

Minutes of a meeting of the Corporate Reporting Council held on 23 May 2019 in the FRC Boardroom, 8th Floor, 125 London Wall, London EC2Y 5AS

Present:

Liz Murrall	Chair
Michael-John Albert	Member (From Minute 2.2)
Richard Barker	Member (From Minute 3)
Chris Buckley	Member
Michael Gallagher	Member
Sian Morgan	Member (From Minute 2.2)
Veronica Poole	Member (From Minute 1 to 8.4)

Observers:

Vikki Lewis	HMT
Alison Ring	HMRC
Trevor Rushe	IAASA (via teleconference)

In attendance:

Anthony Appleton	Director, Accounting & Reporting Policy
Anu Bhartiya	Committee Secretary
Jenny Carter	Director of UK Accounting Standards
Paul George	Executive Director, Corporate Governance & Reporting
Andrew Lennard	Director of Research
Deepa Raval	Director of Narrative Reporting
Susanne Pust Shah	Project Director

1. Welcome and apologies for absence

The Chair welcomed everyone to the meeting. She informed the Council that following Paul Druckman's resignation, the FRC is undertaking the process to appoint a new chair. In the interim, she has agreed to chair the meeting. Apologies were noted from Council Member Mark Smith and Council Observers Catherine Crowsley (BEIS) and Lee Piller (FCA).

2. Update from the Chair

2.1 The Chair reported the matters discussed at the Codes and Standards Committee meeting held on 1 May which had included:

- Approval of the draft Irish extension in the FRC 2019 Taxonomies suite
- The Executive Director, Corporate Governance and Reporting Report which included matters in respect of the continuation of Council advisory groups, Wates Principles, Future of Corporate Reporting project, Climate/workforce reporting project and IFRS 17
- Consultation on the Stewardship Code
- Guidance on Risk, Internal Controls, Viability and Going Concern

2.2 The Executive Director, Corporate Governance & Reporting reported that the Board had met on 15 May 2019. Amongst other matters, the Board had discussed:

- The Chief Executive's Report which included matters in respect of the CMA Review, the Thematic Reviews, Future of Corporate Reporting project and the implementation of the Kingman Recommendations
- Draft Annual Report and Financial Statements 2018/19
- Plan, Levy and Budget for 2019/20
- AQR public report 2018/19
- Risks, Internal Controls, Viability and Going Concern

- Update on Auditing and Ethical Standards
- Actuarial Statement of Recommended Practice 1
- AS TM1 Assumptions

3. Declaration of conflicts of interests

There were none.

4. Minutes of the last meeting

Minutes of the Corporate Reporting Council meeting held on 4 April 2019

- 4.1 The minutes of the Corporate Reporting Council meetings held on 4 April 2019 were approved for publication.

Rolling actions

- 4.2 The matters arising log was noted.

5. Director of Accounting and Reporting

- 5.1 The Director of Accounting and Reporting 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. Particular attention was given to the following topics:

- The FRC's research paper on Intangible assets, which was considered at the Multi-Lateral Network meeting.
- The FRC's work with the BEIS officials in respect of developing distributable reserves proposals.

- 5.2 The Council noted that the Future of Corporate Reporting Advisory Group had met on 11 April and had developed a definition of 'corporate reporting' for the purposes of the project. The Council noted that the definition would be used in the first instance to define the scope of the project and later at different levels in setting or recommending principles on wider reporting including regulatory intervention. The Council considered and thoroughly discussed the definition of 'corporate reporting' and through discussion, made a number of comments and suggestions including:

- Dropping the word 'primary' in the definition in order to avoid distinguishing primary and secondary stakeholders;
- The definition could incorporate 'forward looking' reporting to respond to future stakeholders. The work on 'forward looking' reporting could be addressed by giving focus on company's business model and its ability to create valuable and sustainable growth in longer term;
- Focus could also be given to the consistency in the presentation and dissemination of information used by institutional investors. Principles or KPIs could be introduced to build coherence and maintain consistency in reporting;
- Stakeholders should include company customers;
- While discussing the project with wider parties, focus should not be merely on the definition but could articulate broader objectives that the project will cover. It was reported that the definition would be refined as the project progresses.

- 5.3 The Director of Accounting and Reporting thanked the Council for the comments and suggestions.

6. Director of Research Report

- 6.1 Director of Research provided an update on the research activities and noted that:

- The papers on Intangibles and Variable and Contingent Consideration would be presented at the IASB's Accounting Standards Advisory Forum in July 2019.
- The Academic Panel meeting held on 14 May 2019 was well attended.

7. Interest Rate Benchmark Reform

- 7.1 The Project Director introduced the paper and noted that the IASB has published an Exposure Draft proposing to amend IFRS 9 and IAS 39 and include a temporary relief from some of the consequences of the reform of Interbank Offered Rates.
- 7.2 The Council considered the IASB's Exposure Draft ED/2019/1 Interest Rate Benchmark Reform, EFRAG's draft comment letter to the Exposure Draft and the FRC's draft response to the IASB. The Council acknowledged the uncertainty about the impact on measurement and discussed whether this could result in discontinuance of hedge accounting if the retrospective effectiveness test is not met. The Council viewed that the issue could not be addressed until the reform is implemented.
- 7.3 The Council discussed and supported the IASB's proposal with the temporary nature of the relief as the relief is not needed once the uncertainties about the reform have been lifted. The Council also supported the suggestion of not proposing an end of application in relation to the separately identifiable requirement as this would be inconsistent with the aim of the relief provided. The Council acknowledged that the assessment of when uncertainty ceases to exist would require the exercise of judgement. The Council considered EFRAG's query whether the level of judgement involved in the assessment would deserve additional discipline. The Council supported the view that this would be unnecessary.
- 7.4 The Project Director thanked the Council for the comments and suggestions and agreed to revise the FRC's response to the IASB's ED. It was also agreed that the response would be circulated to the Council in case Members had any more comments.

8. IFRS 17 – Towards an FRC position

- 8.1 The Project Director introduced the topic and noted that the IASB had concluded its public discussions and an exposure draft is expected to be issued by end of June 2019. It was noted that the Council will have an opportunity to discuss the FRC's response to the IASB's exposure draft.
- 8.2 The Council considered and briefly discussed the following issues in relation to IFRS 17:
1. Treatment of annuities
 2. Transition with modified retrospective approach
 3. Group contracts by annual cohorts
- 8.3 The Council discussed the requirement to use a locked-in rate for discontinuing of the contractual service margin and the allocation of contractual service margin under the general model, which affects deferred annuities. The Council considered IASB's proposed amendment which would allow profit recognition in case of investment component and also if the policyholder is able to withdraw money during the accumulation phase. The Council noted that the FRC will seek views from UK insurers whether this solution was practicable.
- 8.4 Through discussion, the Council gave consideration to the issue in relation to annual cohorts and profitability buckets featuring level of aggregation requirement which require significant and expensive changes to the systems.
- 8.5 The Council noted that given the importance of IFRS 17 and the possibility of a UK independent endorsement, the FRC would endeavour to put out for public consultation a draft comment letter to the IASB's exposure draft. The draft comment letter would be published in July 2019 with most of the comment period falling into August. The Council noted FRC's intention to hold a public event / round table conference in September 2019. It was suggested separating Life and General Insurance representation events due to the nature of their businesses. It was also suggested engaging Lloyds for gaining better understanding of the IFRS 17 implementation issues with smaller insurers.

8.6 It was suggested and agreed that the Council would be given additional educational training in respect of the relevant topics in order to have better insight into the issues which would help to inform the FRC's response to the IASB's exposure draft.

8.7 The Project Director thanked the Council for their comments and suggestions and agreed to consider them as the matter progresses.

9. Amendments to FRS 101 – 2018/19 cycle

9.1 The Director of UK Accounting Standards introduced the topic and noted that FRED 70 was issued as a result of the annual review of FRS 101 and proposed amendments due to incompatibility between IFRS 17 *Insurance Contracts* and Schedule 3 to the Regulations. FRED 70 effectively proposed that insurers should be excluded from the scope of FRS 101. It was reported that 10 responses had been received. The Council noted that:

- Appendix III of FRS 101 has been amended to incorporate new Irish legal references. This will be checked by Chartered Accountants Ireland and IAASA;
- The reference to legislation 'similar' to Schedule 3 would be made clearer by including specific legislation;
- Further discussion would be provided in Appendix II of FRS 101 in respect of consistency within a group;
- The effective date of the amendments would be the same as the effective date of EU/UK-adopted IFRS 17 and it would be made clear in the Basis for Conclusions that the date will be amended if the IASB amends the effective date of IFRS 17;
- Recognising stakeholder feedback, a more comprehensive review of the principles/framework underlying FRS 101 would be proposed as part of the 2019/20 cycle.

9.2 The Council considered the responses received and provided its Advice to the FRC Executive that *Amendments to FRS 101 – 2018/19 cycle* be issued, subject to any fatal flaw comments from UK GAAP TAG members and feedback from Chartered Accountants Ireland on the Irish legal references.

10. Interest Rate Reform – UK GAAP response

10.1 The Director of Accounting and Reporting Policy reported that FRS 102 has similarities to IFRS 9 *Financial Instruments* in respect of hedge accounting. Therefore, the FRC intends to issue a FRED proposing changes that closely mirror those proposed by the IASB in respect of amending IFRS 9 and IAS 39. When considering the responses to the FRED, the FRC will also consider any subsequent changes the IASB makes to its proposals as they are finalised. The Council noted that any substantively different proposals might create uncertainty on the interpretation of any amendments to IAS 39 and/or IFRS 9.

10.2 The Council noted that it is intended to present the FRED to the Council at the next meeting before seeking approval from the FRC Board in July 2019 for its publication. The Council advised the FRC Executive to prepare a FRED to propose amendments to FRS 102.

11. Any other business

11.1 The Director of Accounting and Reporting reported that the FRC is seeking views from firms in respect of a question whether the wording of IFRS 1, in respect of statements of compliance with IFRS, may provide technical hurdle to a smooth transition from EU-adopted IFRS to UK-adopted IFRS post-EU Exit day.

12. Date of next meeting

The Council noted that the next meeting will take place on 27 June 2019.