

**Minutes of a meeting of the Corporate Reporting Council held on 4 April 2019 in the FRC Boardroom, 8<sup>th</sup> Floor, 125 London Wall, London EC2Y 5AS**

**Present:**

Paul Druckman	Chairman
Michael-John Albert	Member
Chris Buckley	Member
Michael Gallagher	Member
Sian Morgan	Member (From Minute 4)
Liz Murrall	Member
Veronica Poole	Member

**Observers:**

Tatjana Harris	HMRC
Vikki Lewis	HMT (From Minute 1 to 7.7)
Lee Piller	FCA
Alison Ring	HMRC
Trevor Rushe	IAASA

**In attendance:**

Anthony Appleton	Director, Accounting & Reporting Policy
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
Deepa Raval	Director of Narrative Reporting

**1. Welcome and apologies for absence**

The Chairman welcomed everyone to the meeting and in particular Vikki Lewis and Tatjana Harris. Tatjana was attending the meeting with Alison Ring to gain insight into the working of the Council. Vikki Lewis was attending in place of Vicky Rock (HMT). Apologies were noted from Council Members Richard Barker and Mark Smith and Council Observer Catherine Crowsley (BEIS).

**2. Declaration of conflicts of interests**

There were none.

**3. Minutes of the last meeting**

*Minutes of the Corporate Reporting Council meeting held on 7 March 2019*

- 3.1 The minutes of the Corporate Reporting Council meetings held on 7 March 2019 were approved for publication, subject to small amendments.

*Rolling actions*

- 3.2 The matters arising log was noted.

**4. Update from the Chairman**

- 4.1 The Chairman reported that the Codes and Standards Committee had not met since the last meeting of the Council. He informed that the Board Strategy Day had taken place on 20 March and Board meeting on 21 March 2019 and amongst other matters, the discussion on these two days had included:

### *Strategy Day*

- Implications for the FRC of the political and economic environment and the future outlook;
- Next steps on Kingman themes including promoting audit and reporting quality, transparency, identifying risks, internal controls and viability;
- Taking forward FRC's longer term thinking in respect of Audit reform and Future of Corporate Reporting;
- How FRC is going to work together with BEIS and stakeholders

### *Board meeting*

- 2019/20 Plan, Budget and Levies;
- FRC's responsibilities on EU Exit;
- Standards for Investment Reporting;
- True and Fair reporting

## **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:

- Presentations in relation to possible amendments to IFRS 17 *Insurance Contracts* given at the International Forum of Accounting Standard Setters (IFASS) and The Accounting Standards Advisory Forum (ASAF).
- The appointments of the new EFRAG Technical Expert Group Chair and the new EFRAG CEO as of 1 April 2019.
- The FRC Board's decision to defer any consultation on the true and fair view concept to financial reporting and auditing.

5.2 The Council noted that the work in relation to the appointment of the Chair and Board members of the UK (International Accounting Standards) Endorsement Board was progressing. It was reported that in the situation of a 'no-deal' Brexit, BEIS and the FRC have agreed that during the interim period whilst the UK (International Accounting Standards) Endorsement Board is set up, the Council will advise the FRC on endorsement of IFRS and influencing the development of amendments to IFRS Standards.

## **6. Director of Research Report**

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

- The FRC's research project on 'Variable and contingent consideration' was presented at the IFASS meeting on 28 March 2019. It set out a number of examples that were debated extensively and had a favourable response.
- The Discussion Paper on intangibles was published in February and comments were requested to be received by 30 April 2019. A summary of the comments will be presented to the Council at a future meeting and to the ASAF at the July 2019 meeting.
- The Academic Panel meets on 14 May 2019 and the Council members were invited to attend the meeting. It was suggested if the matter relating to distributable profits could be included in the agenda for this meeting.

## **7. Outstanding endorsement decisions**

7.1 The Director of Accounting and Reporting introduced the topic highlighting that the FRC is committed to providing advice to BEIS and the Secretary of State, should an endorsement decision be necessary in advance of the establishment of the UK (International Accounting Standards) Endorsement Board. The Council considered three IFRS amendments that have been issued but not yet endorsed in Europe.

### *Amendments to the References to the Conceptual Framework in IFRS Standards*

7.2 The Council considered the IASB's revised *Conceptual Framework for Financial Reporting* and EFRAG's final Endorsement Advice letter. Through discussion, the Council made a number of points including:

- IFRS 14 *Regulatory Deferral Accounts*: This could be ignored for any UK analysis as they would not form part of UK-adopted IFRS standards.
- IFRS 3 *Business Combinations*: Beyond a reference to comparability of assets and liabilities in IFRS 3 and IAS 37, these changes could be ignored in any detail in the UK analysis.
- The draft impact assessment could seek constituents' views that assessment of minimal impact is correct.
- IFRS 6 *Exploration for and evaluation of Mineral Resources* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*: These amendments could be considered in qualitative analysis and constituents could be asked to confirm that any impact from these amendments would only be in limited circumstances.

7.3 The Council supported the view that the overall conclusion would be to support the endorsement of these amendments.

### *Definition of Material (Amendments to IAS 1 and IAS 8)*

7.4 The Council considered EFRAG's final Endorsement Advice letter and supported the view that the amendments will not have a significant impact in most cases but will generally improve the clarity and relevance of information.

7.5 The Council supported the view that the overall conclusion would be to support the endorsement of these amendments.

### *Definition of Business (Amendments to IFRS 3)*

7.6 The Council considered the stakeholders concerns raised in response to the IASB's Post-implementation Review of IFRS 3 in respect of the difficulties in identifying whether a transaction represented an acquisition of a business or an asset acquisition. The Council considered EFRAG's draft Endorsement Advice which is expected to be approved by the EFRAG Board.

7.7 The Council was supportive of the view that:

- The intention should be to focus on the assessment of an acquired process as substantive and the optional concentration test.
- The amendments in respect of acquired processes should improve relevance, by focusing more clearly on transactions that are business combinations, and comparability by providing more guidance for the assessment.
- The optional concentration test should reduce the cost of distinguishing an asset transaction from a business combination, without reducing comparability, given the very narrow criteria to comply with the optional test.
- It is expected that the amendments will improve the relevance and reliability of information whilst reducing the costs and complexity of complying with IFRS 3.
- The overall conclusion would be to support the endorsement of these amendments.

## **8. Forthcoming IFRS consultations**

8.1 The Director of Accounting and Reporting introduced the paper noting that in addition to amendments to IFRS 17 *Insurance Contracts* and to IFRS 9 *Financial Instruments* in response to IBOR reforms, there are number of narrow scope amendments which are expected to be issued by the IASB during Q2 of 2019.

### *IAS 12 Income Taxes*

8.2 The Council noted the requirement of IAS 12 in respect of the recognition of deferred tax asset or liability and the anomaly arising in respect of the repayment of a lease liability of

the acquisition of the right-of-use asset. The anomaly was further explained with the help of an example. The Council considered the IASB's proposal to limit the initial recognition exemption. The Council supported the view that the proposed amendment would recognise the changes in the deferred tax balances over time. The Council also supported the view that this is an elegant way of dealing with the anomaly that has potential to improve the relevant and comparability of recognition and measurement of deferred tax balance. However, this would:

- rely on a net presentation of the deferred tax liability and deferred tax asset to achieve apparent comparability;
- require an entity to maintain records of each deferred tax asset and liability separately.

- 8.3 The Council supported the view that consideration needs to be given:
- whether the assumption of net presentation would be generally appropriate,
  - whether additional costs to maintain records justify the benefits of greater comparability and
  - whether the issue is sufficiently wide-spread to justify standard-setting activities.

#### *IFRS 3 Business combinations*

- 8.4 The Council noted that the IASB is considering how to update the standard to apply the definitions of assets and liabilities in the revised Conceptual Framework. In doing so, the IASB has tentatively decided that IFRS 3 should be updated to refer to the new definitions. The Council supported the view that updating the reference in IFRS 3 to the new Conceptual Framework should encourage greater consistency and comparability. The Council supported the FRC Executive's proposal to support the amendments, subject to drafting, if they are consistent with tentative decisions to date and consult to identify any unforeseen consequences and to develop impact assessment.

#### *IFRS 9 Financial Instruments*

- 8.5 The Council considered the proposed amendments to IFRS 9 and supported the view that the amendment will increase comparability and consistent application of the 10% test. The Council also supported the view to ask constituents if the issue addressed in amending IFRS 9 is sufficiently widespread to impact the outcomes of the 10% test to justify standard setting activities.

#### *IFRS 16 Leases*

- 8.6 The Council considered the IASB's tentative decision to delete the reference to leasehold improvements and the entire rationale in the application of the definition of lease incentives in IFRS 16. It was explained that whilst deleting the text would remove the confusion for someone reading it for the first time, it will not remove the confusion for those who have struggled with the Illustrative Example and its implications.
- 8.7 The Council suggested that the Basis for Conclusions to any amendments could clarify situations when and how lease improvement payments funded by lessor are or are not lease incentive.

#### *IFRS 1 First-time adoption of IFRS*

- 8.8 The Council considered the possible amendments to IFRS 1 and supported the view that the amendment is proportionate and sensible, and is a straightforward extension of the existing relief to achieve the same objective. The Council also supported the need to ask constituents whether the relief in IFRS 1 should be extended to any other components of equity.

#### *IAS 41 Agriculture*

- 8.9 The Council considered the IASB's tentative decision to amend paragraph 22 of IAS 41 and supported the view that the amendment appears to be necessary to correct an oversight of previous amendments and is consistent with IFRS 13. The amendment would

apply prospectively and will not have any disruptive impact; therefore, no consultation on this matter would be required.

**9. Draft responses to the IASB and EFRAG on the Exposure Draft ‘Onerous contracts – cost of fulfilling a contract’**

- 9.1 The Council considered the IASB’s Exposure Draft that seeks to clarify the accounting for onerous contracts with a comment period closing on 15 April 2019. The Council noted that the Exposure Draft proposes amendments to IAS 37 to clarify that the cost of fulfilling a contract should be assessed by reference to all directly related costs, rather than merely the incremental costs of the contract. The Council agreed with the view set out in the draft comment letter that the principal proposal should be supported as a pragmatic measure.
- 9.2 The Council suggested that reference could be made to the requirements for cost capitalisation under IAS 2, 16 and 38 (ref. BC24 to 26 in the Exposure Draft) as they did not appear to be consistent. Subject to this, the Council was supportive of the views expressed in the FRC’s draft response to the IASB.
- 9.3 The Council considered the FRC’s draft response to EFRAG and noted that the response highlights the FRC’s agreement that the main proposals of the Exposure Draft should be supported. The FRC’s views differ from EFRAG’s in relation to scope; the FRC does not consider that the IASB needs to carry out extensive work before concluding that the relatively broad scope (which includes all contracts in the scope of the IAS 37 and not only those previously in the scope of IAS 11) is appropriate. The Council was supportive of this view.

**10. Update on FRED 71 responses**

- 10.1 The Director of UK Accounting Standards provided an update on FRED 71 *Draft amendments to FRS 102 – Multi-employer defined benefit plans* which was issued in January 2019 with a comment period closing on 31 March 2019.
- 10.2 The Council noted that 18 responses were received, and all barring one were supportive of the proposals with a consistent message. A number of respondents have observed that, as set out in the Basis for Conclusions, this is a pragmatic solution to an issue where there are clearly divergent views, and some have noted that they think an alternative solution may have more technical merit.
- 10.3 A number of minor issues raised that will require further thoughts include the clarity of the requirements / drafting around the ‘relevant date’ at which the transition is accounted for and the guidance to be provided on how other events potentially impacting the measurement of the liability that might occur close to the transition should be accounted for.
- 10.4 The Council noted that in order to meet the timetable for issuing the final amendments by the end of May 2019, the Council will be asked to provide its Advice to the FRC Executive later in April, by correspondence.

**11. Any other business**

*Future of Corporate Reporting project*

- 11.1 The Council received an update on the work of the Future of Corporate Reporting Advisory Group and noted that the Group will be meeting on 11 April for an Away Day. It was also noted that the Exeter University would be undertaking research as part of this project. Matters relating to audit assurance would be fed into the work led by Sir Donald Brydon.

*Paul Druckman*

- 11.2 The Chairman informed that this was his last meeting as he has resigned from his positions with the FRC. He thanked the Council Members, Observers and the FRC attendees for their help and contribution during the tenure of his work on the Council. The Executive

Director, Corporate Governance and Reporting thanked him for his valuable contribution to the work of the FRC and wished him well for the future.

**12. Date of next meeting**

The Council noted that the next meeting will take place on 23 May 2019.