Council noted that the RFV groups the IASB's projects in to three main categories reflecting the main phases of standard-setting as: a) research programme, b) standards-level programme and c) maintenance and implementation projects. The Council supported the proposal that the response:

- Welcome the opportunity to provide input on the IASB's work plan.
- Welcome the move to a more evidence based approach when determining which projects should be added to its work plan and reiterate the importance of such an approach to guard against unnecessary and or excessive change. The Council suggested the response should highlight that this approach is not working as efficiently as had hoped and could be improved.
- Highlight that as long as the IASB continues to use evidence as a basis for its decisions on whether to add or remove projects from its work plan that the allocation of resources should be flexible.

7.3 The Council discussed proposed lines to take in responding to the three categories of the Consultation Paper in turn, the following observations and suggestions were made:

### *Research Projects*

7.4 The Council agreed the response should:

- Agree that the IASB will need to weigh up the relevant evidence of need for a project.
- Urge the IASB to prioritise the research projects where the IASB has made progress on in developing its *Conceptual Framework*.
- Welcome the 'inactive project' category.

7.5 The Council suggested the response should:

- Encourage the IASB consider a project on non-exchange transactions to address issues in respect of levies, government grants and income taxes.
- Encourage the IASB to take the share-based payments project off the agenda.
- Encourage the IASB consider the impact high inflation and price increases as part of the *Conceptual Framework* discussion on measurement.
- Highlight the need for the IASB to ensure projects added to the agenda are of sufficient scope and that the objectives are clear.
- Clarify the process for moving from development to assessment stage.

### *Standard-levels projects*

7.6 The Council agreed the response should:

- Agree with the projects listed on the major projects part of the work plan.
- Urge the IASB to finalise the insurance contracts and leases projects as soon as possible.
- Urge the IASB to continue to develop specific areas of the *Conceptual Framework*.
- Welcome the Disclosure Initiative and highlight the need to ensure there is a close linkage between the various projects that make up the initiative and the *Conceptual Framework* so that the two are complementary. It was highlighted there is a need to ensure the communication principles are not lost.

7.7 The Council suggested the response should also:

- Highlight the need to reduce the burden of change and attempt to 'package up' amendments / seek to align implementation dates.
- Make reference to alternative performance measures.
- Encourage the IASB to consider its prioritisation processes and timetabling of issues.
- Improve mechanisms and processes for responding to issues identified through post-implementation reviews.

### *Maintenance and implementation projects*

7.8 The Council agreed the response should:

- Agree that the number of ways that the IASB can address maintenance and implementation issues is appropriate, provides flexibility and enables the IASB to deliver improvements in financial reporting in a timely way.
- Urge the IASB to consider whether there are broader issues that need to be addressed before adding a narrow-scope amendment.
- Agree that the IASB introduce a five-year interval between agenda consultations.

7.9 AD undertook to draft the response to reflect the suggestions made.

## **8. Revised Draft Guidance on the Going Concern Basis of Accounting, Solvency Risk and Liquidity Risk**

8.1 The Council considered a revised draft of the Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks. AA reported that the Guidance had been developed to encourage companies to think more broadly, over the longer term, about solvency and liquidity risks going beyond the 'narrow' going concern basis of accounting, and, to fill the gap for those companies that are not within the scope of the UK Corporate Governance Codes arising from the withdrawal of the 2009 Guidance for Directors on the Going Concern and Liquidity Risk.

8.2 The Council noted that the revised draft Guidance excludes small and micro entities from its scope in response to concerns that the Guidance could be seen as imposing disclosure requirements for small and micro companies beyond those required by legislation and accounting standards. Whilst the Council considered that the Guidance would be relevant for small and micro entities, the Council accepted the concerns that had been raised. The Council also noted that excluding small and micro entities from scope would be consistent with the new government's drive towards deregulation. The Council approved the revised scope of the Guidance on the basis that additional text be included to note that those companies may use the Guidance as a source of reference.

8.3 MM reported that the draft revised Guidance had been considered by the Codes & Standards Committee on 8 September who, subject to minor drafting amendments, had supported the issue of the Guidance. The Council confirmed its advice that the FRC publish an exposure draft of the guidance with a three-month consultation period.

## **9. Review of revised True and Fair paper**

9.1 AA introduced a draft revised paper on True and Fair and reported that the paper had been updated to reflect:

- a) The introduction of the micro-entity regime and revisions to the small-entity regime;
- b) The issue of the IASB's *Conceptual Framework* ED; and
- c) To respond to investor criticisms that original paper did not fully highlight the need to consider the True and Fair View throughout the reporting process.

9.2 The Council noted that, subsequent to the issue of the papers, a further opinion had been received from Mr Bompas QC. AA reported that the further opinion reiterates Mr Bompas's original view that IAS1 does not permit the True & Fair Override and that the IFRS endorsement process is not legal. The Council noted that the FRC continues to disagree with the two points raised by Mr Bompas and is not looking to respond directly to either point.

9.3 The Council supported the revised paper but suggested that the positioning of references to IAS and FRS should be consistent to give equal prominence and that small entities and micro-entities should be separated out as they are quite distinct.

9.4 The Council noted that consideration would be given as to when would be the best time to issue the revised paper and the out puts of the FRC Financial Reporting Lab's work in this area. MM confirmed that it is the intention that the output of the Lab project would explain the legal uncertainties identified and set out that the legalities are not the focus of the project.

## **10. Triennial Review of FRS 102: Interim improvements**

10.1 Jenny Carter (JC) introduced a paper setting out a proposed approach to the triennial review of FRS 102.

10.2 JC reminded the Council of its tentative advice to delay, for a period of one year, the triennial review of FRS 102 in order to allow more time for implementation experience to develop, for stakeholders to consider issues they wish to raise and for small entities applying FRS 102 for the first time to have stable platform for three years before significant changes are made. The Council reconfirmed its view and agreed that the Codes & Standards Committee be advised to postpone the triennial review of FRS 102 by one year.

10.3 The Council discussed whether the CSC should be advised to make a limited amendment to the fair value hierarchy as set out in FRS 102 in response to a request from the Investment Association, the Association of Investment Companies and the Pensions Research Accountants Group (PRAG). The Council noted:

- A range of options, and the pros and cons associated with each option;
- That making a change would be consistent with the principles for the development of Codes, Standards and Guidance; and

- That the advice of UK GAAP TAG is not make any limited amendments before the triennial review.
- 10.4 Following consideration of the options presented the Council advised that an interim amendment to Section 34 of FRS 102 should be made so that the references to the analysis by level of fair value hierarchy is no longer cross referenced to paragraph 11.27 and instead describes, or is cross-referenced to, a hierarchy based on IFRS. The Council noted that, in advising this option further amendments may be necessary to align Section 11 as part of the triennial review and that this would be a further change in the interim period, however, the Council concluded that this was the most appropriate option given the benefit that costs could be avoided by entities applying the existing fair value hierarchy.
- 10.5 JC undertook to develop a draft ED for consideration by the Council in due course.

## **11. Any other business**

- 11.1 Melanie McLaren (MM) reported that in response to a Parliamentary Briefing on Banking Standards the PRA the is proposing that, in 18 months, the FRC would carry out a review of the appropriateness of financial reporting by banks. The Council discussed the proposal and suggested that the PRA be encouraged to reconsider the timing of such a review, highlighting the number of changes coming in over the next 12 months and the need for those changes to embed.