

Minutes of a meeting of the Accounting Council held on Thursday 22 October 2015 in the Boardroom at 8th Floor, 125 London Wall, London, EC2Y 5AS

Present:

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

Observers:

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| Michael Kavanagh | IAASA Observer |
| Matt Blake | HMRC Observer |
| Julie Quinn | HMRC Observer |
| Lee Piller | FCA Observer |

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, Strategy Team (minute 4 only) |
| Annette Davis | Project Director, Accounting & Reporting Policy Team |
| Andrew Lennard | Director of Research |
| Melanie McLaren | Executive Director, Codes & Standards |
| Alex Owen | Case Manager, Corporate Reporting Review Team (to minute 6) |
| Deepa Ravel | Project Director, Accounting & Reporting Policy Team |
| Rosalind Szentpéteri | Project Manager, Accounting & Reporting Policy Team |

Welcome and Apologies for absence

Apologies were noted from Michael Gallagher (Council Member) and Michael Sunderland (interim HMT Observer).

1. Minutes of the previous meeting and rolling actions

- 1.1 The minutes of the meeting held on 10 September 2015 were approved for publication.
- 1.2 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 Anthony Appleton (AA) reported that the EFRAG Board had met on 21 September and discussed the IASB's progress on finding a solution to the different effective dates IFRS 9 Financial Instruments and the new insurance contracts standard. AA also reported that an investor coalition group had written to the European Commission to raise concerns in respect of IFRS 9, specifically the application of the true and fair view, and that both the FRC and EFRAG had been referenced in the letter.

Council Working / Advisory Groups

- 2.3 The Council noted its commitment to annually review the continuing need for its working groups, including the Committee on Accounting for Public Benefit Entities (CAPE) and the UK GAAP Technical Advisory Group (TAG). The Council supported the recommendation that the CAPE be disbanded on the basis that the FRS 102 SORPs have now been developed and its work programme has reduced. The Council discussed the recommendation that, should CAPE be disbanded, the membership of TAAG be expanded to include individuals with experience of public benefit entities, Whilst the Council supported the proposal to appoint individuals with public benefit entity experience, the Council advised that the executive should undertake a review of the skills and experiences of members currently on the Group before seeking to increase the membership.
- 2.4 The Council noted that a TAG member from Grant Thornton had recently retired from the Group and discussed a proposal from the executive to take the opportunity to appoint a member from one of the smaller Group A firms. Whilst the Council noted the role membership of TAG can perform in respect of ensuring consistency in practice, the Council acknowledged the importance of there being variety in the types of firms represented on the Group. Accordingly, the Council approved the appointment of Tessa Park, Technical Partner at Kingston Smith to the Group. The Council suggested that, as part of its review of the membership of TAG, the executive also explore the balance of firm representation.

UK GAAP TAG

- 2.5 AA reported that TAG had met on 24 September. The Council noted the matters discussed

Narrative reporting

- 2.6 The Council noted that there had been a number of narrative reporting developments in the past month that are likely to result in new non-financial narrative reporting disclosures for some entities. AA reported that the FRC continues to hold its line that only matters relevant to an investor's understanding of the business should be included in the annual report in responding to the development.
- 2.7 The Council also noted that the IASB is considering a new approach to drafting disclosure requirements that will be included in part of its Discussion Paper on the *Principles of Disclosure* and that the FRC is encouraged that the new approach will result in more clear and concise reporting.

2.9 The Council discussed the HRMC's technical consultation '*country by country reporting*' and the timescale for implementation. Whilst some members expressed concern that the timescale is very tight, it was noted that there is limited scope for timescale to be extended on the basis that the consultation addresses the requirements of the Regulation which HMRC is required to implement in 2016.

3. Director or Research Report

3.1 Andrew Lennard (AL) reported on the October meeting of the Multilateral Network that had been attended by accounting standard setters from Canada, Germany, Japan, the US and the UK. The Council noted that the meeting had been very useful and that the agenda had included discussion of:

- Accounting for post-retirement benefits - the network had agreed to work collaboratively in this area.
- The IASB's Conceptual Framework Exposure Draft.
- Materiality and the IASB's draft Practice Statement.
- Crowd funding and the increasing use of entities raising capital in non-traditional markets.
- The IASB agenda consultation.

3.2 The Council noted AA and AL had also attended the autumn meetings of the IASB's World Standard Setters, the International Forum of Accounting Standard Setters and AL had attended the Accounting Standards Advisory Forum.

4. FRC Strategy – Deregulation

4.1 Ufuk Cengiz (UC) introduced a paper setting out a request from the FRC Board for input from its Committees, advisory Councils and from FRC staff on possible ways in which the FRC could seek to align itself with the governments 'deregulatory' stance and reduce regulatory burden on business. UC reported that input gathered from Council members and FRC staff would be collated and presented to the Executive Committee for consideration before final recommendations are presented to the Board in December.

4.2 The Council discussed a list of areas identified by the executive for consideration including:

- Reduction in the complexity of remuneration reporting requirements.
- Simplification of the interaction and reduction of the overlap between disclosures in UK standards and those in company law.
- Further simplification of FRS 102.
- Removal of the requirement to list all subsidiary companies in the annual report.

Whilst it was acknowledged that not all of the areas identified would be directly actionable by the FRC the Council advised the FRC should explore the areas further and that the FRC should seek to influence and encourage other standard setters to adopt a deregulatory approach where ever possible.

4.3 Through discussion it was concluded that constant change, not only at standard level but also to the legal framework, creates the biggest burdens on firms. The Council highlighted the need for there to be full consideration of practical implications and for a cost benefit analysis to be undertaken before any change is introduced. The Council suggested this is another area in which the FRC should seek to influence others and advised that the FRC response to the IASB agenda consultation focus on this point.

4.4 The Council suggested that it would be beneficial for the Council, and the wider FRC, to adopt the concept of 'deregulation' as a guiding principle which would underpin its standard setting activities. To facilitate this the Chairman requested that a paper be presented to the Council that sets out possible simplifications to FRS 102 and also identifies where there are complexities and overlap between standards and legal frameworks.

5. Conceptual Framework

5.1 AL introduced a paper continuing the Council's discussion of the FRC response to the IASB's Exposure Draft: Conceptual Framework for Financial Reporting (ED/2015/3). The Council noted that the IASB had extended its comment deadline to 25 November 2015 and that the final FRC response would be considered by the Codes & Standards Committee on 11 November.

5.2 AL invited the Council to consider a draft introduction to the FRC response and to comment on the tone of the response. The Council noted that the detail of the FRC's reservations would be addressed in later sections of the response. Through discussion of the proposed introduction the following observations and suggestions were made:

- It was suggested the introduction should more strongly reflect the FRC view that the Conceptual Framework (CF) should be as concise and accessible as possible.
- It was considered that a number of the 'Basis of Conclusions' paragraphs are too lengthy and appear as an extension of the standard. The Council suggested that paragraph 1.7 be revised to highlight that the user should be able to understand the CF without having to read the Basis for Conclusions. The Council also suggested that the response highlight that the Basis for Conclusions should not pre-empt any conclusions that might be drawn at standard setting level.
- It was suggested paragraph 1.4 be revised to clarify that reconsideration of the cornerstones of the CF should be complete before the CF is issued.
- It was suggested that the cornerstones issues identified should be listed at paragraph 1.5 and that reliability should be mentioned as a 'cornerstone' issue.

5.3 The Council was also invited to consider the proposed line to take in response to a) the Financial Statements and the Reporting Entity, b) Long-term Investment and c) unit of Account. The following observations and suggestions to the FRC 'lines to take' were made:

5.4 Financial Statements and the Reporting Entity.

- It was suggested the response encourage the IASB to focus the CF on the financial statements, and discourage the issue of a CF which is hybrid document concerning both financial reporting and financial statements. It was suggested this be addressed in the introduction to the FRC response.
- It was agreed the response should encourage the IASB to focus on the primary users of the financial statements and not to seek to meet the needs of other stakeholders.
- It was agreed the response should encourage the IASB to consider reintroducing language that explains that a reporting entity needs to be a 'circumscribed area of economic activities' to avoid any confusion and to exclude certain entities from scope.

5.6 Long-term investment

- It was noted that the response welcomes an acknowledgement of the importance of meeting the needs of long-term investors. Whilst the Council supported this approach the Council advised that the response should encourage the IASB to widen its focus

to consider the disclosure requirements of all investors and not just long-term investors.

- It was noted the response reiterates the view that stewardship should be more prominent within the objectives of financial reporting.
- It was suggested the proposed wording of the response refer to the role investors have in respect of holding management to account and, by reference, clarify that accounting information should not be the role determinant.
- It was suggested the response should encourage the IASB to reconsider the objective 'fair presentation of useful information' on the basis that it is not particularly helpful.
- It was suggested that reference to the dividends and bonuses should be taken out of the response.

5.7 Unit of Account

- It was noted that whilst the response welcomes progress in the area it repeats the view previously expressed by the FRC that, for each standard, there should be a requirement to disclose the unit of account selected and the basis for doing so.
- It was suggested the response should be amended to encourage the IASB to clarify that there will be situations when the unit of account is different for recognition and measurement purposes rather than encourage the IASB to attempt to identify in what situations it would be different.
- It was noted that the response encourages further consideration / analysis of when contracts should be separated in to separate component parts or combined with other contracts, and encourages the IASB to provide further insight in to the logical order that should be used when applying the cost constraint to selecting the unit of account.

5.8 The Council noted that a draft full response would be brought to the Council for consideration and final advice in November.

6. IFRS 9 Strategy for Endorsement

6.1 Seema Jamil'O'Neill (SJON) introduced a paper that provided an update on the endorsement of IFRS 9 and set out draft advice from the FRC to BIS in respect of endorsement. The Council noted that:

- The EFRAG Board approved its final advice on IFRS 9 during September 2015. The EFRAG Board had concluded that the Standard meets all technical endorsement criteria of the IAS Regulation and, overall IFRS 9 is conducive to the European public good, except for the impact on the insurance industry of applying IFRS 9 before finalisation of the forthcoming insurance contracts standard.
- The endorsement advice had been considered at the ARC meeting but no definitive positions were put forward by Member States. It would be reconsidered at the November ARC meeting, although no decision is expected at that meeting as there is unlikely to be clarity over the IASB's position.
- Despite significant differences of opinion amongst its Board members the IASB has confirmed that it would be issuing an exposure draft (ED) proposing to amend IFRS 4 *Insurance Contracts* to give reporting entities whose 'predominant business' is to issue insurance contracts the option to defer the effective date of IFRS 9 until 2021 (deferral approach); and also, to give insurers who fail the 'predominant business' test or would otherwise prefer to implement IFRS 9 the option to remove from profit or loss some of the accounting mismatches and temporary volatility that could occur before the new insurance contract standard is implemented (overlay approach). The IASB ED is

expected to propose the provision of a sunset clause on the deferral approach that would expire in 2021.

- 6.2 SJON reported that the insurance industry is concerned that the determination of a 'predominant' business activity at the reporting entity level will exclude many insurers from applying the deferral. It was noted that it is improbable that many, if any, UK listed insurance companies will be able to apply the deferral approach on the basis of the tentatively agreed test. The Council noted that industry representatives at the EFRAG Insurance Accounting Working Group and EFRAG TEG had encouraged the IASB to either, apply the predominance test at legal entity level or, for the test to be more holistic.
- 6.3 The Council discussed the IASB's tentative decisions in relation to the ED proposals and the predominance test in detail. The following observations and suggestions were made:
- The proposals are fundamentally flawed if they would exclude from scope what is, in the UK, widely regarded as an insurance company;
 - As insurance companies and banks are subject to regulation, anti-abuse measures seem unnecessary;
 - Consideration should be given to whether there is a precedent in US GAAP that could be applied;
 - It was questioned whether the predominance test / criteria is necessary and whether the exemption should simply be available to those who require it.
- 6.4 The Council queried whether it was possible to achieve a European level deferral from IFRS 9 for insurers via a carve-out of the condition of "predominant business activity" in the final IASB amendment to IFRS 4. It was suggested this, if possible, would ensure that the IFRS architecture would remain stable, the change would be understandable and that deferral would be available at the reporting entity level for insurance companies that are willing and able to use it.
- 6.5 The Council considered the advice the FRC should give to BIS and to EFRAG ahead of the November ARC meeting. Whilst the Council acknowledged the proposals of the ED do not offer the perfect solution, the Council advised that BIS and EFRAG should encourage ARC to take a final decision on endorsement as early as possible so as not to delay endorsement of IFRS 9 for Banks and other European listed companies.

7. IASB 2015 Agenda Consultation and EFRAG Proactive Agenda Consultation

- 7.1 Annette Davis (AD) introduced a paper setting out a draft FRC response to the IASB 2015 agenda consultation and an analysis of EFRAG's proactive agenda consultation.

IASB agenda consultation

- 7.2 AD reported that the draft response to the IASB 2015 agenda consultation reflects the views expressed by the Council in September and would be updated further to reflect the Council's earlier discussion on the importance of quality control and deregulation. The Council approved the draft response but suggested that the response be amended to:
- Highlight the burden continuous change, regardless of the size of the change, creates and highlight that uniformity should not be a driver for change.
 - Encourage the IASB to apply a cost benefit mind set to all of its projects, regardless of size.
 - Encourage the IASB to reconsider a project on intangible assets and highlight the link to IAS 38.

- Highlight the importance of ensuring small, narrow scope amendments do not detract focus from or delay key projects.
- Encourage the IASB to align its thinking with the FASB in respect of the definition of a business.

The Council also advised that the suggested revision to IAS 37 at paragraph A7 be deleted.

EFRAG Proactive Consultation

7.3 AD reported that the EFRAG consultation document seeks views on its proactive work over the last few years, including its co-ordination with the IASB and its future proactive agenda. The Council supported the proposed FRC response but suggested the response also:

- Encourage EFRAG to reflect on how its assessment of the public good is determined and whether or not it can be demonstrated quantifiably.
- Encourage EFRAG to engage with constituents in order to make its assessment of the public good.
- Encourage EFRAG to consider whether issuing discussion papers with a response deadline is the most appropriate mechanism through which views from stakeholders can be gathered, and encourage EFRAG to consider holding round table events and 'think tanks' instead. It was highlighted this would also free up resources at EFRAG as staff would not necessarily have to prepare detailed feedback statements.

7.4 AD undertook to prepare a draft response for the Council to consider at its November meeting.

8. Draft Review of the Impact of the Strategic Report

8.1 Rosalind Szentpéteri (RS) invited the Council to comment on a draft report setting out the findings of an early stage review of the impact of the introduction of the strategic report and the FRC's *Guidance on the Strategic Report* on the quality of narrative reporting. RS reported that the draft report is at a very early stage of development and that input on the draft report would be gathered from the Council, the FRC Clear & Concise Steering Group and the wider FRC before it would be finalised.

8.2 The Council noted the findings of the review and that a number of the issues identified as part of the review had also been identified by Deloitte, PwC and others as part of their reviews on the impact of the strategic report.

8.3 Through discussion of the draft report it was suggested that:

- The report be redrafted so that the tone is more positive and encouraging. The Council suggested greater prominence should be given to the improvements that have been identified.
- The report should encourage continuous change and evolution in strategic reporting by highlighting, and providing evidence of, the benefits to companies that change can bring.
- The report should highlight examples of best practice to assist companies with the preparation of the strategic report.
- The report should reference the FRC's work on small company reporting.

8.4 The Council welcomed the appendix to the report 'breaking down the barriers' suggesting it would be a useful tool for preparers.

9. FRED 63 Amendments to FRS 101 (15/16 cycle) – Draft ED for advice

9.1 Jenny Carter (JC) introduced draft FRED 63 for the Council to consider. JC reported that the ED proposed limited changes to FRS 101 in response to changes to IFRS.

9.2 JC reported that amendments to IAS 1 clarify existing requirements and give greater guidance on the order in which notes to the financial statement be presented. On the basis that some of the examples included are unlikely to comply with Company Law, the Council supported the proposal to insert a paragraph into *Appendix II: Note on legal requirements* to assist preparers by clarifying the requirements and helping to ensure companies do not inadvertently breach any legal requirements. JC confirmed that the requirements of the Companies Act only apply to Companies Act accounts and not IFRS accounts.

9.3 The Council was reminded of its advice when considering the 2014/15 cycle of amendments not to amend FRS 101 to reflect the introduction of IFRS 15 on the basis that it was too early to determine what disclosure exemptions might be appropriate, and to revisit that advice as part of the 2015/16 cycle. Accordingly, JC invited the Council to consider the disclosure requirements of IFRS 15 and to consider whether the ED should propose disclosure exemptions for paragraphs 116, 118, 120(b) and 128. It was noted that UK GAAP TAG had considered the proposal and had advised that a relatively high hurdle should be set for determining any exemptions.

9.4 The Council discussed the recommendation in detail. The following observations and suggestions were made:

- The Council highlighted that users of subsidiary accounts have a range of needs that may differ from the needs of users of the group accounts and suggested that further consideration of those needs would be necessary before an informed decision as to what exemptions should be permitted could be taken.
- The Council queried whether, given the limited external users, the proposed exemptions encourage too much narrative disclosure that might detract focus from the figures presented.
- The Council highlighted the need to ensure the figures presented allow users of the accounts to focus on information relevant to liquidity and solvency.

9.5 In conclusion the Council advised that:

- The opening three paragraphs of the disclosure requirements of IFRS 15 should be retained.
- Paragraph 116 and other disclosures focusing on contract balances should be retained.
- The ED should propose exemptions from all other disclosure requirements.
- The ED should set out the rationale for the proposed exemptions and invite comment on that rationale as a principle to be taken forward in the future.

The Council acknowledged that the proposed approach to the ED would represent an evolution of the way in which disclosure exemptions for FRS 101 are considered.

9.6 JC undertook to update the ED to reflect the advice of the Council and to circulate the revised ED by e-mail. JC highlighted that the e-mail would ask the Council to confirm its advice to the Codes & Standards Committee and FRC Board to be issued.

10. FRED 64 Amendments to FRS 103 for Solvency II – Draft ED for advice

- 10.1 JC introduced a paper setting out proposed amendments to FRS 103 and its accompanying implementation guidance considered necessary to respond to the requirements of Solvency II, effective from 1 January 2016.
- 10.2 The Council noted that there is an existing option within FRS 103 for entities to revise their accounting policies if they wish to bring their financial reporting closer to their regulatory reporting and therefore, no change, other than to update references to the current prudential regime, is necessary. JC highlighted that a downside of not specifying any Solvency II based accounting policies is that there may be less consistency in the sector, however the Council did not consider this to be a significant issue.
- 10.3 Through discussion it was clarified that the equalisation provisions under the Solvency I regime would be retained for some insurance entities.
- 10.4 The Council welcomed the high level approach of the ED and approved its advice to the Codes & Standards Committee and FRC Board to issue FRED 64 *Draft amendments to FRS 103 – Solvency II*.

11. Any other business

- 11.1 There was no other business.