

**Minutes of a meeting of the Corporate Reporting Council
held on 10 May 2018 in the FRC Boardroom, 8th Floor, 125 London Wall,
London EC2Y 5AS**

Present:

Paul Druckman	Chairman
Michael-John Albert	Member
Richard Barker	Member
Chris Buckley	Member
Michael Gallagher	Member
Sian Morgan	Member (from Minute 5)
Liz Murrall	Member
Veronica Poole	Member
Mark Smith	Member

Observers:

Seema Jamil-O'Neil (BEIS)
Lee Piller (FCA)
Alison Ring (HMRC)
Trevor Rushe (IAASA)

In attendance:

Anthony Appleton	Director, Accounting & Reporting Policy
Mei Ashelford	Project Director
Anu Bhartiya	Committee Secretary, Corporate Reporting Council
Jenny Carter	Director of UK Accounting Standards
Debbie Crawshawe	Project Director
Annette Davis	Project Director
Paul George	Executive Director, Corporate Governance & Reporting
Jennifer Guest	Project Director
Deepa Raval	Director of Narrative Reporting
Susan Pust Shah	Project Director

1. Welcome and apologies for absence

The Chairman welcomed everyone to the meeting. Apologies were noted from Roger Marshall (Council Member) and Ian Bulmer (HMT Observer).

2. Declaration of conflicts of interests

The Chairman declared his interest as Member of Government's Taskforce on Social Impact investing.

3. Minutes and rolling actions

Minutes of the Corporate Reporting Council meeting held on 10 April 2018

3.1 The minutes of the Corporate Reporting Council meeting held on 10 April 2018 were approved for publication subject to minor amendments.

Rolling actions

3.2 The matters arising log was noted.

4. Chairman's update

4.1 The Chairman provided a brief update on the matters discussed at the Narrative Reporting Advisory Panel meetings which had taken place twice since the last Council meeting and the Financial Reporting Review Panel Spring meeting held on 1 May 2018.

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. Particular attention was drawn to the following matters:

- The FRC outreach event on IFRS 17 *Insurance Contracts* on 24 April 2018 was successful. The discussion was polarised into a question of costs versus benefits. In addition, there were a number of concerns whether preparers can be ready by the effective date. A Council Member highlighted that the implementation lessons learnt from IFRS 9 *Financial Instruments* should be recognised while implementing IFRS 17.
- In respect of the presentation of the non-financial information statement (NFIS), the view from the BEIS is that the strategic report requires a NFIS but this can contain a series of cross-references to where those disclosures are provided in other parts of the strategic report.
- One of the Members of the UK GAAP TAG is standing down. Mr Appleton will circulate by email a CV of a candidate and obtain Council's approval to join as a member of the Group.

5.2 The summary of how matters raised by the FRC were dealt with by the IASB in finalising the new *Conceptual Framework* was discussed. In response to a query as why it did not include reference to changes to the definitions of liabilities and assets, it was noted that these were not a focus of the FRC response and that the paper was only a high-level summary.

5.3 The Council had a brief discussion on the Green Finance Taskforce report and noted the rationale behind the recommendations which were to make the government and the private sector work together to make green finance an integral part of financial services.

5.4 The Council considered the request of the Charity Commission for England and Wales and the Office of the Scottish Charity Regulator in respect of reconstituting the charities SORP-making body to include the Charity Commission for Northern Ireland and the Charity Regulatory Authority (in the Republic of Ireland). The Council noted the reason for the change which is to allow the SORP-making body to be representative of the jurisdictions in which the SORP applies / will apply, as the underlying need for a SORP remains. The Council advised to recommend to the Codes & Standards Committee to approve the change to the Charities SORP-making body.

6. Strategic Report Guidance - Update

6.1 Ms Raval introduced the paper which included a draft version of the entire revised guidance. The guidance has been revised to reflect the consultation responses and the feedback received from the Council and the Narrative Reporting Advisory Panel.

6.2 The paper was taken as read. The Council had a thorough discussion on the content of the revised guidance and were broadly supportive of the changes but made a number of detailed points and suggestions as summarised below:

Summary

- Point (xi) – The draft section states that 'The guidance encourages companies to provide information in annual reports....'. It was queried whether 'encourages' was the appropriate word.

Section 1 – Objectives and how to use this guidance

- The terms 'must', 'should' and 'could' are used to distinguish between mandatory disclosure requirements and best practice guidance for achieving the requirements of the legislation.
- With regards to the relevant information to be presented in the strategic report in a way that meets the needs of shareholders, the Council discussed the legislative

requirements of clear and concise reporting, fair balance and understanding and fair balance and comprehensive reporting. It was noted that focus should be laid on points that were raised within the consultation and caution should be applied before rewriting matters that were not raised in this consultation.

Section 2 – Scope

- 2.3 of the guidance is written with the requirements for quoted companies in mind. It was felt that there is a need for defining the categories of companies including PIE, banking or insurance companies. The scope of the guidance could be better explained with the help of a pictorial diagram similar to that in section 7.
- 2B.2 – It was queried whether all companies including micro were required to prepare a directors' report. The executive agreed to review this.

Section 3 – The annual report

- It was noted that this section is substantially unchanged from the 2014 guidance. The only change that would be incorporated would be in relation to new legal requirements.
- 3B.2 – A Member felt that the purpose of the annual report as stated in the guidance was obscured and should be reviewed.
- 3B.23 – It was suggested shifting the *Assurance* section under the *Auditor's responsibilities*.

Section 4 – Purpose

- 4.5 and 4.6 were found to be core for the strategic report. Therefore, it was queried whether this should be included in the *Summary*.
- In order to avoid companies just listing out their key stakeholders, it was suggested emphasizing the need for reporting the considerations given to those relationships and the impact of those considerations.
- It was noted that the companies generally report on the positive and not on the negative impact on the community. Therefore, this section would help to bring balance in reporting.

Section 5 – Materiality

- 5B.14 – it was suggested that there should be only one materiality filter and should not be confused with external impact of company's activities.

Section 6 – Communication principles

- There were no comments raised under this section.

Section 7 – Content elements

- The matters under Section 7A and 7B in the flowchart to determine which legislative requirements and the section of the guidance apply are similar and could be combined.
- 7.7 – Since there will be footnotes throughout the document, it was suggested introducing colour codes for further clarity.

Section 7A – Content elements for companies that are not large PIEs

- Icons have been introduced in this section to help companies determine the applicability of provisions to non-quoted companies. This would help smaller companies to identify the requirements applicable to them.

Section 7B – Content elements for companies that are large PIEs

- There were no comments raised under this section.

Non-financial Information Statement

- Since the strategic report requires a NFIS which could contain a series of cross-references to where those disclosures are provided in other parts of the strategic report, the guidance on Section 7B would be revised to take this into consideration.
- The Council debated that if all the requirements of NFI are met through the strategic report then a simple compliance statement could be made in that regard. BEIS has clarified that the NFIS statement should include details on business strategy, model, risks etc. which would entail a series of cross referencing within the report. The Council felt that this would present challenges in retaining the cohesiveness of the strategic report. It was reported that in practice, companies take different approaches to presentation.

Section 7C – Content elements for the section 172 statement

- The new legislation on reporting on section 172 would be laid before parliament on 11 June and the new requirements will apply for accounting periods beginning on or after 1 January 2019.
 - The new legislation will introduce a specific reporting requirement in the Strategic Report that is likely to require companies to explain how they have had regard to matters set out in (a) to (f) of section 172. The disclosure in the strategic report in the forthcoming regulations will be supplemented with more detailed disclosure requirements in the directors' report, although these could be made in the strategic report, if appropriate, with cross-reference from the directors' report.
 - The Council noted that the requirement of section 172 statement applied to all companies except for small and medium sized companies to which the reporting exemptions apply.
 - Unquoted companies will be required to publish their section 172 statement on their website. This is likely to motivate such companies to separate the statement when preparing their strategic report which may impair its cohesiveness and clarity.
 - Quoted companies will be exempt from publishing a separate statement as their entire annual report must be published on their website. The statement within the strategic report could then be done via cross-references to a more cohesive report.
 - As each large subsidiary in a group will have to publish its own statement, there is a concern that the statement as a result could lead to boilerplate replicated across a group.
 - The Council discussed the pros and cons of the proposal and noted that the FRC may be exposed to risk where it needs to issue guidance on legal requirements which could be onerous or subject to interpretation.
- 6.3 The Council gave due consideration to the introduction of a separate presentation of a NFIS and section 172 statement which could make the strategic report less cohesive. Consideration was also given to the pros and cons of a separate consultation and the risks associated by not consulting. Mr Appleton thanked the Council for the comments and agreed to take the points into consideration while finalising the guidance.
- 7. Response to EFRAG's Discussion Paper – Equity Instruments – Impairment and Recycling**
- 7.1 Ms Pust Shah introduced the paper and noted that the draft response to the EFRAG Discussion Paper 'Equity Instruments – Impairment and Recycling' reflected Council's views as expressed at the April 2018 meeting.
- 7.2 The Council considered the FRC's draft response letter and the Discussion Paper. Through discussion, Ms Pust Shah noted that consideration was given to recently published paper by Sue Lloyd of the IASB on the requirements in IFRS 9 for equity investments. The Council made a number of comments including:
- Based on current evidence by EFRAG, it is not possible to conclude whether there is a case for changing IFRS 9 or not. It is premature to consider possible accounting options.
 - Any change to IFRS 9 should be subject to due process of an IASB post-implementation review of IFRS 9.
- 7.3 Ms Pust Shah agreed to take the above points into consideration while finalising the response to EFRAG's Discussion Paper.
- 8. Response to 'Fitness check on the EU Framework for public reporting by companies' – initial lines**
- 8.1 Mr Appleton introduced the paper and considered a number of questions, particularly in light of Brexit, whether the FRC should respond and the lines that should be taken.
- 8.2 The Council considered the paper and the Consultation Document and noted that the FRC intends to develop outline positions on key questions and share with BEIS to seek their

views. The FRC also intends to encourage UK stakeholders to access the consultation and to respond. Through discussion, made a number of points including:

- Given the scope of FRC's work and expertise and the potential impacts on UK reporting, the FRC should respond in full.
- The case for further harmonisation of national GAAPs is weak and any developments in the IAS Regulation should be made with caution so the benefits of global standards are not lost.
- It was noted that any divergence of EU-adopted IFRS from IFRS as issued by the IASB will cause additional difficulties for those with a dual listing including, for example, on the US markets.

8.3 Mr Appleton thanked the Council for their views and agreed to take the above comments into consideration while finalising the response.

9. Update to Pensions SORP

9.1 Ms Guest outlined the purpose of the paper which was to update and re-issue the Pensions SORP to incorporate the changes introduced to UK GAAP since the SORP issued in 2015. It is intended to issue the Pensions SORP without the need for consultation since the changes are mainly restricted to those made to UK GAAP and others are minor in nature. She further outlined the main changes proposed to the Pensions SORP as set out in the paper, which reflects the suggestions made by the FRC and the UK GAAP TAG.

9.2 The Council considered the Briefing Note which included the changes proposed to the Pensions SORP and the draft of the Pensions SORP. The Council advised the Codes & Standards Committee to issue the FRC's statement on the Pensions SORP. (Secretary's after-meeting note: Previously the FRC Board issued any FRC statements on the Pensions SORP. However, following a change in legislation relating to the preparation of financial statements by pension schemes, which no longer refers explicitly to a SORP on which the FRC has given its statement, the FRC's statement can be delegated to the Codes & Standards Committee.)

9.3 In response to a query in relation to the Chair and the Secretary of the Pension SORP Working Party being from the same organisation, it was noted that the Secretary has an active role in drafting documents and it was easier to work together if both were from same organisation.

10. Insights for corporate reporting relating to the collapse of Carillion

10.1 Mr Appleton introduced the paper, highlighting that it is based purely on publicly available information and not on any findings of on-going investigations. The aim of the paper is to consider issues that have been raised in debates surrounding the collapse of Carillion rather than the specific details of that case. The areas of focus for Council's discussion included going concern disclosures, principal risk reporting and allocation of funds disclosure in the strategic report.

10.2 The Council considered the paper and had a thorough discussion on the focus areas. Through discussion, a number of points were made including:

Going concern and principal risk reporting

- Consistent with the recommendations of recent Financial Reporting Lab reports, there is scope for companies to present broader statements with greater granularity on risks and mitigations which could be signposted to the viability statement. Improvements might include assumptions made in and the outcomes of stress testing. This would give stakeholders a better insight and understanding of real risks.
- There could be more insight and reporting from audit committee into its considerations and the assurances obtained from internal auditors on going concern and risks.

Allocation of funds disclosure in the strategic report

- The section 172 statement within the strategic report should call for information on considerations given to employees, suppliers, creditors, pensions, etc while making dividend payments.
- Lab has conducted post implementation review to assess the effectiveness of its report on Dividend policy disclosures and noted that majority of the FTSE100 companies adhere to the lab recommendations.

10.3 It was suggested that any lessons learnt from this exercise should be recognised for private companies as well because suppliers and market investors are also affected with the collapse of private companies.

10.4 In response to a query in relation to the lab's process of issuing reports, it was clarified that the FRC discusses with companies and investment community to identify the areas of corporate reporting and work with the project participants to test practical improvements and innovations. The FRC promulgates good practice through a number of initiatives.

11. Any other business

There was none.

12. Date of next meeting

The next meeting of the Council will take place on 7 June 2018.