

**Minutes of a meeting of the Corporate Reporting Council held on 15 November 2018 in the FRC Boardroom, 8<sup>th</sup> Floor, 125 London Wall, London EC2Y 5AS**

Present:

Paul Druckman	Chairman
Michael-John Albert	Member
Richard Barker	Member (From Minute 5.5)
Chris Buckley	Member
Michael Gallagher	Member
Sian Morgan	Member
Veronica Poole	Member
Mark Smith	Member

Observers:

Catherine Crowsley	BEIS – From Minute 5
Roger Marshall	For Minute 10 only
Lee Piller	FCA
Alison Ring	HMRC
Vicky Rock	HMT
Trevor Rushe	IAASA

In attendance:

Anthony Appleton	Director, Accounting & Reporting Policy
David Andrews	Relationship Manager for BEIS (For Minute 12)
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
Andrew Lennard	Director of Research
Andrew Miller	Project Manager (Brexit) (For Minute 12)
Susan Pust Shah	Project Director

**1. Welcome and apologies for absence**

The Chairman welcomed everyone to the meeting. Apologies were noted from Liz Murrall, Council Member.

**2. Declaration of conflicts of interests**

There were none.

**3. Minutes of the last meeting**

*Minutes of the Corporate Reporting Council meeting held on 4 October 2018*

- 3.1 The minutes of the Corporate Reporting Council meetings held on 4 October 2018 were approved for publication.

*Rolling actions*

- 3.2 The matters arising log was noted.

**4. Update from the Chairman**

- 4.1 The Chairman provided an update on the Codes & Standards Committee meeting held on 6 November 2018 which mainly focused on the Stewardship Code consultation. It was noted that Committee would be meeting in the second week of January to consider the

revised consultation, with an aim to seek Board's approval on 23 January and publish on 30 January 2019.

- 4.2 The Chairman also informed that the Board had met on 17 October 2018 and the discussion had included:
- Sir John Kingman Review. Sir John has confirmed his intention to report to the Secretary of State before Christmas.
  - FRC's consultation with BEIS on draft legislation for EU Exit and the establishment of the post-Brexit IFRS Endorsement Board.
  - Future of Corporate Reporting project.
  - Audit market concentration.
  - Report from the Executive Counsel on the work of the Enforcement Division.

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

- 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.

### *IFRS 17 – Insurance Contracts*

- 5.2 The Council noted that the IASB has proposed to delay the mandatory effective date of IFRS 17 by one year. As a consequence of IFRS 17 deferral, the IASB also agreed to revise the fixed expiry date of temporary exemption from IFRS 9 until 1 January 2022.

### *Management Commentary*

- 5.3 The Council received an update on the IASB's first meeting of the Management Commentary Consultative Group and discussed whether, over the longer-term, the IASB should seek to mandate its Practice Statement on Management Commentary. Whilst some Council Members viewed that there is a need for standardisation in the front-end reporting, there could be possible conflicts with local legislation. Whilst some members expressed support for mandating a single set of requirements such as those in the Practice Statement on Management Commentary in the future, the timing is still premature.
- 5.4 In response to a query, it was noted that the FRC would ensure the outcome of the IASB discussion is considered in the development of its work of the Future of Corporate Reporting.

### *Statutory Instrument relating to UK exit from EU*

- 5.5 The Council noted that the draft Statutory Instrument was laid before Parliament which proposes changes to Part 15 of Companies Act. Once the legislation is made, the changes will take effect from exit date (29 March 2019) unless a transitional period is agreed.

### *Social Housing Pension Scheme and the Scottish Housing Associations Pension Scheme*

- 5.6 Mr Appleton reminded the Council of the issue in relation to the accounting for a change from defined contribution accounting to defined benefit accounting, as a result of sufficient information becoming available for the employers to use defined benefit accounting. The Council noted that the UK GAAP TAG had discussed the matter once again and there was no clear consensus around what the most appropriate accounting should be. The Council considered the FRC's draft note on this matter and discussed the differing interpretations of the requirements of FRS 102.
- 5.7 Following a thorough discussion, the Council advised the Executive that the FRC should undertake standard-setting activity with a view to specifying in FRS 102 how an entity should account for a change from defined contribution accounting to defined benefit accounting for a multi-employer defined benefit plan as a result of sufficient information becoming available.

#### *Accounting Standards Advisory Forum*

- 5.8 The Council noted that the FRC has been appointed a member organisation of the Accounting Standards Advisory Forum.

#### *Accounting implications for pensions ruling*

- 5.9 The Council briefly discussed the High Court ruling on gender equalisation to guaranteed minimum pensions at Lloyds Banking Group. There are accounting implications arising from the ruling, which will affect entities reporting under both IFRS and UK GAAP.

#### *FRC project – Future of Corporate Reporting*

- 5.10 In response to a query in relation to the governance structure for the project, it was clarified that the 'sub-committee' of the Board will act as a 'sounding board' in respect of discussions between the Board and the Advisory Group. The Council expressed a concern whether its 'advice' in respect of the project will be sought. Whilst the Council will not form part of the formal governance structure for this project, it was noted that the Executive will share relevant project papers with the Council and members may provide input into the project. In light of Sir John Kingman's review and the establishment of the UK IFRS Endorsement Board, the Council acknowledged the uncertainty with the FRC's governance, but expressed its interest of being an active part of the project.

### **6. Director of Research Report**

- 6.1 Mr Lennard introduced his paper and noted the two ongoing research projects i.e. Variable and contingent consideration and Intangibles
- 6.2 It was noted that the work on the paper on Intangibles is progressing and focuses on identifying areas where the paper's suggestions would indicate possible revisions to IFRSs. It was noted that the draft paper would be presented to the Council at a future meeting.

### **7. Annual review of SORPs**

#### *Pensions SORP*

- 7.1 The Council considered the Pensions Research Accountants Group (PRAG) 2018 report to the FRC on the annual review of the Pension SORP and noted that PRAG had updated the Pension SORP earlier this year for the *Triennial review 2017 amendments*. The Council supported the view that the annual review has addressed the issues required by the SORP Policy and concluded that there is no need for an update to the SORP at this time.

#### *Authorised Funds SORP*

- 7.1 The Council noted that the Investment Association has not identified any conflicts between the Authorised Fund SORP and the revised FRS 102. It was also noted that the FRC's brief review of the SORP has also not identified amendments that are required. The Council agreed that there is no need for an update to the SORP at this time.
- 7.2 The Council was informed that as part of annual review process this year, the Investment Association conducted a webinar to reach out to wider stakeholders to explain the SORP process and encourage feedback on the SORP.

### **8. Primary Financial Statements**

- 8.1 Mr Appleton introduced the paper which was emailed to the Council on 13 November 2018. The Council noted that the paper would be discuss at the Accounting Standards Advisory Forum meeting in December 2018. Mr Appleton invited the Council to send their comments in relation to presenting subtotals in the statement of profit or loss, disclosures of management performance measures and improving disaggregation.

## **9. FRED 70 - FRS 101 annual review**

9.1 Mrs Ashelford introduced FRED 70 and opened the discussion in relation to the irreconcilable conflicts between IFRS 17 and Schedule 3 to the Regulations mainly in relation to the formats of the primary statements. The Council noted that the basis for conclusions and impact assessment reflect the fact that FRS 101 is optional, and the proposed amendment is not as a result of an FRC policy choice. The Council noted that the IASB had agreed a proposal to delay the mandatory effective date of IFRS 17 by 12 months to 1 January 2022 and will be considering whether to open the standard up for further amendments.

9.2 Through discussion, the Council made a number of comments including:

- Changes to legislation will be required in order to overcome the conflicts that exist between IFRS 17 and Schedule 3 (this only applies to Companies Act accounts and not to IAS accounts).
- The Council agreed, in principle, with the proposed amendments FRS 101 to scope out insurance companies that are both required to apply Schedule 3 and have contracts that are within the scope of IFRS 17. However, given the current development and endorsement status of IFRS 17, the Council questioned whether the consultation should be delayed.
- It was acknowledged that insurance companies have been asking about what options are available, including whether IFRS 17 will be available under FRS 101, in order to help with planning group conversions to IFRS 17.
- It is normal to consult on amendments to FRS 101 before the relevant IFRSs are endorsed.

9.3 The Executive thanked the Council for their comments and suggestions and agreed to take them into consideration in finalising the consultation. The Council advised the Executive to propose the draft FRED to the Board and to discuss the risk relating to the issuance of this consultation, pending further potential development of IFRS 17.

## **10. IFRS 17**

10.1 Ms Pust Shah introduced the paper and opened the discussion to gather the views of Council members on the proposals discussed by the IASB to reopen IFRS 17. Council members observed that the IASB due-process around standard development should be respected.

### *Effective date of IFRS 17*

10.2 The Council members generally supported the deferral of one year of IFRS 17 and IFRS 9 as proposed by the IASB.

### *Other issues raised on IFRS 17*

10.3 The Council noted the issues the IASB has been requested to consider. It was suggested that these issues could be ranked by importance to give a sense of priority. In that regard the Council recommended to identify issues that are UK specific or have a significant impact in the UK.

## **11. Response to IASB Discussion Paper 'Financial Instruments with Characteristics of Equity'**

11.1 Mr Lennard drew attention to Appendix 2 of the paper which addressed the classification of a claim against an entity that is (or could be) settled by issuing a variable number of shares, the value of which would be equal to a fixed amount. He noted that it seemed widely to be agreed that such a claim should be reported as a liability, but that it was challenging to explain the conceptual rationalisation for this conclusion. He outlined three possible approaches:

- (a) The IASB's Discussion Paper's proposal is to rely on the so-called 'amount test'. However, he noted that this:
  - requires consideration of claims that will be payable only on the liquidation of the entity, which seems inconsistent with the 'going concern' assumption; and
  - would require significant changes to the definition of a liability, as set out in the Conceptual Framework.
- (b) Standards could prescribe that a liability includes an obligation to issue shares in the future. The drawbacks of this approach are:
  - it contradicts the long-standing view that an obligation to issue shares is not 'an obligation to transfer economic resources'; and
  - it would require 'conventional' options to obtain shares (including employee share options) to be reported as liabilities, with changes in value reported in comprehensive income.
- (c) The principles for classification of claims that exist at the reporting date should be focused on the nature of the claim that exists at the balance sheet date, rather than the ultimate settlement outcome. This would result in some claims that are expected to be settled in due course by the issue of shares being reported as liabilities. This would be consistent with, for example, the reporting of the liability portion of convertible debt being reported as a liability, even where conversion is highly probable; and (arguably) the reporting of performance obligations at the amount of consideration received, even where it is known that settlement will have a lower cost to the entity. He acknowledged that:
  - it is tricky to explain how to identify a liability except by reference to the expected settlement; and
  - this approach might conceivably leave some claims classified as 'equity' even though they were for a fixed amount.

11.2 Mr Lennard observed that it was not essential for the response to the Discussion Paper to express a definitive preference for a particular approach. In discussion, the Council expressed a number of views including:

- the existing accounting for liabilities was little broken. The Discussion Paper's approach is fundamentally flawed and not implementable. Having regard to what might happen in the case of liquidation, it contradicts the Conceptual Framework and is impracticable, both for the preparer and the auditor. Disclosure in that area may address most of the issues around those structured instruments that are in mid-tier or hybrid.
- It was cautioned against trying to force a rigid conceptual basis onto accounting practice that has developed over years. It was questioned, in particular how the third approach could be reconciled with the idea of 'economic compulsion', particularly where the entity would be 'economically compelled' to settle a claim by the issue of shares.

11.3 Mr Lennard thanked the Council for their comments and input.

## **12. Developing the 2019/20 FRC Plan**

12.1 Mr Andrews introduced the paper and emphasised that in developing the draft plan, it is intended that the Plan should demonstrate how the FRC's regulatory tasks and projects including Future of Corporate Reporting support and drive the FRC's mission forward. Whilst doing so, consideration is required to be given in respect of the potential costs of implementing Sir John Kingman's recommendations, work related to EU exit and the post-EU exit regime for accounting and auditing.

12.2 The Council gave due consideration to the outline plan for 2019/2020 in respect of the work relating to corporate reporting. Just as the FRC's target of 90% audits meeting high quality work, it was queried whether there were similar performance indicators in place in relation to corporate reporting. It was noted that there was no such target for corporate reporting. The Corporate Reporting Review (CRR) Team reviews the directors' report and accounts of public and large private companies for compliance with the law and further enquiries are

made where requirements are not been followed. A Council Member viewed that the thematic reviews undertaken by the CRR Team looking at specific areas are highly effective in lifting the bar on quality of disclosures.

12.3 It was noted that greater reference would be made in the Plan in relation to the work on s172, climate change accounting and reporting and the FRC's overarching aim to remain influential in the EU and internationally.

12.4 The Chair thanked Mr Andrews for sharing the draft Plan with the Council and seeking its views on the development of the FRC's Annual Plan for 2019/2020.

**13. Any other business**

The Chairman acknowledged the good work of the FRC's Communications Team in light of the current FRC publicity.

**14. Date of next meeting**

The Council noted that the next meeting will take place on 13 December 2018.