



**Minutes of the Third Meeting of the Accounting Council (2012:03)
held on 6 September 2012 at Aldwych House, 71-91 Aldwych, London, WC2**

PRESENT

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|-----------------|------------------------|
| Roger Marshall | Chairman |
| Michelle Sansom | Director of Accounting |
| Nick Anderson | (for Items 3-10) |
| Richard Barker | (for Items 2-10) |
| Edward Beale | |
| Peter Elwin | (for Items 6.15(e)-10) |
| Ken Lever | |
| Robert Overend | |
| Andy Simmonds | |
| Pauline Wallace | |

IN ATTENDANCE

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| Matt Blake | HMRC |
| Andrew Lennard | Director of Research (for Items 1-4) |
| Melanie McLaren | Executive Director, Governance, Codes and Standards |
| Michael Kavanagh | IAASA Observer |
| Larry Pinkney | HM Treasury (for Items 1-6.15(d)) |
| Roger Nicklen | Minutes Secretary |

Technical Staff: Mei Ashelford, Jenny Carter, Grant Chatterton, Jennifer Guest, Jessica Howard, Deepa Raval, Janice Lingwood, Susanne Pust Shah and Joanna Spencer.

1 MINUTES

- 1.1 The minutes of the meeting of the Accounting Council held on 26 July 2012 (2012:02) were agreed and approved for publication.

2 DIRECTOR OF ACCOUNTING REPORT

- 2.1 The Council received a report from the Director of Accounting and noted:
- developments relating to convergence between International Financial Reporting Standards and US accounting standards;
 - IASB progress on investment entities, insurance contracts, financial instruments, hedge accounting, revenue recognition, and investments in associates;
 - IASB's invitation for nominations to a consultative group on fieldwork and effects analyses;
 - publication by the Trustees of the IFRS Foundation of a Drafting Review of the IFRS Foundation Constitution;
 - closure of the work of the EFRAG Governance Review;

- f. ongoing discussions between AC staff and BIS in relation to proposed amendments to the Accounting Directives and changes in accounting requirements for micro-entities; and
 - g. publication on the FRC website of the Research Bulletin 'How credit analysts use the financial statements'.
- 2.2 The Council supported a staff recommendation that it be proposed to the FRC that the statement on SORPs previously given by the Accounting Standards Board (ASB) should in future be given by the FRC Board as the body that had taken over responsibility for issuing accounting standards from the ASB.

3 RESEARCH ACTIVITIES AND DEVELOPMENTS

3.1 The Council received a report on research activities and developments.

3.2 The Council noted the latest position on:

- a. development of a paper on prudence;
- b. policy on FRC research;
- c. initial work on a possible project on share-based payment by unlisted companies; and
- d. ongoing EFRAG PRC projects on the disclosure framework, business combinations under common control, corporate income taxes and the role of the business model.

4 THE ROLE OF PRUDENCE IN DEVELOPING ACCOUNTING STANDARDS

4.1 The Council considered a draft of a paper commissioned by the Codes & Standards Committee (CS) on the role of prudence in financial reporting.

4.2 The Council discussed the importance of setting the discussion of prudence into the wider context of the conceptual framework and of presenting the arguments in a balanced and unbiased way and commissioned further development of the paper for discussion at the next meeting.

5 FINANCIAL INSTRUMENTS – IMPAIRMENT

5.1 The Council reviewed EFRAG TEG's work in relation to the IASB's impairment project.

5.2 The Council considered both the issues arising in relation to convergence between the IASB and FASB and the direction in which the FRC executive should be seeking to influence EFRAG and the IASB on impairment.

5.3 The Council:

- a. noted that the new proposals would speed up the recognition of loss provisions but expressed concern over how that was to be controlled;
- b. raised concerns about the risks arising from a concentration on the issues for banks for a standard that had to be applied by all entities;
- c. noted that the IASB had done its best to secure agreement with FASB and gave support to the IASB proceeding without convergence with FASB but

expressed considerable regret that the two Boards had not found a way of working together; and

- d. approved the basis on which the FRC's views should be conveyed to EFRAG and the IASB.

6 FUTURE OF FINANCIAL REPORTING IN THE UK AND ROI

- 6.1 The Council resumed its re-deliberation of draft standards FRS 100 'Application of Financial Reporting Requirements', FRS 101 'Reduced Disclosure Framework' and FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.
- 6.2 The Council considered amendments to FRS 100 and tentatively decided to recommend to the FRC an amendment to the early implementation requirements (also in FRS 101) and other drafting/minor changes to address comments raised in the consultation response letters. The Council considered that the staff clarification of the disclosure exemptions relating to intra-group transactions was not necessary.
- 6.3 The Council considered amendments to FRS 101 and tentatively decided to recommend to the FRC an amendment to relax the restriction for financial institutions from applying IFRS 13 disclosure exemptions, a clarification of Companies Act precedence, and other drafting/minor changes to address comments raised in the consultation response letters.
- 6.4 The Council also:
 - a. confirmed the intention to publish the new standards so that they would be available on the FRC website by the end of the year (but see paragraph 6.19 below); and.
 - b. approved the form in which its advice to the FRC Board (for inclusion in the published standards) should be presented.
- 6.5 The Council reviewed the decisions to date in relation to proposed FRS 102 and the basis on which departures from the IFRS for SMEs could be justified.
- 6.6 The Council agreed that a number of the changes from the IFRS for SMEs could be justified only on the basis that they were consequential on the changes made to the scope of proposed FRS 102 and that there was one change (relating to biological assets) that could be justified only on pragmatic grounds to enable existing practice to continue.
- 6.7 The Council noted an update report on the overall project and on recent outreach activities.
- 6.8 The Council considered a report on outreach activities and a request from the FRC Board for clear evidence that sufficient outreach had been undertaken and that there was positive feedback from preparers who would be applying the standard, endorsed the staff view that the due process requirement relating to consultation with stakeholders had been met and that contact with stakeholders should be maintained to ensure the final standard best met preparer and user needs with one member expressing reservations about the lack of user feedback.
- 6.9 The Council tentatively decided to recommend to the FRC bringing the requirements of FRS 102 in relation to step acquisitions, step disposals and changes in stake in line with IFRS 3 issued 2004.
- 6.10 The Council considered proposals for issuing an Exposure Draft setting out proposed amendments to FRS 102 on accounting by multi-employer schemes and a

Press Release drawing attention to the implications from the disclosure requirements in FRS 17 'Retirement Benefits' of funding deficits.

- 6.11 The Council discussed the implications for the overall timetable of undertaking a re-exposure consultation and the basis on which a limited consultation period could be justified.
- 6.12 The Council agreed to recommend to the FRC publication of an Exposure Draft setting out proposed amendments to FRS 102 on accounting by multi-employer schemes with a 60 day comment period.
- 6.13 The Council also agreed that if it was necessary to re-expose on more than one issue publication of a Press Release on FRS 17 should be undertaken separately.
- 6.14 The Council tentatively decided to recommend to the FRC:
 - a. a number of amendments to draft FRS 102 relating to cash flow statement exemptions that were consequential on scope changes;
 - b. a revised definition of financial institutions;
 - c. a change to the measurement base for donated services;
 - d. a change clarifying when funding commitments by public sector entities (PBE) gave rise to a liability;
 - e. supplementing the definition of a PBE;
 - f. extending the relief on concessionary loans to non-PBE subsidiaries in a PBE group (subject to Council approval of a definition of a PBE group).
- 6.15 The Council tentatively decided, subject to a check that no conflicts with the Companies Act would arise, to recommend to the FRC that in relation to extractive activities:
 - a. FRS 102 should refer preparers to IFRS 6, and
 - b. re-exposure was not required provided the decision was drawn to constituents' attention on the FRC website.
- 6.16 The Council reviewed the decisions to take on service concession arrangements and the results of recent outreach work on a possible extension of FRS 102 to include grantor accounting.
- 6.17 The Council tentatively decided to recommend to the FRC:
 - a. publication of an exposure draft on changes to FRS 102 introducing grantor accounting requirements for service concessions with a 60 day comment period;
- 6.18 The Council also tentatively decided to recommend to the FRC changes to FRS 102 in relation to:
 - a. accounting for service concessions by operators;
 - b. lease incentives; and
 - c. transition requirements on accounting for past business combinations.
- 6.19 The Council noted that it may be necessary to defer publication of FRS 102 (but not on FRS 100 and 101) to enable the results of the recommended consultations on multi-employer pension schemes and grantor accounting for service concessions to be taken into account.

7 DISCLOSURE FRAMEWORK

7.1 The Council considered a draft of a supplementary FRC paper 'Thinking about disclosures in a broader context.

7.2 The Council made a number of suggestions for further development of the paper.

8 DRAFT IFRIC INTERPRETATION 'PUT OPTIONS WRITTEN ON NON-CONTROLLING INTERESTS'

8.1 The Council considered the IFRS Interpretations Committee draft Interpretation 'Put Options Written on Non-controlling Interests (NCI)' together with the related draft EFRAG comment letter.

8.2 The Council agreed that the Interpretation was appropriate in the light of existing literature and approved response to the IASB and to EFRAG.

9 IASB DUE PROCESS HANDBOOK

9.1 The Council considered the IASB and IFRIC 'Due Process Handbook together with the related draft EFRAG comment letter.

9.2 The Council:

- a. emphasised the importance of having a due process in which interested parties were enabled to fully articulate their views and to see that the right actions were being taken in the light of those views;
- b. expressed reservations about the over-bureaucratic nature of the proposed process and the risk of due process becoming a tick box exercise and also emphasised;
- c. questioned the absence of mechanisms for dealing with the IFRS for SMEs and issues that were more than annual improvements but which did not justify a full-scale project; and
- d. suggested that the document would benefit from a visual presentation of the process.

9.3 The Council commissioned the Chairman and staff to review the proposed responses to EFRAG and to IASB in the light of members' comments and to feed in to the forthcoming conference call arranged to settle the EFRAG comment letter. Staff would circulate the revised draft to Council members with a covering note for the IASB.

10 NEXT MEETING

Thursday 4 October, 9.00 a.m.