

**Minutes of a meeting of the Corporate Reporting Council
held on 1 November 2017 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
Roger Marshall	Member
Sian Morgan	Member
Liz Murrall	Member
Veronica Poole	Member

Observers:

Ian Bulmer (HMT)
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
Andrew Lennard	Director of Research
Susanne Pust Shah	Project Director
Deepa Raval	Project Director
Rosalind Szentpeteri	Project Director

1. Welcome and apologies for absence

The Chairman welcomed everyone to the meeting and in particular Ian Bulmer (HMT Observer) to his first meeting. Apologies were noted from the Council Member Mark Smith and Seema Jamil-O'Neil (BEIS Observer).

2. Declaration of conflicts of interests

2.1 There were none reported.

3. Minutes and rolling actions

Minutes of the Corporate Reporting Council meeting held on 3 October 2017

3.1 The minutes of the Corporate Reporting Council meeting held on 3 October 2017 were approved for publication.

Rolling actions

3.2 The matters arising log was noted.

4. IFRS 17 – Education session

4.1 Susanne Pust Shah presented the education session on the IFRS 17 accounting requirements to help the Council understand the new standard. She briefly recapped the

discussion around the contractual service margin and its movements which were presented at the last meeting. She provided a brief overview of transitional requirements with the help of an example demonstrating various issues and considerations to be made in the process. The presentation also included transitional accounting approaches that would be available.

5. Chairman's update

- 5.1 The Chairman provided an update on the matters considered at the Codes & Standards Committee meeting held on 18 October 2017. Amongst other matters, on the advice of the Corporate Reporting Council, the Committee had considered the FRS 101 review (2017/18 cycled) and approved the issue of FRED 69.
- 5.2 The Chairman reported that the FRC Board had an additional meeting on 24 October 2017. The Secretary agreed to circulate to the Council, the web link to the FRC Chief Executive's speech delivered at the Developments in Audit event.
- 5.3 The Council noted that the Board had approved an updated Code of Conduct applicable to Board, Committees and Council. The updates reflected detailed guidance on what disclosures should be made in respect of the register of interest and the Council Members were invited to update their declaration of interest forms. The Council noted that the next meeting of the Board was on 2 November 2017.

6. Director of Accounting and Reporting Report

- 6.1 The Council noted a report that provided an update on recent developments to financial reporting and wider corporate reporting and matters of policy. It was reported that the FRC had published its Annual Review of Corporate Reporting and a Lab Implementation Study on Dividend Disclosures.
- 6.2 Anthony Appleton (AA) provided an update on the draft endorsement advice on Prepayment Features with Negative Compensation (amendments to IFRS9). It was noted that the IASB took the opportunity when finalising this amendment to address another issue on the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability. It did this by adding two paragraphs to the Basis for Conclusions. EFRAG has expressed concern that, in accordance with EU legal framework, the endorsement process focuses on the test of the Amendment and that the Basis for Conclusions is not endorsed in Europe. Consequently, this issue is not addressed in the draft endorsement advice. The Council viewed that some criticism of the IASB's decision to add these paragraphs to the Basis for Conclusion is justified as these would normally have formed an IFRS Interpretations Committee Agenda Decision to complete the interpretation process.
- 6.3 The Council supported the FRC's views in response to the Invitation to Comment on EFRAG's draft endorsement advice on *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*.
- 6.4 The Council noted and congratulated Roger Marshall on his reappointment as the EFRAG Board member.
- 6.5 The Council had a brief discussion on the activities of the International Valuation Standards Council which is an independent, not-for-profit organisation that develops standards for valuation practice and valuation profession, serving the public interest.
- 6.6 The Council noted the Council's forward agenda for the next three months.
- 6.7 The Council noted that the conference call meeting scheduled on 15 November 2017 is cancelled as the Guidance for the Strategic Report will no longer be finalised in 2017.

The comments on the consultation on the amendments to the Guidance on the Strategic Report will be considered at the next meeting.

- 6.8 With regards to the CASS standard which has no materiality threshold, a Member expressed concern in respect of unjustified application of logic and costs of reconciling small amounts in the financial reports. It was reported that the concern would be shared with the FRC's Audit & Assurance Team.

7. Director of Research Report

- 7.1 The report was taken as read. It was noted that Richard Barker, Chris Buckley, Liz Murrall and Paul Druckman would be attending the Corporate Reporting Council's Academic Panel on 8 November 2017.

- 7.2 With regards to a query in relation to corporates changing their discount rates and the implication on pension liabilities, it was reported that the FRC's Corporate Reporting Review Team were aware of the matter and monitoring it. However, AA agreed to discuss the matter with them.

- 7.3 It was reported that there was a concern amongst some investors in relation to the outcome of the Discussion Paper on *Auditors and Preliminary Announcements* which showed little appetite for any significant change to auditors' responsibilities. A Member reported that this concern was not widely held as most companies follow good practice and require their audit to be signed off. AA agreed to discuss and share the concern with the FRC's Audit & Assurance Team.

8. Update on the Guidance on the Strategic Report consultation

- 8.1 Debbie Crawshawe (DC) summarised the key points of the paper and highlighted that:

- The Exposure Draft to update the Guidance on the Strategic Report was issued in August 2017 and the consultation closed on 24 October 2017.
- Since the issue of the Consultation, the government has announced its plans to introduce a specific reporting requirement relating to section 172 of the Companies Act.
- There has been a high level of response received from a range of stakeholders. Whilst most respondents are supportive of the general direction of travel, some have highlighted areas which would benefit from further consideration before finalising the guidance.
- Some preparers have highlighted difficulties in distinguishing between changes arising from the NFR regulation that are required for this reporting season as opposed to the changes which are encouraged this year but may be required next year, depending on the requirements of the anticipated legislation.

- 8.2 The Council was presented with three different options for the next steps to finalise the Guidance. The Members thoroughly discussed the options and gave due consideration to the confusion and uncertainty already existing around the status of some of the elements of the guidance and the caution against finalisation of the guidance in advance of the government's planned legislative change. Through discussion, a number of observations and suggestions were made including:

- More emphasis could be given to the new non-financial reporting requirements for the December year end to provide a steer to those companies that fall within the scope of the new regulation.
- The focus on improving reporting on section 172 could await the outcome of the government's planned legislation.
- A press notice could be issued to clarify the status of each of the interlinked strand of work being undertaken by the government and by the FRC.

- A fact sheet could be issued to clarify a) the requirements in order to comply with the new NFR regulations and b) those encouraging best practice areas within the context of changing statutory requirements.
 - The fact sheet could also include the link between section 172 and the purpose of the strategic report without setting out the encouraged disclosures at this stage.
- 8.3 In response to a query, it was reported that the detailed analysis of responses to the consultation on the amendments to the Guidance on the Strategic Report would be considered at the December Council meeting. Once there is significant visibility of the government's publication of the secondary legislation and the revised Corporate Governance Code, the updated Guidance to the Strategic Report would be published in 2018.
- 8.4 DC agreed to take the above suggestions into consideration while drafting the fact sheet and circulate the draft fact sheet to Council for comments outside of the normal papers. It was agreed that the fact sheet would be published by the end of November 2017.

9. Amendments to FRS 102

- 9.1 Jenny Carter (JC) provided a brief update on the proposed amendments to FRS 102 arising from the triennial review through FRED 67 *Draft amendments to FRS 102 – Triennial review 2017 – Incremental improvements and clarifications* and FRED 68 *Draft amendments to FRS 102 – Payments by subsidiaries to their charitable parents that qualify for gift aid*.

Disclosure differences between the Irish and UK small company and micro-entity regimes

- 9.2 With the implementation of the EU Accounting Directive in Ireland in June 2017, there are some disclosure differences between the Irish and UK small company and micro-entity regimes. A consistent approach to disclosure requirements for UK and Irish micro-entities and small companies will be applied, therefore the proposal that amendments be made to FRS 105 and Section 1A of FRS 102 by including a new appendix which would be the Irish equivalent of Appendix C to Section 1A, was supported by the Council.

Hyperinflation

- 9.3 The Council noted that FRED 67 had proposed some amendments to Section 31 *Hyperinflation*, which reflected changes made to the IFRS for SMEs when it introduced revaluation of property, plant and equipment. However, a respondent to FRED 67 had queried the interaction with company law, which requires a revaluation reserve to be maintained and disclosed when applying the alternative accounting rules. Since the accounting standards are drafted within the context of company law, the proposal to depart from IFRS by requiring the revaluation reserve to be retained when accounting for hyperinflation, was supported by the Council.

Disclosure when applying IFRS 9

- 9.4 The Council noted the issue that some of the disclosure requirements of FRS 102 do not work well when entities choose, in accordance with FRS 102, to apply the recognition and measurement requirements of IFRS 9 *Financial instruments*. The proposal that some amendments to disclosure requirements were made to align the disclosure requirements with the chosen recognition and measurement requirements, in particular to provide relevant information about the impairment of financial assets, was supported by the Council. In addition, the Council suggested that in order to comply with the general disclosure requirements of FRS 102, an entity that has taken the accounting policy choice to apply the recognition and measurement provisions of IAS 39 or IFRS 9 may need to consider additional disclosure based on IFRS 7 *Financial Instruments: Disclosure*, as it relates to the recognition and measurement policies applied.

Modification of the terms of a financial liability

- 9.5 The Council considered the proposal to provide an option to adjust the carrying amount of the liability for the costs associated with the modification of the terms of a financial liability and amortise them over the life of the liability. The Council also considered the TAG's view that this could be a significant change to FRS 102 that would require retrospective application which may be onerous. The Council considered this an accounting policy choice and therefore, it should be clarified in the Basis for Conclusions. (*Secretary's after meeting note: After the Council meeting, further consideration was given to a related recent IASB pronouncement. Given the clarification of the equivalent requirement of IFRS 9, there was a risk of unintended consequences from introducing the proposed option and therefore no amendment will be made to FRS 102.*)
- 9.6 In response to a query in relation to the crossed out reference to 'as adopted in the EU' within the standard, it was reported that the text is reinstated as it was felt too premature to delete in light of the implications of Brexit for the UK's accounting framework.

Costs benefits analysis

- 9.7 In response to a query in relation to the assumption that one hour per accountant or book-keeper on average would be spent on familiarisation with the amendments to FRS 102, it was reported that appropriate impact assessment methodology had been used to arrive at this assumption.

Gift Aid

- 9.8 The proposals in FRED 68 provided a pragmatic exception to the requirements to account for tax payable. The proposal was that when the profits of a trading subsidiary will be distributed to a charitable parent after the reporting date, then there will be no need to provide for tax payable if, subsequently, tax relief will be available. The Council noted that all respondents commenting agreed with the proposal, subject to certain clarifications. However, just over half of the respondents raised an issue about whether the expected gift aid payment could be accrued at the reporting date. It was viewed that there is no liability for the expected gift aid payment at the reporting date, unless there is a legal obligation, because the gift aid payment is a distribution to owners for company law purposes. The Council supported the proposal that no amendments be made to FRS 102 to permit the accrual at the reporting date (unless there is a legal obligation).
- 9.9 With regards to other issues raised by respondents, the Council supported the view that:
- The existing disclosure requirements of FRS 102 ought to be sufficient.
 - If the tax legislation permits gift aid relief in group situations other than a parent / subsidiary relationship, the exemption from accounting for the current tax should also apply and therefore, amendments will be made to address this.
 - More guidance could be provided, for example in the Basis for Conclusions, on the fact that the subsidiaries are not tax-exempt and some of the consequences of that.
 - Early adoption of these amendments should not be linked to the application of the other *Amendments to FRS 102*.
 - More clarification regarding the recognition of the tax effects of a distribution in profit or loss could be included in the Basis for Conclusion.
 - There are a number of areas that require further explanation or clarification for stakeholders. Some of them do form part of the Basis for Conclusions, but some of them could be provided as guidance in a Staff Education Note.
- 9.10 Subject to the above, the Council agreed to provide its advice to the FRC that the *Amendments to FRS 102* are issued. JC thanked the Council and agreed to take the above discussion into consideration while finalising the paper for further approvals. The Council commended JC and the team for their significant hard work in developing and ensuring the finalisation of the amendments.

10. Response to IASB Exposure Draft – Accounting Policies and Accounting Estimates

- 10.1 Rosalind Szentpeteri (RS) provided a summary of the key points of the FRC's response to the IASB's Exposure Draft on *Accounting Policies and Accounting Estimates*. It was noted that the FRC was supportive of the IASB's objective of clarifying the criteria for distinguishing between a change in an accounting policy and a change in an accounting estimate, to encourage more consistent application of the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. However, it was noted that there were a number of areas that could be better articulated, as set out in the draft letter to the IASB and the EFRAG. The Council agreed that a change in the cost formula applied to ordinarily interchangeable inventories constitutes a change in accounting estimate, contrary to the position stated in the Exposure Draft.
- 10.2 The Council supported the FRC's views as set out in the draft responses to the IASB and the EFRAG.

11. Policy insights from Annual Review of Corporate Reporting

- 11.1 AA provided a high level summary of the paper to facilitate the Council's discussion on the findings of the Annual Review of Corporate Reporting and how its findings should influence policy developments. The Members shared a number of views in areas that could be taken forward in standard / policy setting and influencing corporate reporting activities, including:
- When producing a set of consolidated accounts, there are different ways of recognizing revenue in different countries and there is difficulty in translating the practices into a meaningful report without resorting to boilerplate statements.
 - The thematic reviews approach of pre-informing a selection of companies that a review of a certain aspect of their next report and accounts would be conducted was found useful as it helps companies to take the opportunity of improving the quality and consistency of the relevant disclosures.
 - A number of queries had been raised in the Annual Review in respect of impairment which is perceived to be a UK specific issue in relation to the standard, which could be raised with the IASB.
 - The investors are getting limited value from the viability statement disclosures which is made for a short period. It was noted that the FRC's Financial Reporting Lab was carrying out a project on risk and viability reporting.
- 11.2 AA thanked the Council Members for their views and contribution to the topic.

12. Any other business

- 12.1 The Secretary informed that the revised Information Policies are available on the meeting papers portal and all Member were encouraged to familiarise themselves with the policies. A Member from the Governance and Legal Team would be joining the next meeting to respond to Members' queries or concerns, if any.
- 12.2 It was queried whether the Council should be looking at providing guidance on the preparation of 'transitional reporting', which may be a standalone report. AA agreed to consider whether this should be included in the agenda for a future meeting.

13. Date of next meeting

- 13.1 The next meeting of the Council will take place on 13 December 2017 at 9am.