

Minutes of a meeting of the Accounting Council held on Thursday 25 February 2016 at the FRC, 8th Floor, 125 London Wall, London, EC2Y 5AS

Present:

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| Roger Marshall | Chair |
| Richard Barker | Council Member |
| Chris Buckley | Council Member |
| Michael Gallagher | Council Member |
| Liz Murrall | Council Member |
| Veronica Poole | Council Member |
| Mark Smith | Council Member |
| Pauline Wallace | Council Member |

Observers:

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| Lee Piller | FCA Observer |
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In attendance:

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| Anthony Appleton | Director, Accounting & Reporting Policy |
| Francesca Carter | Council Secretary |
| Jenny Carter | Director of UK Accounting Standards, Accounting & Reporting Policy Team |
| Ufuk Cengiz | Economist (Minute 4 only) |
| Melanie McLaren | Executive Director, Codes & Standards |
| Deepa Raval | Project Director, Accounting & Reporting Policy Team |

Welcome and Apologies for absence

Apologies were noted from Gunnar Miller, Jeremy Townsend (Council Members), Matt Blake (HMRC Observer), Michael Kavanagh (IAASA Observer) and Michael Sunderland (HMT Observer).

1. Minutes of the previous meeting and rolling actions.

- 1.1 The minutes of the meeting held on 21 January 2016 were approved for publication. The note of the conference call held on 4 February 2016 was approved.
- 1.2 Anthony Appleton (AA) reported that Melanie McLaren (MM) had met with Paul Ebling of the PRA to discuss the concern raised at the previous meeting relating to the revised Enhanced Disclosures Task Force (EDTF) statement on encumbered assets. The Council noted and that the PRA has reiterated that in promoting change to EDTF disclosures it is not seeking to override the requirements of law and that the revised statement has no impact on IFRS. AA reported FRC will in its monitoring work continue to focus on legal compliance including that a true and fair view is given.
- 1.3 The remainder of the rolling action log was noted.

2. Director of Accounting Report

- 2.1 The Council noted a paper that 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:

EFRAG

- 2.2 AA reported that the EFRAG Technical Expert Group (TEG) had, at its meeting on 27-28 January, discussed and agreed the content of a Measurement Bulletin. The Council noted that it is intended the paper will be provided to the IASB as additional input to their deliberations of the comments received on the Conceptual Framework ED and will include suggestions as to how to supplement the measurement section of the ED. AA reported that the TEG intends to review a re-draft of the paper at its next meeting before it is presented to the EFRAG Board.

UK GAAP Technical Advisory Group (UK GAAP TAG)

- 2.3 The Council approved the revised Terms of Reference for the UK GAAP TAG and approved the appointment of Rob Griffiths (Deputy Chief Executive and Chief Financial Officer of Longhurst Group) and Jake Green (Director at Grant Thornton UK LLP) to the Group.

LLP Regulations

- 2.4 AA reported that the BIS consultation on amending the LLP Regulations for consistency with recent changes to company law closed in December 2015 and that the new Regulations are expected to allow early adoption for accounting periods beginning on or after 1 January 2015.
- 2.5 The Council noted that limited amendments to change the scope of FRS 105 *The Financial Reporting Standard applicable to the Micro Entities Regime* will be necessary to accommodate the changes in legislation and that the FRC is exploring the possibility of making the necessary amendment without formal consultation so as not to limit LLPs' ability to take the early adoption option. The Council supported this approach noting that, as the changes are minor and relate only to reflecting changes in legislation, the approach would be permitted under the FRC's *Framework for developing Standards, Statements of Practice, Codes and Guidance*.

Financial Reporting Lab

- 2.6 The Council noted that the IASB had published new requirements to disclose information that allows users to evaluate changes in an entity's debt and that the project to develop the requirements had been in response to the Financial Reporting Lab's work on net debt reconciliations in 2012. AA reported that, whilst this represents a significant step in respect of debt reconciliation, the FRC would seek to use the wider findings from the Lab's work to encourage the IASB to address investors' interests in other aspects of debt terms and maturities.

FRC matters

- 2.7 The Council received an update on matters considered by the FRC Board and Codes & Standards Committee (CSC) in the last quarter. It was noted that the focus of the FRC Board has been on the implementation of the Audit Regulation & Directive and the various work streams arising from the Directive.

2.8 The Council noted that the CSC had discussed a letter received from a group of Investors relating to disclosures on climate risks and viability statements. Whilst it was noted that the Corporate Governance Code sets out that it is for Directors to make judgements about the risks in their business model and to report on those risks, the Council suggested the FRC should consider how it might assist directors to both identify risks and identify factors to consider in determining the level of risk.

3. Director of Research Report

3.1 The Council noted a paper that provided an update on accounting research activities. AA reported that Andrew Lennard (AL) would be presenting an overview of responses to the Conceptual Framework ED to the IASB Board at its March meeting.

4. Council Effectiveness Review Findings – Chairs note

4.1 The Council noted and discussed a summary of the findings of the 2016 Council Effectiveness Review survey. The following observations and suggestions were made:

- The Council welcomed the feedback provided in respect of the work of the FRC Board and Codes & Standards Committee (CSC) and supported the suggestion that feedback from the Board and CSC be a routine agenda item.
- The Council made a number of suggestions in respect of circulating Council papers.
- The Council supported the suggestion that, when the agenda is light, meetings start at the later time of either 9.30am or 10am.
- It was suggested that in order to ensure the Council is most effective and that debates are of high quality it would be helpful to provide members with education / briefing sessions when the Councils' advice is sought on a particularly specialist topic.
- It was suggested that a more structured approach to horizon scanning and risk identification is necessary.

4.2 The Chairman and Executive undertook to reflect on the suggestions put forward by the Council.

5. Horizon Scanning

5.1 Ufuk Cengiz (UC) introduced a paper that provided an update on the FRC's Horizon Scanning framework. It was noted that in response to the 2015 exercise:

- The FRC Board had agreed to carry out a research project on retirement income which would look broadly at changes in the pensions market and the long term impact those changes may have, particularly on investment and actuarial information; and
- Steps had been taken to better clarify links between the issues identified and a) the impact the issues would have on the FRC and b) what the FRC could reasonably do in response.

5.2 The Council discussed the paper and the overall approach to Horizon Scanning. Whilst the Council supported the approach and considered the Framework to be appropriate at an organisational level, it was suggested that it would be useful to develop a list of matters specific to remit of the Council that could be presented to the Council at each meeting and fed in to the wider FRC Framework. The Council suggested that, to assist the Council in monitoring the list, it would be helpful to clearly state the steps that have been taken, or are to be taken in response to each item on the list and that, if no action can be taken this should be clearly indicated. The Council requested that, in addition to list of matters

identified by the Council as part of the 2015 exercise, 'Brexit' and the implications of growing numbers of overseas companies listing in the UK should be included in the list.

5.2 The executive undertook to consider and respond to the suggestion of the Council.

6. Responses to FRED 62 and Final Amendments to FRS 102 – Fair value hierarchy

6.1 Jenny Carter (JC) introduced a paper setting out comments received in response to FRED 62 *Draft amendments to FRS 102 – Fair value hierarchy disclosures* and the final proposed amendments. JC reported that FRED 62 had been issued in response to feedback from stakeholders and proposed a limited scope amendment to FRS 102 relating to disclosures made by financial institutions and retirement benefit plans in respect of the fair value of financial instruments. The Council noted that the amendments should lead to reduced costs of compliance and benefits for users through greater consistency with reporting by those applying IFRS.

6.2 JC reported that 22 responses to FRED 62 had been received, 21 of which had been extremely positive about the proposals. The Council discussed three matters that had been identified in response to the consultation, the following observations were made and advice was given:

Two different hierarchies

6.3 The Council noted that a number of respondents, including the one respondent who had not supported the proposals, had highlighted that an inconsistency will be created in the standard with the process for measuring financial instruments at fair value being different to that used for disclosure purposes. JC reported that the Council's Advice on FRED 62 had addressed the matter and that the majority of respondents had agreed with the Council that the issue should be considered as part of the triennial review. JC also reported that the matter had been discussed with UK GAAP TAG and that the consensus was that there was no requirement to formally allocate financial instruments according to the measurement hierarchy. The Council supported the recommendation to proceed with the issue of the amendments and consider the process hierarchy as part of the triennial review and noted that the matter is referenced in the Feedback Statement.

More detailed alignment with IFRS 13

6.4 The Council supported the proposal to consider aligning the definition of an active market as set out in FRS 102 with the definition in IFRS 13 *Fair Value Measurement* as part of the triennial review and agreed that it is unnecessary, and would be disproportionate, to include the full definition of observable and unobservable inputs as set out in IFRS 13. The Council noted these matters are reflected in the feedback statement.

Timing

6.5 JC reported that some respondents have urged the FRC to finalise the amendments quickly so that entities will be able to take advantage of the improvements as soon as possible, and that, subject to approval, it is expected the amendments will be issued by 10 March 2016. This will enable entities to apply the amendments in relation to the financial year ending 31 December 2015 if the financial statements have not been approved by the time that the amendments are issued.

6.6 The Council confirmed its advice to the FRC Board to issue *Amendments to FRS 102 - Fair Value Hierarchy Disclosures*.

7. Outline timetable for triennial review, strategic issues and consultation

- 7.1 JC introduced a paper setting out a proposed timetable for the FRS 102 triennial review and a number of strategic issues to consider. JC reminded the Council of the FRC's decision to postpone the review in order to allow more time for implementation experience to develop and to give small entities three years before changes are made to FRS 102. It was noted that the effective date is intended to be 1 January 2019 and that any amendments would need to be finalised by the end of December 2017 in order to give entities time to prepare.
- 7.2 The Council noted the proposed timetable and queried whether sufficient time had been built in to the early stages of the review for consideration of the principles that would underpin and inform the scope of the review. Through discussion the importance of having an established set of principles to inform strategic thinking and ensure a consistent approach to decision-making was highlighted. The Council requested an opportunity to re-debate the existing principles, consider whether they remain fit for purpose and consider whether any additional principles are required and JC undertook to prepare a paper for the March meeting.
- 7.3 The Council discussed the proposed approach to collecting views from stakeholders and the proposed formal consultation. The Council supported the proposal to hold an informal e-mail consultation from March / April 2016 to the end of October 2016 ahead of the formal consultation that would be held in 2017 and agreed that the informal e-mail consultation should be limited to seeking feedback on any practical issues or difficulties that have been experienced.
- 7.4 The Council discussed the proposed focus of the first triennial review. In noting the varying significance and size of matters identified for consideration it was queried whether the triennial review approach is the most appropriate approach to take or whether a post implementation or annual improvement review approach would be more appropriate. Following a short debate the Council concluded that it would be sensible to revisit the matter once the principles that would underpin the triennial review had been agreed.

8. Draft response to BIS consultation Non-Financial Reporting Directive

- 8.1 Deepa Raval (DR) introduced a first draft of the FRC response to the Department of Business, Innovation & Skills (BIS) consultation 'the Non-Financial Reporting Directive – A call for views on effective reporting alongside proposals to implement EU Requirements'. The Council noted that the consultation had been published on 16 February and would be open for 8 weeks until 15 April 2016.
- 8.2 DR reported that the draft response reflects the advice given by the Council at its January meeting and:
- in the interests of transparency encourages BIS to retain the scope for reporting non-financial information in the Strategic Report and to extend the scope to credit institutions and insurance undertakings in accordance with the definition of PIEs in the Directive;
 - suggests that non-financial information that is relevant to investors should be included in the Strategic Report but encourages BIS to provide companies with flexibility on where information is reported, particularly for standing data that remains unchanged;

- does not support a requirement for assurance over non-financial information and suggests any demand for assurance should be market led;
- encourages BIS to explore the use of electronic reporting;
- recommends the removal of certain disclosures from the Directors' Report in response to the deregulation agenda; and
- reiterates concerns relating to the requirement to list all subsidiaries in the annual report.

8.3 The Council discussed the proposed response and in particular the section relating to placement of information. Whilst it was noted it is important not to encourage companies to produce lengthy reports it was highlighted that it is also important not to lose sight of the principle that if a director considers information to be relevant to the understanding of the company that it be included in the Strategic Report. The Council suggested that the response be revised to:

- highlight the principle referenced above;
- state that the 'all of nothing' proposal regarding the placement of information in the strategic report is unsatisfactory and problematic;
- state that it is inadequate to simply say that if information is not included in the strategic report that it go 'elsewhere' and not provide guidance as to where this may be; and
- suggest that should information be published on the website it should be a requirement that the information is given equal prominence on the website.

8.4 The Council noted that the European Commission (EC) had published a consultation document entitled 'Non-Binding Guidelines for Reporting of Non-Financial Information by Companies' on 15 January. DR reported that the consultation is only on the methodology for producing guidance rather than being a consultation on the guidance itself and that, in light of the tight timescales, it is unclear whether the Commission would consult on the actual guidelines.

8.5 The Council noted that MM had recently met with at the EC who had noted that the FRC's Guidance on the Strategic Report will be useful as the EC develops its guidelines.

8.6 The Council discussed the proposed draft FRC response and supported the approach to encourage the EC to be proportionate, principles based and to provide member states with flexibility to use their own guidance for reporting non-financial information. However, the Council suggested the response should be strengthened to encourage the EC not to reopen the debate in respect of matters agreed at the time of negotiating the Directive including materiality and who the annual report is for.

8.7 DR undertook to update the draft responses to reflect the advice of the Council.

9. Guidance on Going Concern and Risk – comment letter and key issues

9.1 DR introduced a paper setting out a high level analysis of responses to the FRC's Exposure Draft Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity risks ('draft guidance'). The Council noted that whilst respondents were broadly supportive and supported the FRC's decision to issue guidance in the area a number of issues were identified.

9.2 DR invited the Council to consider and comment on key issues identified. Through discussion the following observations were made and advice was given:

9.3 *Scope*

Whilst it was noted that several respondents had expressed concern that the scope as articulated is confusing and could unintentionally introduce new disclosure requirements for small and micro-companies it was also noted that some respondents had stated directors of small and micro companies would welcome proportionate guidance in this area and should not be excluded from scope. Following a short discussion the Council supported the recommendation to continue to exclude small and micro-companies from the scope of the guidance but to improve the drafting to make it clearer what aspects of the guidance are relevant and would be useful for small and micro-companies.

9.4 *The assessment period for solvency and liquidity risk*

It was noted that a number of respondents raised concerns regarding the assessment period for solvency and liquidity risks suggesting the proposals would be onerous for many of the companies within the scope of the guidance because they do not have systems in place to make risk assessments or plan business cycles over such a long period. The Council discussed and supported the proposal to address the concerns raised by:

- providing greater context and introducing cross references to the strategic report guidance to make it clear new requirements are not being introduced;
- removing references to 'viability' to reduce confusion with the Corporate Governance Code; and
- replace the term 'extremely rare circumstances' in paragraph 4.8 with the term 'usually'.

But suggested further consideration was necessary to determine whether the emphasis on solvency and liquidity risks is appropriate and consider whether the focus should be broadened to cover all principle risks and uncertainties.

9.5 *Material uncertainties*

It was noted that several respondents had commented on the difficulty of making an assessment of when there are material uncertainties and had requested that the guidance provide more clarity in this area. Following a short discussion it was suggested that the executive should look to the approach taken in the Corporate Governance Code and not seek to identify an alternative approach.

9.6 *Other matters*

The Council noted that some respondents had suggested that an 'aide memoire' of questions for Boards to consider be included as an appendix to the guidance. Following a short discussion the Council suggested that the executive should look to include questions for Boards to consider throughout the document rather than provide a series of questions as an appendix on the basis that the appendix might be used as a checklist and discourage Boards from reading the full guidance document.

9.7 DR undertook to update the guidance to reflect the advice of the Council.

10. Update on IASB's Insurance Contracts Project

10.1 The update was deferred to the March Council meeting.

11. Any Other Business

11.1 The Council noted that the FRC is hosting a Governance Event for all Board, Committee and Council members on 9 March 2016.

11.2 There was no other business.

12. Date of next meeting

12.1 It was noted that the next formal meeting of the Council would be held on 24 March 2016 at the slightly later time of 10am.