

**Minutes of the meeting of the Accounting Council of the FRC on 16 January
2014 at Aldwych House, 71-91 Aldwych, London, WC2B 4HN**

Present:

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

Observers:

Matt Blake	HMRC Observer
Mike Ashley	EFRAG Observer

In attendance:

Mei Ashelford	Project Director, Accounting & Reporting Policy Team
Jenny Carter	Director of UK Accounting Standards, Accounting & Reporting Policy Team
Jonathan Compton	Secondee, Accounting & Reporting Policy Team
Francesca Chittenden	Council Secretary
Annette Davis	Project Director, Accounting & Reporting Policy Team
Jennifer Guest	Project Director, Accounting & Reporting Policy Team
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
Marian Williams	Codes & Standards Director

1. Welcome and Apologies

1.1 Apologies were noted from Gunnar Miller (Council Member).

2. Minutes of the Previous meeting and rolling actions

2.1 The minutes of the previous meeting were approved for publication.

2.2 The status of the actions listed on the rolling action log were noted.

3. Director of Accounting Report

- 3.1 The Council noted a paper which provided an update on developments relating to both UK and International accounting standards, the European Commission and an update on decisions taken by the FRC Board.
- 3.2 Annette Davis (AD) informed the Council that the FRC response to the IASB's discussion paper 'A Review of the Conceptual Framework' had been submitted in advance of the closing date. The Chairman informed the Council that the FRC was in the process of developing a formal plan through which it could promote its views and invited the Council to suggest methods through which the FRC could do so. AD also informed the Council that the IASB had issued its Exposure Draft on the use of the equity method in separate financial statements, and that the Council will receive the draft comment letter for review by email.
- 3.3 The Chairman provided feedback of a meeting organised by EFRAG with the founding fathers and the national funding mechanisms held on 15 January 2014 at which the recommendations of the Maystadt report had been considered. The Chairman informed the Council that there was still a lot of work to do but that a Taskforce had been formed by the EFRAG Supervisory Board to lead the project. The European Commission has to report on the progress made to the European Parliament at the end of March.

UK GAAP

- 3.4 The Council agreed the appointment of Nicole Kissun to the UK GAAP Technical Advisory Group. The Council discussed the composition of the Group and suggested that as part of the next annual effectiveness review, consideration should again be given to the balance of individuals on the Group and whether there is sufficient representation of small firms.
- 3.5 The Council noted that the Codes & Standards Committee (CSC) had met on 15 January 2014 and had:
- approved the revised FRC *SORPs: Policy and Code of Practice* but suggested that in due course the FRC should take a wider look at the role and scope of SORPs.
 - MM confirmed that this was not a concern directly related to the SORPs but that the CSC had suggested that the FRC should develop a consistent approach for all guidance produced by professional bodies and industry groups that is endorsed by the FRC.
 - approved FRED 54 for recommendation to the Board, the Council requested that through outreach and in the press notice it should be made clear that the comment period has been shortened to allow for the standard to be issued before the summer period to allow constituents more time to consider implementation;
 - in principle, agreed FRS 103 for recommendation to the Board and had authorised the Accounting Council to finalise the detail;
 - endorsed the current work programme for UK GAAP, acknowledging that 2014 was a one-off year in the lead up to the implementation of new UK GAAP, and

agreed with the strong steer from the CSC that the timetabling of the issue of updates to standards from 2015 onwards is kept under review with a view to issuing exposure drafts and standards in groups rather than on an individual ad hoc basis.

Impairment

- 3.6 The Chairman invited the Council to provide an initial steer on what action should be taken in relation to the impairment of financial assets. The Council discussed the matter given that it was now unlikely IFRS 9 changes would be available before the effective date of FRS 102. The Council suggested that further information was needed before the Council could determine what, if any action is required.

Council Effectiveness

- 3.7 Marian Williams (MW) introduced a paper that had been considered by the CSC and setting out the findings of the Council Effectiveness review. MW summarised the findings and the actions that had been identified following discussion with the Chair of Council, the Council Secretary and herself. The Council welcomed the findings of the review and the actions arising from the review.

4. Director of Research

- 4.1 Andrew Lennard (AL) informed the Council that a detailed paper would be presented to the Council at its next meeting to agree the Council's research priorities going forward.

5. Horizon Scanning

- 5.1 The Council noted that an action arising from the Council Effectiveness review was that the Council should undertake regular horizon scanning discussions. Accordingly, the Chairman invited the Council to identify any issues which should be considered as part of the Accounting Council's forward thinking. The Council considered that as a UK standard setter the FRC's role is to understand how standards impact UK constituents, and therefore, the FRC should monitor and be aware of any issues that are developing. In light of that role the Council suggested the following potential areas for consideration:

- The strain facing the retail sector and the wider implications;
- The triennial IASB agenda setting consultation;
- Energy companies;
- The impact of the new revenue recognition standard.

- 5.2 The Council welcomed the opportunity to consider issues on the horizon and the Chairman undertook to consider how the activity should be addressed moving forward.

6. FRED 49: Insurance Contracts (FRS 103) – Final Draft Standard

- 6.1 Jenny Carter (JC) introduced the draft FRS 103 which had been amended in light of the discussion of the Council in December and in response to detailed comments made by respondents to the consultation.

- 6.2 The Council noted the amendments that had been made but considered that the issue raised in relation to the accounting of foreign exchange transactions had not been addressed fully in the revised draft presented. Following careful consideration of the issue the Council requested that the draft be amended to state that balances relating to insurance contracts should all be treated as monetary for the purposes of foreign currency translation.
- 6.3 In consideration of the documents presented the Council, suggested that:
- Paragraph 17 of the Council's advice to the FRC Board should be revised to clarify that it is a formal expectation that the Association of British Insurers (ABI) will withdraw its SORP for Insurance Businesses;
 - The reference to UK regulation (INSPRU) as set out in Paragraph 1.14 of the revised standard should be replaced with a reference to the relevant regulatory framework as not all users of the standard will be governed by UK regulations; this amendment should also help 'future proof' the standard;
 - The Executive should consider the style of the feedback statement and whether cross-referencing could be used to make clearer how issues identified in the consultation have been addressed.
- 6.4 The Council noted that the draft standard, the feedback statement, the Council's advice to the Board and the implementation guidance would be brought back for approval at the February meeting before submission to the Board in March.

7. FRED: FRSSE (Accounting Directives)

- 7.1 Mei Ashelford (MA) introduced the paper which set out proposals for a major review of FRSSE in response to the introduction of the new EU Accounting Directive and to align it with the new suite of IFRS-based UK GAAP. The Council noted that staff had had initial discussions with BIS and that one option being considered was permitting early adoption of the EU Accounting Directive to fall in line with the effective date of new UK GAAP, which will be applicable for accounting periods beginning on or after 1 January 2015.
- 7.2 MA summarised two proposals for the Council to consider:
- a) redevelop the FRSSE and keep it as a standalone standard; or
 - b) withdraw the FRSSE and require all entities to apply FRS 102 (albeit with amendments to reflect changes in company law).
- 7.3 In discussion of the proposals the following points were noted and observations were made:
- Under the new EU Accounting Directive the limits for small companies are expected to increase (up to £10.1m turnover if the maximum thresholds permitted were applied) and as a result, larger and potentially more complex entities will qualify for the small company regime, and it is important that the standard is suitable for all entities that fall within its scope;
 - Through initial discussions with stakeholder groups there has been support for the proposal to withdraw the FRSSE;

- The Micro-Entities Accounting Regulations does not permit the use of revaluation and fair value accounting and hence the most complex areas in FRS 102 would not be applicable to micro-entities (entities with turnover of up to £632,000);
- It was noted that the Micro-Entities Accounting Regulations are voluntary and therefore those who do not wish to follow the Regulations are entitled to adopt small company regime.

7.4 Following discussion, the Council supported the recommendation that the FRSSE be withdrawn and that FRS 102 be amended accordingly to ensure compliance with the changes in company law. The Council stressed that the requirements for small and micro-entities should be presented at the start of the standard, rather than at the back. It also requested that a review is performed of whether further simplifications for micro-entities would be appropriate.

7.5 It was noted that the CSC had also endorsed the proposal to withdraw the FRSSE and had expressed the need for more informal outreach to ensure that constituents agree with the proposed strategic direction before detailed work begins.

7.6 The Council echoed this view and requested that details of the proposal should be published on the FRC website to alert entities to the strategic direction that is being taken.

8 FRED 50: Residential Management Companies

8.1 MA introduced the paper which set out the key issues arising from the responses received from the consultation and sought input from the Council as to the direction the FRC should take in order to progress the Residential Management Companies (RMC) project further.

8.2 The Council discussed the proposals and agreed that the Abstract (as proposed in FRED 50) should not be issued. It noted that the majority of RMCs would qualify as either small or micro and therefore agreed that requirements for RMCs should be addressed through the work which will be undertaken to update the FRSSE. The Council supported the suggestion that the requirements for RMCs could be inserted into the specialised activity section of FRS 102.

8.3 The Council also agreed that the FRC should consider collaboration with the ICAEW to investigate the possibility of the ICAEW issuing non-mandatory guidance alongside any official pronouncement made by the FRC on this issue.

8.4 The Council suggested that the FRC should publish on its website a statement highlighting the direction the FRC will be pursuing in relation to this project.

9. AIC SORP: Disclosure of charges for Investment Trust Companies

9.1 Jennifer Guest (JG) introduced the paper which had been prepared in response to a request from the Chairman for a more detailed breakdown of the information required

by the IMA and AIC SORPS in relation to disclosures of charges. The Council was invited to consider the recommendations of the aforementioned SORPs and advise whether or not FRS 102 should be amended to address the disclosure of direct and indirect investment charges.

IMA SORP

9.2 The Council was reminded of the mixed views that had been expressed in response to the IMA proposals for disclosing performance and charges and the call from some for the FRC to set the requirements for such disclosures. JG informed the Council of the proposed interaction between the revised SORP and FCA rules with sequential consultations. The Council considered that having regard to the FRC's Codes & Standards principles it may be sufficient to deal with the issue through the SORP and FCA rules. The Council noted that this would be kept under review.

AIC SORP

9.3 The Council noted that the AIC SORP that was issued for consultation on 20 December 2013 has a narrower scope than the IMA SORP and that the AIC had included a statement within the draft consultation document, setting out that disclosure of the total cost of ownership is a matter of public interest and in its view, is not a matter for the financial statements.

9.4 The Council discussed the perception of inconsistency between the SORPS and the potential reputational risk to the FRC. Through discussion, and having regard to the Codes & Standards principles, the Council advise that the matter be reviewed in light of the FCA and IMA SORP developments. The Council also noted that the AIC consultation has not yet closed.

9.5 The Council requested that a further paper be brought to the Council in February which will set out clearly what the AIC intend to include in the SORP and a table which will allow the Council to directly compare the requirements of the AIC SORP and the IMA SORP.

10. Guidance on the Strategic Report: Proposed revisions to the draft guidance

10.1 Deepa Raval (DR) introduced a suite of papers to facilitate discussion on elements of the draft guidance on the strategic report. The Council noted that since the Executive had attended a very useful meeting with BIS to discuss the legal issues that had been identified during the consultation. It was noted that BIS suggest that the FRC include the BIS legal opinion within the guidance as a legal appendix.

10.2 The Council noted that BIS were considering reinstating the requirement to disclose information about an entities payment for suppliers and that the FRC was drafting a response to discourage the proposal. The Council highlighted the difficulty of disclosing this information in a meaningful way and suggested that BIS may be encouraged to allow the disclosure to be published on an entity's website rather than in the annual report.

- 10.3 The Council discussed revised draft guidance on the 'core and supplementary approach'. Respondents to the consultation have highlighted a lack of clarity in respect of the meaning of 'core' and 'supplementary' information and how each type of information should be treated in the annual report. Following a brief discussion the Council concluded that the use of the terms 'core' and 'supplementary' was unhelpful and suggested that they be removed from the revised guidance.
- 10.4 The Council also noted the intention embodied by the approach were worth including in the revised guidance as they had provided preparers with a sense of where information should be placed within the report. The Council suggested that the concept might fit well with 'communication principles'.

Communication principles

- 10.5 The Council noted that the communication principles had been widely supported by respondents to the consultation and noted the amendments that had been made in response to requests for clarification that had been made. The Council suggested that the rewording of paragraph 1.3 (Under 'fair, balanced and understandable') to tone down the language in the final sentence and paragraph 1.8 (Under 'comprehensive but concise') of Paper 9B2 to refer to the development, performance or position of the business rather than the duties of the directors.
- 10.6 Following a brief discussion the Council suggested that the Executive consider including a principle requiring businesses to identify clearly material changes to the business during the year under review.
- 10.7 The Council also discussed whether the guidance should more clearly differentiate between requirements that are applicable to quoted companies only and those that apply to unquoted companies as well. The Council concluded that the inclusion of an appendix breaking down the requirements was sufficient. The Council also noted that by excluding this information from the main body of the guidance may also help 'future proof' the guidance in light of any new requirements arising from the EU proposals on the reporting of non-financial information.

Business model and strategy content

- 10.8 The Council noted that respondents had generally supported the draft guidance in relation to business model and strategy but had suggested greater emphasis on value creation. The Council noted that the diagram that featured under paragraph 6.29 of the Exposure Draft had been revised in response to comments received through the consultation. The Council decided, however, that the diagram did not add value and still risked causing some confusion and so suggested it was removed from the guidance. The Council also suggested that the language used in the example under paragraph 1.11 in Paper 9C2 should be reviewed.

Summary financial statements

- 10.9 The Council noted that 14 respondents to the consultation had highlighted a lack of sufficient guidance on the strategic report used as summary financial statements and welcomed the inclusion of a section to address the perceived deficiency. The Council were open to the possibility of including reference to the possibility of a non-statutory

alternative to the s426 option and were content that the proposed wording did not specify the type or level of formal financial information that might be included voluntarily in the supplementary information under the s426 option.

- 10.10 DR confirmed that the FRC would continue to work closely with BIS in order to clarify the legal issues that had been identified. DR also informed the Council that two further meetings had been scheduled. The first, with representatives from Civil Society groups and investors, was intended to try to seek consensus on the level and type of disclosure that would be appropriate under the 'EESCH' disclosure requirement. The second, with the Narrative Reporting Working Group, was intended to seek further views on matters including the 'core and supplementary approach', the 'EESCH' disclosures and the summary financial statements.
- 10.11 The Council noted that proposed revised guidance on materiality, along with the remaining content elements, would be brought to the Council for consideration in February. A complete draft of the revised guidance would be brought to the Council for approval at either its March or April meeting. The Council noted that it was intended that the guidance be issued in time to support entities preparing their 30 September 2014 annual reports.

11. Defined benefit plans: employee contributions (Amendment to IAS 19)

- 11.1 The Council noted that EFRAG had issued an invitation to comment on amendments to IAS19 – Defined Benefit Plans: Employee Contributions to assist its assessment of the amendments against the technical criteria for the endorsement in the EU and on the cost and benefits that would arise from the implementation and application of the amendments in the EU.
- 11.2 JG introduced the paper which set out a completed questionnaire in response to the invitation to comment and confirmed that the amendments were uncontroversial and do satisfy the technical criteria for EU endorsement.
- 11.3 The Council noted and approved the completed questionnaire for submission to EFRAG.

12. Intangible assets and their amortisation

- 12.1 Seema Jamil-O'Neill (SJON) introduced the paper which provided an update on the FRC's research project on intangible assets. The Council noted that 22 interviews had been completed and a further two had been scheduled.
- 12.2 SJON summarised the common themes emerging from the interviews, the Council noted:
- that most of the investors interviewed had reported that they add back amortisation of intangible assets recognised in accounting for M&A;
 - that other investors interviewed do not consider that current accounting requirements address their needs and that the split of intangibles from goodwill

and their amortisation makes it harder to understand and perform the back testing element;

- that investors are mainly interested in understanding why the company bought the target and whether the company is succeeding in its original objective for the acquisitions. Many felt that the annual impairment test of such assets may be more meaningful; and
- a number of suggestions of items investors would like to see included in the annual report.

12.3 The Council discussed whether a requirement for companies to include a table breaking down the costs associated with M&A would address the needs of investors; SJON undertook to consider this further.

12.4 The Council discussed whether the FRC should issue a 'thought piece' or Bulletin following completion of the research project. Members agreed that publication of the research was important. The Council suggested that the published document could be shared with ASAF and other relevant organisations to raise the profile of the findings and influence the thinking of others. SJON informed the Council that the IASB would shortly be inviting comments on post-implementation review of IFRS 3, including the accounting for intangible assets, and that the information collected would also inform the FRC response.

13. Any other business

13.1 None

14. Next meeting

14.1 The next meeting of the Accounting Council will be on 13 February 2014.