

ACCOUNTING COUNCIL

**Minutes of the Second Meeting of the Accounting Council (2012:02)
held on 26 July 2012 at Aldwych House, 71-91 Aldwych, London, WC2**

PRESENT

Roger Marshall	Chairman
Michelle Sansom	Director of Accounting
Nick Anderson	
Richard Barker	
Edward Beale	
Ken Lever	
Andy Simmonds	
Pauline Wallace	

IN ATTENDANCE

Matt Blake	HMRC
Michael Kavanagh	IAASA Observer
Andrew Lennard	Director of Research
Melanie McLaren	Executive Director, Governance, Codes and Standards (items 1 to 4.1a and items 6 to 11)
Chris Wobschall	HM Treasury
Simon Peerless	Minutes Secretary

Technical Staff: Jenny Carter, Grant Chatterton, Jennifer Guest, Jessica Howard, Janice Lingwood, Seema Jamil-O'Neill, Susanne Pust Shah, Deepa Raval, Joanna Spencer.

APOLOGIES FOR ABSENCE were received from Peter Elwin and Robert Overend, and from Mike Ashley, who submitted written comments.

1 MINUTES AND NOTE OF MEETING

- 1.1 The minutes of the meeting held on 5 June 2012 (2012:01) were agreed and approved for publication.

2 DIRECTOR OF ACCOUNTING REPORT

- 2.1 The Council received a report from the Director of Accounting and noted:
- the SEC staff report 'Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers';
 - the IASB meeting in the week of 16 July;
 - the IFRS Interpretations Committee meeting on 10 July;

- d. the recent joint meeting between the IASB and EFRAG and its partners;
- e. progress on the EFRAG Governance Review;
- f. the EFRAG TEG meeting in the week of 23 July;
- g. the FRC Board meeting on 10 July, including its agreement to issue an amended Foreword to Accounting Standards and to commission research into the compatibility of fair values with the true and fair view;
- h. the publication of the Remuneration Report by the Financial Reporting Lab; and
- i. the publication by BIS of its legislative proposals for the period from July to December 2012.

3 RESEARCH ACTIVITIES AND DEVELOPMENTS

3.1 The Council received a report from the Director of Research and noted the latest position on EFRAG PRC projects, including:

- a. the issue of a feedback paper and position paper on the effects of accounting standards;
- b. progress on the review of responses to the discussion paper on corporate income taxes; and
- c. progress on the business model project.

3.2 The Council also noted the issue by the Canadian Institute of Chartered Accountants of a paper 'Towards a Measurement Framework for Financial Reporting by Profit-Oriented Entities'.

4 FUTURE OF FINANCIAL REPORTING IN THE UK AND ROI

4.1 The Council considered issues relating to:

- a. draft FRS 101 on the reduced disclosure framework;
- b. interim financial reports;
- c. formats requirements for primary financial statements;
- d. discontinued operations;
- e. financial instruments;
- f. government grants;
- g. pension plans;
- h. taxation; and
- i. disclosures relating to income taxes.

4.2 The Council agreed that the Recommendations Report to the FRC should explain how each departure from the IFRS for SMEs to allow non-IFRS based solutions was justified in terms of the guidelines adopted by the Council.

4.3 The Council tentatively decided to recommend to the FRC:

- a. that there should be no restriction on early application of FRS 101; and

- b. that the exemption in draft FRS 101 from disclosure requirements of IFRS 2 should be amended to clarify it and extend it to share-based payments of any group entity other than the reporting entity itself; and
 - c. that FRS 101 should not be applied to consolidated financial statements.
- 4.4 The Council considered the application of IAS 34 to entities adopting FRS 102 and agreed to no longer include a reference in FRS 102 to IAS 34, but to develop a revised statement of best practice incorporating the requirements of IAS 34 to replace the current ASB Statement 'Half-yearly financial reports'.
- 4.5 In relation to the format requirements for primary financial statements, the Council tentatively decided to recommend:
 - a. that FRS 102 should permit entities a choice between the four formats in legislation (the general format in Schedule 1 to the Companies Act, the banking format, the insurance format, and the limited liability partnership format); and
 - b. to discuss with BIS the possibility of legislative change to permit entities using FRS 101 to adopt a format consistent with IAS 1.
- 4.6 On the presentation of discontinued operations under FRS 102 the Council tentatively decided that analysis between continuing and discontinued operations should be required for the profit and loss account but not for other comprehensive income.
- 4.7 The Council considered the scope of the disclosure requirements applying to financial institutions and agreed to consider a further definition at the next meeting.
- 4.8 The Council agreed to recommend to the FRC that entities using the reduced disclosure framework would be required to comply with the full disclosure requirements of IFRS 7 and IFRS 13 to the extent they related to financial instruments.
- 4.9 The Council agreed to include a fair value option in FRS 102, subject to confirming that this was consistent with company law.
- 4.10 In relation to government grants, the Council agreed that either the accrual method (which permits the spreading of the grant over the life of the related asset) or the performance method of accounting should be permitted. For other grants, only the performance method would be permitted. No special transition provisions would be included.
- 4.11 In relation to the disclosure in pension plan reports of information on the liability to pay pension benefits, the Council supported a proposal for this to continue to be in the trustees' report rather than the financial statements, but agreed to consider this further at a future meeting.
- 4.12 In relation to deferred tax, the Council agreed to recommend to the FRC not to permit discounting of deferred tax provisions.
- 4.13 The Council considered the proposed disclosures relating to income taxes and decided to recommend:
 - a. to replace the disclosure requirement proposed in draft FRS 102 for an explanation of differences between tax amounts presented in the statement of comprehensive income and those reported to tax authorities, with a requirement for a reconciliation between the tax expense or income and the applicable rate of tax applied to the profit or loss on ordinary activities;

- b. to replace the proposed requirement for a three year forecast of the difference between the current tax charge and the standard rate applied to reported profits with a requirement for a one-year forecast of expected net reversals of deferred tax; and
- c. that no explicit disclosure requirement should be included for contingent deferred tax assets of allowances made against deferred tax assets.

5 ANNUAL REVIEW AND MAINTENANCE OF UK FRSs

5.1 The Council considered the IASB's improvements standard issued in May 2012.

5.2 The Council:

- a. approved a response to EFRAG's request for comments on its draft endorsement advice; and
- b. decided to recommend to the FRC that no amendments should be made to current UK standards as a consequence of the IASB improvements.

6 RETIREMENT BENEFITS

6.1 The Council considered amendments to FRS 17 and draft FRS 102 relating to multi-employer pension schemes where an employer had entered into an agreement with the scheme that determined how it would fund a deficit for past service liabilities.

6.2 The Council:

- a. agreed to recommend amendments to draft FRS 102 requiring recognition of the liability that arose from the agreement and of the resulting expense in profit and loss;
- b. agreed to recommend that a similar amendment to FRS 17 should not be made; but that a press release should be issued to clarify the disclosures that should be provided;
- c. deferred a decision on whether to mandate or encourage disclosure of the liability and expense where material for entities complying with FRS 17.

7 FINANCIAL INSTRUMENTS

7.1 The Council received an update on the IASB's project on financial instruments. The Council agreed that it was preferable for the IASB to move swiftly to complete IFRS 9 than to consider amendments to IAS 39, and asked for this view to be communicated to the IASB via EFRAG.

7.2 The Council agreed not to take a position on the IFRS Interpretations Committee's rejection letter relating to Greek government debt.

8 LEVIES CHARGED BY PUBLIC AUTHORITIES

8.1 The Council considered the draft Interpretation on levies charged by public authorities issued by the IFRS Interpretations Committee.

8.2 The Council expressed the view that:

- a. although the consensus in the draft Interpretation might be a technically correct application of IAS 37, it did not result in decision-useful information and ignored the requirement for fair presentation; and
 - b. the requirements of IAS 37 that had led to this consensus should be referred to the IASB for review.
- 8.3 The Council commissioned responses to the Interpretations Committee and EFRAG expressing these views, to be approved by e-mail.

9 PUT OPTIONS WRITTEN ON NON-CONTROLLING INTERESTS

- 9.1 The Council considered the draft Interpretation on put options written on non-controlling interests, issued by the IFRS Interpretations Committee.
- 9.2 The Council expressed the view that:
- a. the issue needed to be address more broadly by the IASB to determine whether measurement of such instruments at initial recognition under IAS 32 was appropriate; and
 - b. the narrow scope of the draft Interpretation was likely to lead to inconsistencies in accounting for similar instruments.
- 9.3 The Council commissioned responses to the Interpretations Committee and EFRAG expressing these views, to be considered at its next meeting.

10 OPERATING SEGMENTS

- 10.1 The Council noted a report of the work staff had undertaken in relation to the post-implementation review of IFRS 8 and approved the proposed work-plan.

11 DISCLOSURE FRAMEWORK

- 11.1 The Council considered a draft section of the proposed FRC supplementary discussion paper 'Thinking About Disclosures in a Broader Context' that related to placement principles.
- 11.2 The Council noted the conflict between restricting notes to the financial statements to information relating to items in the primary financial statement and the need to link this information with related forward-looking information. The Council agreed to consider a further draft at its next meeting.

12 NEXT MEETING

- 12.1 Thursday 6 September at 9.00 a.m.