

**Minutes of a meeting of the Corporate Reporting Council held on
Wednesday 18 May 2016 by conference call**

Present:

Roger Marshall	Chair
Pauline Wallace	Council Member
Richard Barker	Council Member
Chris Buckley	Council Member
Michael Gallagher	Council Member
Gunnar Miller	Council Member
Mark Smith	Council Member
Jeremy Townsend	Council Member
Pauline Wallace	Council Member

Observers:

Matt Blake	HMRC Observer
Trevor Rushe	IAASA Observer (in place of Michael Kavanagh)

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
Paul George	Executive Director, Corporate Governance & Reporting
Seema Jamil-O'Neill	Project Director, Accounting & Reporting Policy Team

Welcome and Apologies for absence

Apologies were noted from Liz Murrall, Veronica Poole (Council Members) and Lee Piller (FCA Observer).

1. Minutes of the previous meeting and rolling actions.

- 1.1 The minutes of the meeting held on 21 April 2016 were approved for publication.
- 1.2 The note of the conference call held on 28 April 2016 was approved.
- 1.3 The rolling action log was noted. It was noted that a paper on horizon scanning would be presented at the June meeting.

2. Director of Accounting and Reporting 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:

IASB – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

2.2 It was noted that, at its May meeting, the IASB Board had approved staff recommendations on the remaining technical decisions as set out in the paper. It was also noted that the pre-ballot drafting process had begun with the aim of issuing final amendments in September 2016.

UK GAAP Technical Advisory Group (TAG)

2.3 The Council noted a number of technical issues discussed by the TAG at its meeting on 5 May and the conclusions reached.

3. Amendments to FRS 101 – 2015/16 Cycle

3.1 Jenny Carter (JC) introduced the final proposed *Amendments to FRS 101 – 2015/16 cycle*. JC reported that the Amendments had been developed in response to the Council discussion in April and discussion with the UK GAAP TAG.

3.2 The Council noted that in response to suggestions from respondents about the disclosure requirements of IFRS 15 *Revenue from Contracts with Customers* the proposed disclosure exemptions had been reviewed and the exemptions relating to: IFRS 15.113(b) – Impairment losses on contracts with customers and, IFRS 15.119(d) and (e) – Returns and warranties had been removed. The Council noted that, through discussion with the UK GAAP TAG, an issue relating to a paragraph in IAS 27 *Separate Financial Statements* had been identified and that the issue would be considered as part of the next review.

3.3 The Council noted that its Advice sets out the conclusion that qualifying entities are likely to have limited external users of their financial statements, and that any external users are likely to be providers of credit with a greater focus on information supporting the statement of financial position, than on detailed information about financial performance. Whilst it was noted that this hypothesis was tested as part of the consultation it was suggested that it might be useful to reflect on whether for a parent company considerations might be different in some instances.

3.4 The Council gave its Advice to the FRC Board to issue the Amendments.

4. FRED 65 Draft Amendments to FRS 101 – Notification of shareholders

4.1 JC reported that FRED 65 had been developed in response to an issue raised by a number of respondents to FRED 63 *Draft amendments to FRS 101 – 2015/16 cycle*. It related to the requirement to notify shareholders that disclosure exemptions are going to be taken and was considered by the Council in April.

4.2 The Council provided its advice to the FRC Board that FRED 65 be issued but requested that the question asking respondents whether removal of the requirement would disadvantage users be updated to specifically mention minority shareholders.

5. Triennial review of FRS 102 *The Financial Reporting Standard applicable in the UK & Ireland* – strategy and content (outstanding issues)

5.1 JC introduced a paper that set out the strategy previously advised by the Council for revising the standard and outline content and sought the Council's advice on a small number of outstanding issues. JC reported that strategy had been considered by the FRC Codes &

Standards Committee and, in addition feedback had been obtained from the UK GAAP TAG. Whilst both groups had been supportive of the strategy for addressing known issues in FRS 102 with improvements and clarifications, the TAG had expressed significant concerns in respect of the intention to incorporate the control model from IFRS 10 *Consolidated Financial Statements*, the impairment model from IFRS 9 *Financial Instruments* and IFRS 16 *Leases*. JC reported that the TAG had highlighted the difficulties associated with drafting amendments to FRS 102 in the absence of implementation experience and had suggested that respondents in focusing on the more significant amendments might place insufficient focus on the improvements and clarifications.

- 5.2 The Council noted the concern and considered a proposal to respond to the concern by separating the triennial review in to two components:
- (i) One to respond to the less significant amendments arising from changes in IFRS and other incremental improvements and clarifications – to be issued in March 2017.
 - (ii) One to address the more significant amendments arising from changes in IFRS which would take the form of two separate consultations, one on the approach to the changes, to be issued in the Autumn of 2016 and a second on the proposed amendments, to be issued at a later date.

JC highlighted that the approach would have the benefit of enabling grater engagement with stakeholders and would also stagger the workload without impacting the effective date.

- 5.3 Whilst the Council supported the proposal it was highlighted that the challenge in respect of amending FRS 102 for IFRS 9 and IFRS 16 without implementation experience would remain.

- 5.4 The Council considered the following issues identified for consideration as part of the triennial review. Through discussion the following observations were made and advice was given:

Share-based payments

- The Council noted that a small number of private companies had raised an issue in respect of the cost of preparing information about share-based payment awards when there is no market for the shares. JC reported that it is not clear that there has been sufficient change since FRS 102 was issued to support a move away from an IFRS-based solution and that the UK GAAP TAG consider that the requirements are well bedded in and there is no immediate need for change. Whilst the Council acknowledged there are strong arguments to retain the existing requirements it was suggested that it would be useful, and consistent with the deregulatory agenda, to provide an opportunity for respondents to the consultation to raise any concerns in respect of the requirements.

Disclosure requirements – incorporation of legal requirements and deregulation

- The Council supported the proposal to revise the disclosures in FRS 102 to align them more closely with the legal requirements in order to reduce the burden on preparers in terms of the need to identify requirements from different sources.

Government grants

- Whilst the Council noted there is a need to review the provision within FRS 102 for accounting for government grants in order to improve consistency in application by public benefit entities, it was noted that the IASB has not changed IAS 20. Therefore, on the basis that it would be desirable for FRS 102 and the international standard to be aligned, it would not be timely to revise FRS 102. In response to a concern that the FRC could be perceived as not responding to the issue AA reported that he has been participating in early discussions on the matter with other National Standard setters and that, when momentum builds, the FRC hope to play a leading role in facilitating discussions and setting direction

5.5 JC thanked the Council for its input and undertook to begin developing the consultation materials as discussed. It was requested that a paper setting out research priorities for the Council be presented in due course.

6. Any Other Business

6.1 The Council discussed an issue that had been brought to the attention of the FRC relating to the classification of loans as basic (and measured at amortised cost) or other (and measured at fair value) under FRS 102. It was noted that the issue relates to a clause commonly found in loans in the Social Housing Sector relating to the payment of compensation in the event of early repayment. FRS 102 specifically states that such clauses requiring payment to the lender do not breach the conditions for being basic, the clause in question can also require the lender to compensate the borrower if the borrower chooses to repay early and current markets are above the fixed rate in the contract; this is not explicitly covered in FRS 102.

6.2 The Council noted that the issue has been discussed with a number of parties, and their different perspectives had been noted.

6.3 Following consideration of the range of views put forward, and an acknowledgement of the level of diversity in practice, the Council advised that there is a need to consult on a possible amendment to the standard; potentially through the triennial review. The Council also advised that, in the interim, the FRC should issue a note to announce the consultation, to acknowledge that there is diversity in practice and to draw attention to the judgement disclosures of FRS 102.

6.4 There was no other business.