

**Minutes of a meeting of the Corporate Reporting Council  
held on 7 June 2018 in the FRC Boardroom, 8<sup>th</sup> Floor, 125 London Wall,  
London EC2Y 5AS**

Present:

Richard Barker	Acting Chair
Michael-John Albert	Member
Chris Buckley	Member
Michael Gallagher	Member
Roger Marshall	Member
Sian Morgan	Member
Mark Smith	Member

Observers:

Alison Ring (HMRC)

In attendance:

Anthony Appleton	Director, Accounting & Reporting Policy
Anu Bhartiya	Committee Secretary, Corporate Reporting Council
Jenny Carter	Director of UK Accounting Standards
Anna Colban	Corporate Governance & Reporting, Project Manager (From Minute 5.1 to 6.8)
Debbie Crawshawe	Project Director
Annette Davis	Project Director
Paul George	Executive Director, Corporate Governance & Reporting
Deepa Raval	Director of Narrative Reporting
Rosalind Szentpeteri	Project Director

**1. Welcome and apologies for absence**

The Chairman informed that due to Paul Druckman's personal reasons, he is unable to attend the meeting. He welcomed everyone to the meeting. Apologies were noted from Paul Druckman (Chairman), Liz Murrall (Member), Veronica Poole (Member), Seema Jamil-O'Neil (BEIS Observer), Lee Piller (FCA Observer), Ian Bulmer (HMT Observer) and Trevor Rushe (IAASA Observer).

**2. Declaration of conflicts of interests**

There was none reported.

**3. Minutes and rolling actions**

*Minutes of the Corporate Reporting Council meeting held on 10 May 2018*

3.1 The minutes of the Corporate Reporting Council meeting held on 10 May 2018 were approved for publication.

*Rolling actions*

3.2 The matters arising log was noted.

**4. Chairman's update**

4.1 Mr George provided an update on the Board meeting held on 6 June 2018. The discussion had included:

- The Chief Executive's Report. Amongst other matters the Report had covered the discussion relating to the FRC's status as public body, independent review of the FRC and the audit market concentration.

- The Guidance on Strategic Report. The Board had agreed with the advice of the Codes & Standards Committee that further consultation was not necessary on the grounds that once the legislation is passed by the Parliament, BEIS will publish the legislation together with frequently asked questions on the interpretation of the legislation.
- The results of the 2018 employee survey and responding actions.
- The FRC's internal governance review.
- The agreement on the log of actions arising from the 2017/18 Board and Committee Effectiveness review.
- The outcome of the 2017/18 Audit Quality Review (AQR) inspection round and the key aspects of the AQR's public reports on the eight largest audit firms.
- The IFoA's draft consultation on an effective monitoring regime in the public interest.
- The proposed revisions to the Corporate Governance Code.
- The Wates Principles for Corporate Governance of large private companies

## **5. Director of Accounting and Reporting Report**

- 5.1 Mr Appleton introduced his report which provided an update on developments relating to financial reporting, wider corporate reporting and other FRC matters not covered elsewhere on the agenda. The discussion included concerns in respect of meeting timelines by EFRAG in relation to the draft endorsement advice on IFRS 17.
- 5.2 The biography of Marianne Mau was tabled at the meeting. The Council considered the biographies of Marianne Mau and Pamela Taylor and agreed to appoint them as members of the UK GAAP TAG with effect from 1 June 2018.
- 5.3 The Council noted the draft structure and contents of the *Annual Review of Corporate Reporting* report and gave consideration to the current developments in the market. A number of comments and suggestions were provided including:
- Consideration could be given to the Carillion investigation and the BEIS's consultation on Insolvency and Corporate Governance. It was noted that themes emerging from these matters would be included within the Corporate Reporting Review's half yearly letters to the preparers and also within the *Developments in Audit* Report.
  - Focus on clear and concise reporting could be highlighted.
  - Reference to the Fitness Check on the EU Framework for public reporting by companies could be included.
  - The purposes of reporting Strategic Guidance under two headings is different. The heading could be reviewed to clarify the purpose better.
  - It could be useful to discuss the matter relating to the post Brexit accounting framework at the Council first before incorporating any contents within the Report.
  - Reference to gender pay gap could be included in the Report.
  - Reference could be made to the year-end advice letters to the preparers.
- 5.4 In respect of the FRC's response to the *Fitness check on the EU Framework for public reporting by companies*, it was noted that the FRC is seeking BEIS's views on the form, content and extent of response. It is aimed that the draft response would be presented to the Council at the July meeting. The FRC is also encouraging UK stakeholders to respond to the consultation.

## **6. Strategic Report Guidance - Update**

- 6.1 Ms Raval provided a brief update on the main changes made to the guidance including those in relation to the scope and structure of the content elements section to ensure that the scope of application of the new legislative requirements is clear.
- 6.2 The Council queried the basis of replacing the word 'directors' with 'board' and whether the change was consistent throughout the guidance. The executive agreed to review the guidance to ensure a consistent basis of the use of the terms. It was also agreed that the term 'non-financial' would be defined in the glossary.

- 6.3 The Council noted that the flow chart that was previously included in section 7 was replaced by a Venn diagram. It was reported that there is point of clarification required within the Venn diagram in respect of scoping for medium and large companies.
- 6.4 The Council noted that the basis of conclusions was the Accounting Council's advice from the 2014 guidance which includes the rationale for decisions made relating to the revised guidance and the feedback received from the Council and the Narrative Reporting Advisory Panel. The Council was supportive that the basis for conclusions and the feedback statement were suitable for publication.
- 6.5 The Council had a thorough discussion in relation to the reporting requirements under section 172 by a holding and subsidiary companies. The discussion concluded that the frequently asked questions supporting the legislation and GC100 advice in respect of the interpretation of section 172 would help in formulating guidance in this respect. Once the legislation and the FAQs are published, section 8 of the guidance will be revised and presented to the Council for advice. The Council was supportive of the direction of travel in finalising this section.
- 6.6 In terms of the proposed approach to drafting the guidance on reporting on section 172, the Council noted that the guidance should be kept simple but including the 'encouraged content elements', these encourage companies to explain how they have engaged with key stakeholders, how those stakeholders have been considered in making key decisions and the company's strategy for value allocation, including dividends. The Council felt that it would be helpful to provide guidance in respect of reporting by large subsidiaries. It was noted that reporting by subsidiaries could be met by publishing the strategic report or annual report in its entirety on the group website. In providing guidance on this topic, cross reference will be made to BEIS's frequently asked questions.
- 6.7 In respect of the strategy of value allocation and key decision relating to distribution of dividends, companies would be encouraged to report what considerations were made in making those decisions. The consideration could include long term impact on wider stakeholders, employees, pension fund which could reflect company's dividend decision against the dividend policy for that year. The Council noted that within the guidance, it is important to consider current dividend decisions alongside the longer-term dividend policy. The Council suggested that the guidance could be supplemented by linking an example of a company that has taken such decisions.
- 6.8 Ms Raval agreed to take the above discussion into consideration in finalising the guidance. Subject to that, the Council agreed to advise the Codes & Standards Committee on the publication of the revised guidance subject to the finalisation of the guidance on reporting on section 172.
- 7. Draft response to IASB ED – Accounting Policy Changes (Proposed amendments to IAS 8)**
- 7.1 Mrs Szentpéteri provided a brief summary of the contents of the FRC's draft response to IASB Exposure Draft on Accounting Policy Changes. The draft response states that:
- The proposal to distinguish between voluntary changes that result from agenda decisions and other voluntary changes, and set different requirements for each, seems arbitrary and difficult to apply consistently in practice because the company's facts and circumstances may be similar, but not identical, to those described in the agenda decision.
  - The proposals as drafted will also exacerbate the existing tension in distinguishing the mandatory correction of an error and a voluntary change in accounting policy and raise broader questions regarding the status of agenda decisions, which are not subject to the IASB's full due process procedures.

- The IASB should make the relief from retrospective application available for all voluntary changes in accounting policy. There is no reason for the IASB to require retrospective application of any voluntary change in accounting policy to a greater extent than the point at which the costs outweigh the benefits.
- Guidance is needed to ensure that companies perform the cost/ benefit analysis robustly. The guidance should set out the process that companies should follow when performing the analysis, focusing on how the costs should be weighed against the benefits, which may be more difficult to quantify.
- The FRC support the IASB's decision not to mandate an effective date for voluntary changes in accounting policy.

7.2 The Council supported the positions set out in the FRC's draft responses to the IASB and EFRAG. The Council agreed that the proposals in the Exposure Draft are likely to exacerbate the existing difficulties around the status of agenda decisions. The Council suggested highlighting that similar principles should apply to voluntary changes in accounting policy and changes in accounting policy that are required by IFRS, as a result of new IFRSs or amendments to existing IFRS. In these cases, the IASB performs the cost/ benefit analysis on behalf of constituents and often provides relief from full retrospective application. The Council also suggested that the IASB should clarify the criteria for distinguishing an error from a voluntary change in accounting policy, irrespective of the proposals set out in the Exposure Draft.

## **8. FEHE SORP update and annual review**

8.1 Mrs Carter introduced the paper and noted that the proposed amendments to the SORP were to reflect the changes to FRS 102 following the triennial review. There are no additional amendments proposed therefore no public consultation is required. The Council noted that the executive is satisfied with the engagement with preparers and other stakeholders and the draft SORP reflects triennial review amendments appropriately. The Council recommended to the Codes & Standards Committee to approve the issue of the FRC Statement on the FEHE SORP.

8.2 A query was raised in respect of a sector which could have relevance with more than one SORP. It was noted that bodies adopt the most specific SORP that applies to it and no inconsistencies have been noted so far.

## **9. Any other business**

There was none.

## **10. Date of next meeting**

The next meeting of the Council will take place on 5 July 2018.