

Minutes of a meeting of the Corporate Reporting Council held on 7 March 2019 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
Sian Morgan	Member
Liz Murrall	Member
Veronica Poole	Member
Mark Smith	Member

Observers:

Lee Piller	FCA
Alison Ring	HMRC

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
Paul George	Executive Director, Corporate Governance & Reporting
Deepa Raval	Director of Narrative Reporting
Susan Pust Shah	Project Director
Rosalind Szentpeteri	Project Director

1. Welcome and apologies for absence

The Chairman welcomed everyone to the meeting. Apologies were noted from Council Member Michael Gallagher and Observers Catherine Crowsley (BEIS), Vicky Rock (HMT) and Trevor Rushe (IAASA).

2. Declaration of conflicts of interests

There were none.

3. Minutes of the last meeting

Minutes of the Corporate Reporting Council meeting held on 13 December 2018

3.1 The minutes of the Corporate Reporting Council meetings held on 13 December 2018 were approved for publication.

Rolling actions

3.2 The matters arising log was noted.

Council meeting dates for 2020

3.3 The meeting dates for 2020 were noted.

4. Update from the Chairman

4.1 The Chairman reported that the Codes and Standards Committee had met on 9 January 2019 and had mainly focused its discussion on the Stewardship Code Consultation. He also reported that the Board had met on 23 January 2019 and amongst other matters, the discussion included:

- Stewardship Code Consultation
- Sir John Kingman's recommendations and the CMA report

- The draft Plan and Budget for 2019/2020
- 4.2 The Chairman also highlighted the following FRC matters and event, and Council briefly discussed:
- The FRC Public Meeting held on 5 March 2019 presented by Stephen Haddrill, FRC Chief Executive and John Plender from Financial Times;
 - The government's consultation on the Independent Review of the FRC and the establishment of the new body, the Audit, Reporting and Governance Authority (ARGA);
 - The Brydon review of the UK audit market and the FRC's project of the Future of Corporate Reporting;
 - The establishment of the UK (International Accounting Standards) Endorsement Board.

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:

- Draft Statutory Instrument 'International Accounting Standards and European Public Limited-Liability Company (Amendment etc) (EU Exit) Regulation 2019' which will give power to the Secretary of State to endorse new or amended standards. The SI also sets out how new or amended international accounting standards (IAS) will be adopted for use in the UK after 29 March 2019.
 - The SI also provides the Secretary of State with power to sub-delegate the decision-making function to another body. The FRC is setting up a subsidiary to host the UK (International Accounting Standards) Endorsement Board. The Board will be given the responsibility for the adoption of IFRS for use in the UK. Actions to create the Board will continue throughout 2019. The FRC is liaising with BEIS on establishing appropriate constitutional documents and infrastructure as required.
- 5.2 The Council agreed to appoint Sarah Dunn as a member of UK GAAP TAG. Sarah is a Technical Manager at the ICAEW.
- 5.3 A Member queried the IASB's decision to amend IFRS 17 to require an entity to recognise a gain in profit or loss when the entity recognises losses on onerous underlying insurance contracts, to the extent that a reinsurance contract held covers the losses of each contract on a proportionate basis. The Member felt that this requirement would be insufficient for the UK market because not all reinsurance is on a proportionate basis. It was noted that this was in light of IASB's decision to expand the scope of the risk mitigation in relation to reinsurance contracts but not as far as some respondents have requested.
- 5.4 A query was raised with regards to the IASB's decision to amend IFRS 17 so as to address the problems in the pattern of profit recognition on certain products, including UK deferred annuities. It was noted that, even with proposed revisions, profits would not be recognised until the date the deferred annuity cashflows begin.
- 5.5 A Member queried the rationale behind the proposed amendment to IAS 12 *Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction*. The FRC Executive agreed to review this and report to the Council.

6. IBOR reform – Accounting implications

6.1 The Project Director introduced the paper. Financial reporting implications of the transition from Interbank Offered Rates (IBORs) to new benchmark rates are currently considered by the IASB.

- 6.2 The Council was asked to comment on issues identified by IASB for Phase I and II. Through discussion, a number of comments, observations and suggestion were made including that:
- The proposals seek to clarify that hedge accounting is applicable, despite the uncertainties around IBOR reform. Members supported the proposals.
 - The proposals affect some of the hedge accounting conditions, but do not change the measurement requirements. Ineffectiveness of hedges will be picked up through measurement and will flow through the profit and loss.
 - It was noted that time for endorsement is limited. The proposals are needed and uncontentious and endorsement should be accelerated.
 - Phase I includes all relevant issues that need to be addressed with priority. However, hedge accounting could be disrupted also for issues identified by the IASB for Phase II. Therefore, IASB should consider addressing some of the Phase II issues alongside completion of Phase I to address them timely.
- 6.3 The Council considered other financial reporting implications of IBOR reform that the FRC should be evaluating. It was noted that this matter would be discussed at the UK GAAP Technical Advisory Group meeting on 12 March 2019 to gather views in respect of implications on the UK GAAP. It was noted that the forthcoming exposure draft by the IASB will be discussed at a future Council meeting.

7. Update to the FRC's True and Fair paper

- 7.1 The Director of Accounting and Reporting Policy introduced the paper and noted that the purpose of updating the FRC's paper on True and Fair was to reflect the implementation of the Accounting Directive and its impact on small and micro company accounting, the finalisation of the IASB's conceptual framework and changes to auditing standards in 2016.
- 7.2 The Council discussed the rationale behind the consultation on this paper and made a number of comments and observations including:
- It would be useful to understand how widespread is the view that the disclosure of distributable reserves is a pre-requisite for the presentation of a true and fair view.
 - It would also be useful to identify any other matters that should be taken into consideration in the paper.
 - Company law does not include an explicit requirement to separately present distributable and non-distributable reserves or realised and unrealised gains in financial statements. Consultation could help gather views on how this issue could be best addressed.
- 7.3 A small number of drafting amendments and areas where it would be helpful to provide greater context were identified in the papers and the FRC Executive agreed to review them.

8. Annual review of SORPs

Charities SORP

- 8.1 The Council considered the Charities SORP annual review 2018 and noted that the SORP was updated for the *Triennial review 2017 amendments*. The annual review has addressed the issues required by the SORP Policy and the Charities SORP-making body has concluded that there is no need for an update to the SORP at this time. The Council agreed that the Charities SORP annual review 2018 has been adequately completed.
- 8.2 The Council noted that the outcome of the consultation on an independent review of the governance arrangements for the Charities SORP would be reported to the UK GAAP TAG at a future meeting. The Charities SORP-making body has plans for a full review of the SORP which will include further consideration of the requirements for smaller charities.

LLP SORP

8.3 The Council considered the LLP SORP annual review 2018 and noted that the SORP was revised for the *Triennial review 2017 amendments*. The annual review has addressed the issues required by the SORP Policy and it is concluded that there is no need for an update to the SORP at this time. The Council agreed that the LLP SORP annual review 2018 has been adequately completed.

8.4 The Council noted that FRC will be meeting with the SORP-making body to discuss the extent of engagement with stakeholder in respect of amendments to the SORP.

9. Draft consultation and Annual Review of the AIC SORP

9.1 The Director of UK Accounting Standards introduced the paper and noted that some companies disclose 'sales – gains/losses in the year' based on the initial cost of an investment rather than the carrying value, which would include profits already recognised in prior years. Following the discussion of the issue, AIC is proposing changes to its SORP which should clarify the information being provided to users.

9.2 The Council considered the AIC's consultation that proposes amendment to the SORP to address the issue. Given that the proposed amendment is narrow in scope, the Council was supportive of the view that a two-month consultation period is reasonable. The Council advised that the AIC should proceed with a two-month consultation on the amendment to paragraph 16 of the AIC SORP.

9.3 The Council considered the AIC SORP annual review 2018 and noted that the review has addressed the issues required by the SORP Policy and concluded that there is no need for an update to the SORP at this time, other than the consultation already proposed. The Council agreed that the AIC SORP annual review 2018 has been adequately completed.

10. Any other business

The Council had a brief discussion on the implications of various options of Brexit on EU adopted IFRS in the UK.

11. Date of next meeting

The Council noted that the next meeting will take place on 4 April 2019.