

**Minutes of the meeting of the Accounting Council of the FRC on 12 September 2013 at the IMA, 65 Kingsway, London, WC2B 6TD**

Present:

Roger Marshall	Chair
Anthony Appleton	Council Member
Richard Barker	Council Member
Chris Buckley	Council Member
Anne McGeachin	Council Member
Liz Murrall	Council Member
Veronica Poole	Council Member
Pauline Wallace	Council Member

Observers:

Matt Blake	HMRC Observer
Michael Kavanagh	IAASA Observer

In attendance:

Mei Ashelford	Project Manager, Accounting & Reporting Policy Team (from minute 10)
Jenny Carter	Project Director, Accounting & Reporting Policy Team (from minute 10)
Francesca Chittenden	Council Secretary
Annette Davis	Project Director, Accounting & Reporting Policy Team (from minute 7 and 8)
Jennifer Guest	Project Manager, Accounting & Reporting Policy Team (minute 10 only)
Seema Jamil-O'Neill	Project Director, Accounting & Reporting Policy Team
Andrew Lennard	Director of Research
Melanie McLaren	Executive Director
Deepa Raval	Project Director, Accounting & Reporting Team (for minute 5)
Michelle Sansom	Director of Accounting
Marian Williams	Codes & Standards Director (from minute 5)

**1. Welcome and Apologies**

- 1.1 The Chair welcomed Anne McGeachin and Veronica Poole to their first Council meeting.
- 1.2 Apologies were noted from Mike Ashley (KPMG Observer), Gunnar Miller (Council Member), Ken Lever (Council Member) and Phillip Trotter (HMT observer in place of Karen Sanderson).

## **2. Minutes of the Previous meeting and rolling actions**

- 2.1 The minutes of the previous meeting were approved for publication, subject to an amendment to paragraph 4.2.
- 2.2 The rolling action log was noted.

## **3. Director of Accounting Report**

- 3.1 The Council received an update from the Director of Accounting (Michelle Sansom (MS)) on developments relating to UK accounting standards, international accounting, the European Commission and in the UK. Particular emphasis was given to the following matters:
- 3.2 The Council received feedback from the EFRAG and CFSS meetings in week commencing 2<sup>nd</sup> September 2013, the Council noted:
- EFRAG finalised its comment letter to the IASB on the ED *Regulatory Referral Accounts* and intend to finalise its comment letter on ED *Leases* in October;
  - EFRAG finalised its endorsement advice to the Commission on IFRIC 21 *Levies*;
  - EFRAG intend to publish its draft comment letter on the Conceptual Framework on its website within the next 2 weeks;
  - The agenda for the European Commission Accounting Regulatory Council (ARC) meeting which will include a discussion of the Maystadt review, a discussion of three of the IASB projects, Insurance, Leases and the Conceptual Framework. The Council noted that due to the contentious views in relation to the IFRIC 21 interpretation there will be an endorsement vote at the meeting, the vote will not be undertaken by written procedure;
  - The IASB does not expect to reach a purely converged solution with the FASB on the Impairment ED (Expected Credit Losses). An initial review of responses indicate that respondents expressed views in-line with the proposals for the jurisdiction in which they are based;
  - The IASB have agreed that the effective date for IFRS 9 will be at least two years after the completion of the deliberations on impairment;
  - The IASB are about to commence the post implementation review of IFRS 3 and ESMA will be examining a sample of 60 companies which have acquisitions in the 2012 accounts to see if they can identify issues to pass on the IASB.

### Use of True and Fair opinion

- 3.3 The Council noted:
- that the draft opinion from Martin Moore had been received and that it was hoped that the draft response to Bompas would be brought to the Council for discussion in October;
  - Martin Moore's opinion is catagoric and clear;
  - The FRC are preparing to publish a statement which will set out the background behind the two opinions and encourage business as usual;
  - BIS are very supportive of the FRC position and are prepared to issue a statement alongside and in support of the Martin Moore opinion. BIS have also confirmed

- that they will be prepared to issue a Ministerial Statement if necessary in order to close the debate;
- FRC are meeting with supporters of the Bompas opinion in September to attempt to address their concerns; and
  - The European Commission were being kept informed of progress with the debate.

#### UK GAAP Technical Advisory Group (UK GAAP TAG)

##### 3.4 The Council noted that:

- UK GAAP TAG had met for the second time;
- BIS attended the meeting and confirmed their intention to fast track Chapter 10 of the Accounting Directive, BIS are going to discuss implementation of the remainder of the Accounting Directive with the group;
- The group will provide the Council with a view on the Residential Management Comment Letters;
- UK GAAP TAG had discussed a number of technical queries that had been a received and considered how they might be resolved in relation to FRS 102. As a result of those considerations the group had identified that amendments to FRS 101 would be necessary to reflect the accounting standards that have been issued subsequently IAS36 and IFRS10 for investment companies to ensure consistency with Company Law.
- Staff would present a paper to the Council for consideration in October regarding an amendment to the FRSSE for micro-entities.

#### **4. Director of Research**

4.1 The Council received an update on accounting research activities and developments since the last meeting.

4.2 The Council noted that the IASB had written to the FRC and invited the FRC to contribute to three research projects; the Disclosure Initiative (with a particular focus on cash flows and reconciliations), Discount Rates and Management Commentary. The Council were reminded that cash flows had been identified as a potential research activity at the June Council meeting, and therefore welcomed the proposal that the FRC collaborate with the IASB on the development of a limited project on cash flow statements.

4.3 AL highlighted that the proposals were in the early stages of development and that the scope of the projects was yet to be agreed. However, AL set out that he hoped that, in light of the joint approach to working that had been agreed in principle, FRC would be able to influence the scope of the projects.

#### **5. Preparation for the Accounting Standards Advisory Forum (ASAF)**

5.1 The Council received a paper which set out the outline of the agenda for the September meeting of ASAF. The Council noted that the majority of issues on the ASAF agenda were on the Council agenda for discussion and that those discussions would inform the FRC line to be adopted.

- 5.2 DR drew the Council's attention to two issues not addressed on the Council agenda: Disclosures and Financial Instruments and summarised the key areas ASAF would consider.
- 5.3 The Council expressed concern that the IASB intend to publish a discussion paper on macro hedge accounting which is likely to be limited to fair value macro hedging of interest rate risk and therefore not provide a macro hedge accounting solution for those that make use of macro cash flow hedge accounting. The Council were concerned by the exclusion of macro cash flow hedging from the proposals and the suggestion that risk management approaches are not reflected in cash flow hedging, particularly from a UK perspective. It was noted that similar concerns had been expressed at an EFRAG meeting. Accordingly, the Council supported the FRC in highlighting this concern to the IASB.
- 5.4 The Council also noted that ASAF were due to consider a number of 'quick fixes' to IAS 1 to look at the ordering of the standard and to reinforce messages around materiality. It was noted that investors suggest that a rewrite of IAS1 is required to address the issue caused by the linkage of fair presentation to the accounting framework.
- 5.5 The Council agreed that the position set out in the FRC response to the IASB's ED on impairment in March 2013 be reaffirmed and that the IASB be encouraged to complete the relevant phase of the project to replace IAS39 so that the new model can be implemented swiftly.
- 5.6 The Council was content with all other lines of response as set out in the paper.

## **6. Response to the IASB discussion paper 'A review of the conceptual framework for financial reporting'**

- 6.1 Andrew Lennard (AL) introduced the paper which reproduced questions for respondents as set out in the discussion paper and provided staff comments, as a possible line of response, for the Council to consider. AL reminded the Council that closing date for comments was not until 14 January 2014 and that the Council would have the opportunity to review any decisions taken to take account of messages received from stakeholders during the comment period. The Council noted the table setting out the planned discussions with stakeholders and that this would be adapted as plans progressed.
- 6.2 The Council noted that the following points:
- The IASB is not undertaking a fundamental revision of the two chapters of the Conceptual Framework that were published in 2010 but it will make changes if work on the rest of the Conceptual Framework highlights areas that need clarifying or amending.

- The Chairman of the FRC Accounting Council wrote to the Chairman of the IASB, Hans Hoogervost (HH), highlighting a disagreement with this approach in relation to the controversial areas within the chapters agreed in 2010 including accountability (or stewardship), prudence and reliability / faithful representation.
- HH responded to the letter and in his response emphasised the need to complete the project within a reasonable timescale and contended that these areas can be addressed without reopening the chapters.

6.3 The Council endorsed the approach proposed by FRC staff that the cover letter which will accompany the response should repeat the view that the Framework's material on accountability (or stewardship), prudence and reliability / faithful representation need to be reconsidered and that these should be clearly identified within the objectives and qualitative objectives. The Council also agreed that the response should emphasise that as the Conceptual Framework will not be revised again for many years the standard should be of highest quality and therefore, the timescale shouldn't be too much of a constraint.

6.4 In discussion of the proposed questions and responses, the Council recommended the following tentative views:

- (1) The Framework should clearly acknowledge the importance of prudence (or caution); accountability (or stewardship); and reliability. The FRC's response to the IASB should demonstrate the implications of these concepts for the issues addressed in the Framework.
- (2) Prudence does not necessarily result in financial information that is biased in the sense that it is presented in a way that will tend to give rise to a particular decision.
- (3) Prudence should be reflected in recognition: some losses and liabilities should be recognised in circumstances where gains or assets should not.
- (4) The Discussion Paper's discussion on measurement fails to provide the depth of conceptual analysis that is necessary if the Conceptual Framework is to provide useful guidance to the IASB in the development of accounting standards.
- (5) In the absence of a definition of 'profit or loss' it is difficult to form a view on what income and expenses should be reported in other comprehensive income ('OCI') and in particular what principles should govern whether items originally reported in OCI should be 'recycled' to profit or loss.
- (6) The Conceptual Framework should not be 'reverse engineered' to provide a justification for existing standards and practices. It should instead set out the principles that will assist in the development of future standards.

6.5 The Council noted that they would have a further opportunity to discuss the different topics at the October meeting.

## **7. IASB Exposure Draft ED/2013/6 Leases – draft response**

7.1 Annette Davis (AD) presented the draft FRC response letter to the IASB in relation to the ED/2013/6 *Leases*. The Council noted that the draft had been prepared following

the Council's discussions in June and July. The Council also noted that three UK companies took part in the field testing exercise we have been taken part had been initiated by EFRAG since the July meeting and that had taken part and had all expressed difficulty in applying the proposals.

7.2 AD drew the Councils attention to the proposals and in particular the dual approach to Lessee accounting. The Council entered a detailed discussion about the proposals and some of the key points raised were as follows:

- a) from a conceptual perspective this approach could not be supported, however, at this stage of development it may be difficult to successfully influence a move towards an alternative model;
- b) it does appear that the IASB have to some extent addressed the needs of users who have asked for transparency in the accounts and accordingly would like the operating lease to appear on the balance sheet; however, the Council did discuss whether or not, users had really considered whether these proposals would actually be sufficient as to provide decision useful information;
- c) users will struggle with the introduction of the terms 'type A' and 'type B' leases, the terms add an unnecessary layer of complexity to the proposals.

7.3 Following a detailed debate the Council agreed the following points:

- a) The draft response should be amended to show that the Council supports the proposed objective of the ED but that the new classifications of type 'a' and 'b' leases should be dropped and the previous classifications of finance / operating lease retained; this would significantly reduce the complexity of applying the proposals.
- b) The response should also highlight that the Council conceptually does not support or favour the proposed model it acknowledges that the proposals have been developed to meet the demands of users and is the most practical solution;
- c) Whilst the Council agrees that further work needs to be undertaken on the Conceptual Framework to refine the right-of-use model, the Council does not support the recommendation put forward by EFRAG to delay completion of the project until this work has been undertaken.

7.4 The Council endorsed the FRC's draft comment letter to EFRAG in relation to EFRAGs response letter to the IASB which signalled agreement with EFRAG that the right of use model is appropriate but that the FRC does not agree with EFRAG that some leases should not be recognised on the balance sheet or that completion of the project should be delayed until the related work on the Conceptual framework has been completed.

## **8 IASB Exposure Draft ED/2013/5 Regulatory Deferral Accounts**

8.1 AD introduced the paper which set out the FRC and EFRAG draft response letters. The Council noted that the draft FRC response letter had been published on the FRC website for comment from constituents and that no comments had been received. Accordingly, the letter had not been amended and does not support the issue of the

proposed interim standard. The Council also noted that EFRAG do not support the proposal.

8.2 The Council agreed the draft response letter for submission to the IASB.

## **9. IASB Exposure Draft ED/2013/7 Insurance – draft comment letter**

9.1 Seema Jamil-O'Neill (SJON) introduced the report which set out the FRC staff draft response to the IASB and EFRAG's draft response letter to the IASB. The Council noted that the FRC draft had been developed following discussion by the Council in July and following consideration by the Codes & Standards Committee and Actuarial Council.

9.2 The Council noted that the Actuarial Council would have a further opportunity to discuss and contribute to the final draft response in October and that a number of outreach events would be held in October. The Council also noted that the Chairman was due to meet European colleagues that afternoon to discuss the operational issues set out.

9.3 The Council debated amending the proposed solution to make it more accommodating for use in European business models by allowing for FV-OCI as opposed to FV through profit and loss which accommodates the UK business model. However, the Council agreed that it is important to highlight that there are clear differences between UK and European models and so the proposed UK favourable solution should be retained.

9.4 In relation to the detail of the response the following points were made:

- a) the last sentence of paragraph 2 be taken out;
- b) the proposal to delay implementation of IFRS9 (as set out in paragraph 6) is not practical and should be taken out of the response;
- c) the suggestion that a review draft be published on the IASB website for a two month window to allow implementation issues to be ironed out should be altered to state that "a time period" should be allowed for such implementation issues to be ironed out.

9.5 Subject to those amendments the Council approved the draft response for publication on the FRC website and noted that a final draft and comments from the Actuarial Council and Codes & Standards Committee would be brought to the Council at its October meeting.

## **10. IASB Exposure Draft ED/2013/8 Agriculture: Bearer Plants (Biological Assets) – draft comment letter**

10.1 Jennifer Guest (JG) introduced the Exposure Draft (ED); 'Proposed amendments to IAS 41: Agriculture: Bearer Plants' and provided a brief background on the development of the ED. The Council noted that the deadline for comment is 28 October 2013.

10.2 The Council considered the proposed EFRAG response to the IASB and noted that the issues raised were broadly similar to those set out in the draft FRC response. The Council considered and were supportive of the proposal set out in the EFRAG response to introduce a practical expedient to define the maturity date as the date of the first harvest for commercial value in order to avoid divergence in practice when considering whether a bearer plant is immature or mature. Accordingly, the Council approved the draft letter to EFRAG subject to amendments discussed.

10.3 In relation to the draft FRC response the Council agreed that it should:

- object to the scope of the proposed amendments to IAS 41 on the grounds that the scope is not wide enough because there are other biological assets which could also be more usefully valued in accordance with IAS 16.
- Support the principle behind the proposal to account for bearer plants as property, plant and equipment in accordance with the requirements in IAS 16, rather than in accordance with IAS 41.
- Propose that the IASB carry out a comprehensive review of IAS 41 which re-considers it from first principles;
- highlight that the FRC is aware of cases where livestock is held purely for breeding purposes and not for sale and see no reason why such entities should not also be able to apply IAS 16 as this would lead to greater consistency across agricultural entities.

10.4 The Council requested that the response to Q3 be amended to read that no further guidance on the definition of a bearer plant is required.

10.5 Subject to those amendments the Council agreed the draft comment letter.

#### **11.0 Draft FRED 52 Draft Amendments to the Financial Reporting Standard for Smaller Entities (effective April 2008) – Micro-entities**

11.1 Jenny Carter (JC) introduced the paper which set out the proposed FRED 52 for consideration by the Council.

11.2 The Council noted that:

- the EU had issued a new Directive for Micro-entities giving exemptions on financial reporting issues;
- BIS had consulted on how the Directive could be implemented in the UK and had published its response to the consultation, setting out its intentions, in early September;
- BIS expected to lay the Regulations in October which will apply to micro-entities for accounting periods ending on 30 September 2013;
- An amendment to the FRSSE will be required in light of the new Regulations as micro-entities will still be expected to apply the recognition and measurement requirements of the FRSSE whilst taking advantage of the reduced presentation and disclosure requirements. Accordingly, the FRC would like to be in a position to issue proposed amendments to the FRSSE as soon as possible after the Regulations are laid to assist those who apply

FRSSE and would like to see how to adapt their practices to meet the new exemptions;

- The UK GAAP TAG had reviewed the ED and the minor concerns / requests for clarifications have been considered and were being addressed by FRC staff.
- 11.3 The Council queried the wording of the proposed revision to paragraph 1.2 and requested that the Regulations be reviewed to ascertain whether or not the wording is correct and whether or not an entity applying the micro-entity exemptions was permitted to provide additional disclosure on top of the legal minimum.
- 11.4 The Council noted that the final Regulations had not yet been seen by FRC staff; accordingly the sections of the draft shown in square brackets would need to be completed once the wording of the final Regulations was known. Subject to those additions the Council recommended the ED for approval by the FRC Board and for publication on the website.
- 11.5 The Council supported the proposal to consider shortening the consultation period on the basis that the draft amendments are intended to implement the new legal requirements and no other changes are proposed; and the new legal requirements will have effect for accounting periods ending on or after 30 September 2013.
- 12. FRED 51 Draft Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Hedge Accounting**
- 12.1 JC introduced the FRED which had been updated quite significantly following discussion at the July Council meeting and consideration by the UK GAAP TAG. JC reminded the Council that the IASB has not yet issued its final version of the hedge accounting parts of IFRS 9.
- 12.2 JC informed the Council that some conceptual issues have been raised by the members of UK GAAP TAG but that these issues, should not, in the staff's view, be regarded as an impediment to timely issue of the ED.
- 12.3 The Council noted that the biggest issue related to the transition and that this was an area where the UK GAAP TAG had expressed mixed views. The Council requested that the proposed transition process and in particular the timings of the transition be reviewed.
- 12.4 The Council was not supportive of the interpretation set out at paragraph 12.16A of the FRED in relation to the assessment of the economic relationship. The Council took the view that it was not necessary to provide factors to be considered in making the assessment and requested that the factors be deleted. The Council suggested the inclusion of an additional illustrated example would be useful.
- 12.5 Subject to those amendments the Council agreed its advice to the FRC that the FRED should be issued for public consultation as soon as possible. The Council also requested that an unapproved staff draft be published on the FRC website.

**13. Statements of Recommended Practice Exposure Draft – Limited Liability Partnerships**

- 13.1 JC introduced the paper which set out the CCAB SORP for LLPs exposure draft (ED) for consideration by the Council. JC confirmed that the update covers both amendments for consistency with FRS 102 and clarifications to the existing SORP's requirements based on experience of issues or misunderstandings with its application.
- 13.2 The Council noted that the proposals within the ED are consistent with the new UK SORP Policy and that the UK GAAP TAG had undertaken a limited scope review of the ED and issues raised by the TAG had been addressed to the groups' satisfaction.
- 13.3 Subject to final, minor drafting amendments the Council approved the exposure draft of the CCAB SORP for LLPs for publication by the CCAB.

**14. Any other business**

- 14.1 Marian Williams (MW) Codes & Standards Director was welcomed to the Council. MW informed the Council that she would be leading an effectiveness review of the FRC Councils over the next month.