

**Minutes of a meeting of the Corporate Reporting Council  
held on 3 October 2017 in the FRC Boardroom, 8<sup>th</sup> Floor, 125 London Wall,  
London EC2Y 5AS**

Present:

Paul Druckman	Chairman
Chris Buckley	Member
Michael Gallagher	Member
Sian Morgan	Member
Liz Murrall	Member
Veronica Poole	Member
Mark Smith	Member

Observers:

Lee Piller (FCA) (from Minute 4.1)  
Alison Ring (HMRC)  
Vikki Lewis (HMT)

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
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. Apologies were noted from Council Members Michael-John Albert, Richard Barker and Roger Marshall and Observers Seema Jamil-O'Neil (BEIS) and Trevor Rushe (IAASA).

**2. Declaration of conflicts of interests**

2.1 There were none to be reported.

**3. Minutes and rolling actions**

*Minutes of the Corporate Reporting Council meeting held on 5 September 2017*

3.1 The minutes of the Corporate Reporting Council meeting held on 5 September 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 Council understand the new standard'. The presentation covered issues around contractual service margin and its movements.

4.2 It was reported that the Commission is expected to issue the EFRAG endorsement advice request in the coming weeks. The letter will state the date when EFRAG is expected to report its findings and advice.

## 5. Chairman's update

5.1 The Chairman provided an update on the Codes & Standards Committee meeting of 12 September 2017 and the FRC Board meeting of 13 September 2017.

## 6. Director of Accounting and Reporting Report

6.1 The Council noted a paper that provided an update on recent developments to financial reporting and wider corporate reporting and matters of policy. Particular attention was given to the following matters:

- ICAEW had issued a paper on post-Brexit IFRS endorsement which was in line with the FRC's submission to BEIS.
- The draft Annual Review of Corporate Reporting 2016-17, which provides FRC's view of the current state of corporate reporting in the UK based on CRR's findings from its reviews of corporate reports and broader FRC outreach, will be signed off in the coming days. The Council will look into the policy matters from the Report at the next meeting.
- During the process of post-Brexit IFRS endorsement, due attention would be required to be given to the accounting framework for dual listed companies.
- The discussion topics at the World Standard Setters event in September had included sessions on Rate Regulated Activities and the Financial Instruments with Characteristics of Equity project.
- A debate on wider corporate reporting and the ways forward for the IASB and the national standard setters had taken place at The International Forum of Accounting Standard Setters meeting held in September.
- FRC's meeting with BEIS in respect of Strategic Report Guidance had included discussion around government's intention of issuing secondary legislation as part of corporate governance reform plans. The legislation is planned to be published in March with effect from June 2018. As a result of this legislation, there is a concern in relation to the timing of issuing the final Strategic Report Guidance. This issue will be included for discussion at the Council's conference call scheduled on 15 November 2017.

## 7. Director of Research Report

7.1 Andrew Lennard (AL) reported that he had presented the feedback on the Discussion Paper *Improving the Statement of Cash Flows* at the Accounting Standards Advisory Forum of the World Standard Setters meeting held in September. He also reported that EFRAG's Academic Panel was also conducting projects on intangibles and variable and contingent consideration and FRC had agreed to collaborate to share information about progress on these projects.

### *Intangibles*

7.2 AL shared his initial thoughts on the focus of the project which was on the current state of business reporting for intangibles and what could be done to improve it. The Council agreed that the project should cover reporting both within and outside the financial statements (for example, in the Strategic Report). The Council considered the outline as set out in the Appendix to the paper and, through discussion, the Members suggested that attention should be given to the following matters:

- While reporting to stakeholders other than investors should not be included in the scope of the project, information to enable investors to assess how directors had discharged their duties under s172 should be addressed.
- Influencing the work on management commentary by considering relevant work being done on Strategic Report, Corporate Governance Reform and the Financial Reporting Lab.

- Including discussion of the differential treatment between acquired and internally generated intangibles.
- Reference to the research on reputation and its value as an intangible.
- Sharing the thought process with the financial securities regulators as there may be issues around valuation of companies and intangibles.
- Consideration to the possible rationale behind companies excluding amortisation of intangibles in their presentation of Alternative Performance Measures. .
- Consideration should be given to Ernst & Young's Embankment Project and in particular the methodology on embedding intangibles into the accounting process.

7.3 AL thanked the Council for the input into the initial thoughts on the project. He said that the outline would be shared with those respondents to the research consultation who had expressed an interest in the project, and that progress on the project would be reported at future meetings.

#### *Preliminary Announcements*

7.4 Following a query in relation to the further actions arising from the feedback on the Discussion Paper, it was reported that the Audit & Assurance Team was working on revising the current Guidance Note.

### **8. Response to IASB's Exposure Draft: Property, Plant and Equipment – Proceeds before Intended Use (ED/2017/4)**

8.1 AL introduced a suite of papers which included FRC's response to the IASB's Exposure Draft and the response to EFRAG on its Draft Comment Letter on the Exposure Draft.

8.2 The Council discussed a proposed amendment to IAS 16 which clarified that the cost of an item of property, plant and equipment was not reduced by sale proceeds of items produced while bringing an asset to its location and condition for operational use, and that such proceeds should be reported as income. The Council's view was that the proposed scope was too broad and would have a very significant effect on the reporting by many entities. It was also unclear what costs, if any would be allocated against such income. Some concerns were also expressed about the conceptual basis for the Exposure Draft. For these reasons, the Council advised that the proposed amendments should not be supported.

8.3 AL thanked the Council for their comments and input into the matter and agreed to reflect the concerns expressed in Minute 8.2 in the FRC's final response.

### **9. FRED 67: Triennial Review – Incremental improvements and clarifications – Final issues for discussion**

9.1 Jenny Carter (JC) briefly summarised the context of the paper and noted that FRED 67 was issued in March 2017, and the comment period closed on 30 June 2017.

#### *Loans from shareholders and loans from directors*

9.2 The Council had discussed the feedback at its meeting in July 2017 and had provided advice on a number of aspects. However, a number of comments raised by respondents still required consideration, including loans from directors who are not shareholders, and loans from shareholders who are not directors.

9.3 The Council considered the rationale provided by a few respondents for extending the exemption to loans from individuals who are only shareholders or only directors. Through discussion, the Council noted that directors who are not shareholders have no financial investment in the small entity and, whilst they can influence decisions about the repayment of any loan, would need to take those decisions in the best interests of shareholders.

- 9.4 Further, the Council noted that the exemption was intended to provide relief to small owner-managed businesses and the finance they have put into the business. A minority shareholder, with no day-to-day involvement in the business, is generally unlikely to take the same risk with a significant non-interest bearing loan.
- 9.5 The Council supported the proposal of advising that the exemption should not be extended to all shareholder loans or to loans from directors that are not shareholders.

#### *Reliable estimate*

- 9.6 The Council considered respondents views about the difficulty, in some cases, in making a reliable estimate of a market rate, in order to arrive at the present value of a loan that must be discounted. FRS 102 requires a reasonable estimate to be made and notes that the use of reasonable estimates does not undermine the reliability of the financial statements. The Council supported the view that entities will need to apply judgement and make a reasonable judgement that is materially accurate and that no further changes are made to FRS 102 regarding making a reliable estimate.

#### *Loan to a parent entity lent on to a subsidiary*

- 9.7 The Council considered respondents suggestion that a loan from parent to subsidiary should be measured at transaction price. The Council noted that if the director is not also a shareholder of subsidiary, such loan would not qualify for measurement at transaction price. Therefore, the Council advised that no changes are made in relation to such situation.

#### *Loan made directly to a subsidiary*

- 9.8 The Council considered situations where one of the director-shareholders of a parent entity makes a non-market loan directly to subsidiary. The Council advised that such loan should not be recognised at transaction price as proposed in FRED 67 and therefore no changes are necessary for this situation.

#### *Group – Loan from NCI to a subsidiary*

- 9.9 The Council discussed situations where a director-shareholder who owns a non-controlling interest in a subsidiary, makes a loan to that entity. The Council considered the proposal of exemption from present value measurement in the consolidated financial statement and felt that the rationale of not providing exemption for a loan from a parent entity to subsidiary, or a loan made directly to a subsidiary would be compromised. The Council was supportive of providing relief to the subsidiary itself but not for consolidated financial statements. The Council also noted that small groups are not required to prepare consolidated financial statements, and the situation may therefore arise infrequently.

#### *Spouses*

- 9.10 In some circumstances, despite the extension to close family members, loans from spouses may not qualify for the exemption, if neither is both a shareholder and a director. The Council discussed the nature of family businesses and how they are managed and decisions made. The Council advised that if the relationship meets the criteria as set out in the definition of 'close member of the family [of a director]' then loans from family members will qualify for exemption when the group of family members contains a shareholder.

#### *Should the definition of a financial liability be aligned with IFRS?*

- 9.11 The Council noted stakeholders supported the amendments made in FRED 67 to refer to derivative or non-derivative financial instruments and the Council supported the proposal for amending the definition of a financial liability to be aligned with IFRS.

*Should the proposed new example in Section 22 Liabilities and Equity be removed?*

9.12 JC noted that FRED 67 proposed inserting a new example into Section 22 *Liabilities and Equity* in order to give an example of a written option over a company's own equity that fails the fixed-for-fixed criteria and should be measured at fair value through profit or loss. The Council noted that its Advice accompanying FRED 67 did not explain the origin or rationale for the proposed amendment.

9.13 The Council considered respondents comments on the proposal and felt the need to debate more fully the kind of situations that can arise and then formulate a view as to what the accounting should be in each situations. Therefore, the Council supported the view that the example could be removed, and the issue be revisited during a future review of the standard.

*Should the requirement for comparatives be relaxed, giving SORP-making bodies scope to reduce comparatives?*

9.14 JC provided a brief update on the requirements of FRS 102 that entities shall provide comparative information for all amounts presented in the current period's financial statements. A set of financial statements includes the notes. The Council noted the concerns raised by respondents in respect of producing comparatives and how some comparatives in respondents' opinion create clutter and provide little value to users. The issue had been discussed with the Council and TAG previously and it had been agreed that the SORP process should not be amended in this regard. The Council considered respondents' comments and evidence on the usefulness of comparatives and concluded that if detailed analysis of financial information is deemed useful for the current year, it would be useful for the prior year. Therefore, the Council supported the view that no changes should be made to the standard or the SORP process.

*Should Section 26 Share-based Payment be more closely aligned with IFRS?*

9.15 The Council considered respondents' suggestions of aligning the definitions within FRS 102 with IFRS 2 *Share-based Payment*. It was clarified that the definitions would be aligned with IFRS 2 as suggested, whilst ensuring that the drafting works with the existing accounting requirements and not increase complexity. The Council was supportive of this proposal.

*Should FRS 105 have a separate effective date for changes reflecting Company Law requirements?*

9.16 JC provided a brief background in respect of a couple of disclosures that became applicable to micro-entities under Company Law for accounting periods beginning on or after 1 January 2016 which had not been reflected in FRS 105. Informal feedback from stakeholders suggests that there is a general lack of awareness that these notes apply to micro-entities. The Council supported the view that, in FRS 105, these requirements should be applicable from 1 January 2017 so that it is not retrospective, whilst also clarifying that the legal requirement is effective from 1 January 2016. All other amendments to FRS 105 shall apply to accounting periods beginning on or after 1 January 2019. The Council advised that the Basis for Conclusions should highlight the rationale behind a different effective date and clarify that the Company Law requirement was effective from 1 January 2016 and micro-entities should already be complying with it.

9.17 A Member raised a query in respect of Key Management Personnel compensation and directors' remuneration which is exempted under FRS 101 whereas it is not exempted under FRS 102. It was clarified that the exemptions for parents and subsidiaries are the same under FRS 101 and FRS 102. However, if the KMP is not just the directors (as in case of charities), then the disclosure will be required to be made.

9.18 JC undertook to reflect Council's discussion while finalising the paper and present the final *Amendments to FRS 102* to the Council at its meeting on 1 November 2017 along with the responses received to FRED 68 *Payments by subsidiaries to their charitable parents that qualify for gift aid*.

## **10. FRED 69 Amendments to FRS 101 2017/18 cycle**

10.1 Mei Ashelford provided an update on the annual review of FRS 101 which has been performed in keeping with the usual timetable. The Council noted the amendments issued by the IASB since the last review in August 2016 and considered draft FRED 69 which proposes no amendments to FRS 101. The Council agreed that IFRS 17 will be reviewed at some point, when more certainty over the standard's endorsement process is known.

10.2 The Council supported the proposal of providing advice to the FRC to approve the issue of FRED 69.

## **11. Housing SORP - SHPS**

11.1 AA tabled a paper highlighting an issue that has arisen in relation to the accounting for the Social Housing Pensions Scheme (SHPS) which is administered by The Pensions Trust (TPT). He summarised the position of multi-employer pension schemes which are accounted for as defined contributions plan if sufficient information to identify an individual employer's share of the assets and liabilities is not available. SHPS has always been treated as a defined contribution scheme as TPT has previously never had the systems and infrastructure available to allocate the assets of the scheme to individual employers. TPT have now concluded that they will be able to separate the information and will do so for the position as at 30 September 2018, but the information will not have been subject to central audit.

11.2 The Council considered the positions that auditors of individual employers could be in the given situation and made various comments and suggestions including:

- That revising SORP to mitigate the issue is not a solution as standards take precedence over SORP.
- Advising TPT to establish clear methodologies to provide 'sufficient information' that is audited otherwise not release information until an overriding solution is found.

11.3 AA undertook to take the Council's suggestion into consideration and advise TPT accordingly.

## **12. Any other business**

12.1 There was none.

## **13. Date of next meeting**

13.1 The next meeting is scheduled on 1 November 2017 at 9am. A conference call to discuss the comments on the consultation on the amendments to the Guidance on the Strategic Report is scheduled on 15 November 2017 at 12:30pm.