

**Minutes of a meeting of the Corporate Reporting Council  
held on Thursday 27 April 2017**

Present:

Paul Druckman	Chairman
Michael-John Albert	Member
Richard Barker	Member
Chris Buckley	Member
Michael Gallagher	Member
Roger Marshall	Member
Sian Morgan	Member
Liz Murrall	Member
Veronica Poole	Member (from Minute 5.2)
Mark Smith	Member
Jeremy Townsend	Member

Observers:

Michael Kavanagh (IAASA)  
Vikki Lewis (HMT) – in place of Vicky Rock

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
Debbie Crawshawe	Case Officer
Annette Davis	Project Director
Paul George	Executive Director, Corporate Governance & Reporting
Andrew Lennard	Director of Research
Deepa Raval	Project Director
Susanne Pust Shah	Project Director

**1. Welcome and apologies for absence**

The Chairman welcomed everyone to the meeting and in particular Vikki Lewis from HM Treasury who was attending in place of Vicky Rock. Apologies were noted from the Observers Lee Piller (FCA) and Alison Ring (HMRC).

**2. Declaration of conflict of interest**

2.1 There was none to be reported.

**3. Minutes and rolling actions**

*Minutes of the Corporate Reporting Council meeting held on 9 February 2017*

3.1 The minutes of the Corporate Reporting Council meeting held on 9 February 2017 were approved for publication.

*Minutes of the Corporate Reporting Council conference call held on 28 March 2017*

3.2 The minutes of the Corporate Reporting Council conference call held on 28 March 2017 were approved for publication.

*Rolling actions*

3.3 The matters arising log was noted.

#### 4. **Chairman's update**

The Chairman reported that the Board had met on 26 April and amongst other matters had discussed the following:

- Corporate Governance BEIS Select Committee Report: The report was issued on 5 April which was supportive of the FRC and the proposals put forward by the FRC.
- FRC Culture Project for which Stephen Haddrill is the executive sponsor. The core aim of the Culture Project is to create a culture of consistent high performance.
- Corporate Reporting – Accounting for loans to small companies from directors who are also shareholders.
- Presentation from Mike Suffield, Director of Audit Quality on the activities of the AQR.

The Chairman together with Paul George (PG) gave a brief update on the Codes & Standards Committee meeting that had met on 12 April which included discussions relating to:

- FRC's Guidance on Strategic Report. The Committee supported the view that looking through the shareholder lens risked the perception it was all about the short term financial success rather than the long term success of the company. Whilst it was commented that there is a place for short term businesses the Committee took the view that reporting should be on decisions that are taken by the Board to optimise the long term success and sustainability of the company.
- Corporate Governance BEIS Select Committee Report. Whilst the report positions the FRC as the solution to a number of issues rather than the problem, in some areas the recommendations go beyond what the FRC had suggested.

Arising from the update on the BEIS Select Committee Report, the Council discussed the practicalities of formally aligning the fund managers and asset owners' obligations with directors' obligations to meet the requirements of Section 172 of the Companies Act.

#### 5. **Director of Accounting and Reporting Report**

5.1

Anthony Appleton (AA) introduced this item by informing the Council that the papers for the meeting were presented in a new format and the Members were invited to provide their feedback, if they had any, to improve the presentation of the information. He further gave an update on his report including:

- EFRAG: Richard Barker had been appointed to the EFRAG TEG Academic Panel and Phil Aspin (from the UK) will chair the EFRAG Rate-regulated Activities Working Group.
- Accounting Regulatory Committee: The Committee will have a vote on the Endorsement Advice on IFRS 16 Leases in summer.
- FRC will be responding to the IASB Discussion Initiative – Discussion Paper on Principles of Disclosure. EFRAG Board will be discussing the Paper at its forthcoming meeting. The paper is open for comments until 2 October 2017.
- Triennial review of FRS 102 – FRED 67 was issued on 23 March 2017 and to date the public reaction has been positive.
- Small entities – directors' loans – FRED 67 proposes that small entities will no longer need to measure directors' loans at present value, and subject to consultation the amendments will be finalised in December 2017 with early application permitted. The Council supported the proposal of issuing an amendment to FRS 102 during the consultation phase for FRED 67, deferring implementation, for directors' loans to small entities only, of the financing transaction requirements of FRS 102, pending the outcome of the consultation on FRED 67. The Council supported the suggestion that, in the circumstances, formal consultation is not necessary. Limited informal consultation, a 'fatal flaw review', would take place.
- Narrative and wider corporate reporting – There was support for the IASB to be more active in the area of narrative and wider corporate reporting highlighting that non-financial information and the societal impacts of business are of growing importance to investors. There are mixed views on whether the IASB should update its

Management Commentary Practice statement in view of developing in this area, with some views noting that there needed to be more evidence of the use of the existing statement.

- 5.2 Following a query, the Members discussed the Brexit implications for calculating deferred tax under IAS 12. There are currently various tax exemptions and reliefs relating to cross-border transactions between EU Member States. If such reliefs no longer apply to transactions between UK companies and EU Member States companies, new potential tax exposure may arise for one or both parties. IAS 12 income taxes requires that deferred tax assets and liabilities be measured on the basis of tax rates and tax laws that have been 'substantively enacted' at the balance sheet date. Some of the firms have issued public papers in this regard. The Brexit negotiation process will be monitored to determine any change in the assessment of the likely cross-border tax settlement and the accounting implications at each reporting date. The issue requires significant judgement on the part of preparers and creates significant risks.

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

- 6.1 Andrew Lennard (AL) provided an update on the two recent consultations – 'Improving the Statement of Cash Flows' and 'The Financial Reporting Council's Corporate Reporting Research Activities' which had recently closed.

- 6.2 The main aim of the Discussion Paper on 'Improving the Statement of Cash Flows' was to stimulate debate and encourage the IASB to address the statement of cash flows in its work, probably in its project on 'Primary Financial statements'. The preliminary impression is that the Discussion Paper is well received with most respondents agreeing that there is ample scope to improve the requirements of the current standard IAS 7 'Statement of Cash Flows'. However there are diverse views on many of the specific suggestions that were made in the paper. A full analysis of response and draft feedback statement would be brought to a future Council meeting. FRC will also be discussing with IASB staff how the FRC may assist them further in their work on this topic.

- 6.3 The main purpose of the Consultation Document 'The Financial Reporting Council's Corporate Reporting Research Activities' was to obtain the views of FRC stakeholders on the corporate reporting issues that the FRC should consider researching in the immediate future. The preliminary impression is that the respondents generally are supportive of the FRC's Corporate Reporting Research and that it should be maintained at about its current level. There is some diversity of views as to which topics should be the focus of future work. A full analysis of responses would be brought to a future Council meeting when the future direction of Corporate Reporting Research activities is discussed.

- 6.4 The Council noted that the meetings of the Corporate Reporting Council's Academic Panel and the Multilateral Network Group would be held in the forthcoming months.

## **7. Triennial Review – Changes to IFRS**

- 7.1 Mei Ashelford (MA) provided an update on the Consultation Document which had outlined the proposal to consider IFRS 9 *Financial Instruments* and IFRS 16 *Leases* in a second phase of the triennial review, and defer IFRS 15 *Revenue from Contracts with Customers* until the next triennial review. There has been a notable pushback from respondents to these proposals.

- 7.2 The Council had a thorough discussion on the key issues of the proposals for integrating IFRS 9, IFRS 15 and IFRS 16 into FRS 102 and various comments and observations were made including:

- Stakeholders had suggested that the proposed approach to changes in IFRS does not reflect the revised principles for developing and maintaining UK and Ireland accounting

standards and such changes should only be developed once there is experience of full IFRS implementation.

- There is a case for considering the expected loss model for banks and building societies separately from other entities.
- It would be useful to deal with the major standards as separate projects and not as part of a triennial review. This may have an implication for effective dates, which would need to be considered as more detailed proposals are developed.
- More experience from the implementation of IFRS reporters was necessary in order to develop a proportionate model for the UK and Republic of Ireland. The principles permitted an alternative solution to IFRS when this clearly better meets the overriding objective.
- EFRAG had commissioned a study from an independent economic consultancy as an input to its Endorsement Advice on IFRS 16. The aim of the study was to provide input into EFRAG's analysis of potential changes in the behaviour of preparers, investors and lenders arising from IFRS 16 and the economic impact of such changes including on the leasing industry and SMEs. The study also considered the estimated costs and benefits of IFRS 16.
- The immediate action should be to issue a feedback statement to notify stakeholders of FRC's response to the feedback and the way forward on this matter, and confirm that further consideration needs to be given to the timetabling and approach with respect to these three IFRSs.

7.3 AA agreed to take the above discussion into consideration while drafting the feedback statement for stakeholders with the objective of continuing long term harmonisation with IFRS.

7.4 Following a detailed discussion with regards to the proposal to move to a quadrennial review cycle to allow sufficient FRS 102 implementation experience to develop before work on the next review begins, the Council advised that further analysis of the issue is needed and therefore it should be brought to a future meeting.

## **8. FRED 66 – FRS 101 Annual Review (2016 / 2017 cycle)**

8.1 MA outlined the FRED 66 *Draft amendments to FRS 101 Reduced Disclosure Framework – 2016/17 cycle* and noted that there was pushback from some respondents in respect of the proposal not to exempt qualifying entities from the requirement to provide maturity analyses on leases under IFRS 16 *Leases* as this would result in an inconsistency with the exemption that already exists, in relation to other liabilities, from the requirements of IFRS 7.

8.2 The Council supported the FRC's view that an exemption from the maturity analysis should be available, if qualifying entities provide the company law disclosure separately for lease liabilities and other indebtedness.

8.3 The Council also supported the proposal to introduce further exemptions for lessors from income statement related and more detailed disclosure requirements.

## **9. SORP – annual reviews**

### *Charities SORP annual review and Housing SORP annual review*

9.1 The Council noted that both the Charities and Housing SORP-making bodies had met the requirements of the SORP Policy in completing their respective annual reviews. It was also noted that there were no notable issues arising at this stage.

9.2 The Council briefly discussed the public research exercise that the Charity SORP-making body undertook in 2016 in relation to the Charities SORP. The discussion included matters relating to the level of transparency in narrative reporting by charities.

## **10. Amendments to IFRS 9**

- 10.1 Susanne Pust Shah (SPS) introduced the item informing the IASB's proposal to amend IFRS 9 *Financial Instruments* which is proposed to be fast tracked so that it is finalised by the time IFRS 9 comes into effect in January 2018. She explained the terminology of 'asymmetric' and 'symmetric' prepayment options within a debt agreement. She outlined that IASB's proposal to address the measurement of financial assets where the party terminating may receive compensation from the other party. Under the proposal these financial assets could be measured at amortised cost or fair value through other comprehensive income instead of measurement at fair value through profit or loss. In the Exposure Draft, the IASB also clarifies that any financial asset with a prepayment feature which provides for a compensation payment based on the fair value of the asset should not be measured at amortised cost.
- 10.2 The Council discussed the IASB's view and the proposal for change thoroughly and supported the following views:
- IFRS 9 should be amended for the measurement requirements of financial assets with an early prepayment feature where the party triggering the early prepayment may receive compensation from the other party. These financial assets could be measured at amortised cost. There was support that the issue needs to be dealt with as an amendment rather than a clarification.
  - There was no unanimous view on the technical merits of the additional clarifications by the IASB, i.e. whether certain payments fall within 'Solely Payments of Principal and Interest' or not. However, members were critical about interpretations being included in the Basis for Conclusions.
  - Agreed with the conditions that the financial assets have to meet, although one member supported the deletion of the second condition, which requires that the fair value of the prepayment feature is insignificant at initial recognition.
  - The amendment should be endorsed in the EU before the effective date to avoid successive restatements.

## **11. Update to Guidance on the Strategic Report – key areas**

- 11.1. Debbie Crawshawe provided a brief update on the discussion held at the March meeting of the Corporate Reporting Council in relation to the approach to incorporating the requirements of the NFR Directive and strengthening the links with s172 in the Guidance on the Strategic Report in view of the evolving corporate governance reform agenda. The Council noted that since the last meeting, the Parliamentary Committee on Corporate Governance had issued its report and a General Election had been called which means that it may take some time before the government takes next steps on the wider corporate governance agenda.
- 11.2 The Council noted the recommendation on scope that the guidance remain best practice for all entities and include clear signposting within the guidance and expanding the existing table to enable companies to clearly distinguish between mandatory and non-mandatory requirements.
- 11.3 The Council thoroughly discussed the content elements of the Section 4 *The strategic report: purpose* and the Section 5 *The strategic report: materiality* to reflect legislative changes, strengthening the link between the purpose of the Strategic Report and section 172 as well as taking inspiration from wider developments in the corporate reporting and governance agenda through examples. Various comments and observations were made including:
- The Purpose and Materiality section clarifies the focus on explaining how directors have satisfied their duties under s172 to promote the success of the company, where success is referenced to long term value creation.

- It is important to consider other stakeholders as they have impact the long term success of an entity. Companies should recognise long term value creation, the sustainability of the business model and delivering benefits to society as a whole.
- The strategic report must contain sufficient information to allow members of the company to assess how the directors had performed their duties under s172 and had regard to the interests of stakeholders and other matters and therefore this may require the inclusion of information additional to that prescribed in the Act.
- The purpose section that enables shareholders to understand the culture and the purpose of the entity could be worded drawing inspiration from the FRC Culture project and the IIRC Framework and incorporating elements of s172.
- Section 5 on *Materiality* was worded well.
- The *Scope* section of the paper would include signposting to enable companies to distinguish mandatory and non-mandatory requirements.

11.4 In response to a question, DC confirmed that the above points will be taken into consideration in revising the content elements of the guidance and will be presented to the Council for further discussion at its next meeting.

## **12. Response to Integrated Reporting Consultation**

12.1 Deepa Raval set out the purpose of the paper which was to respond to the IIR Consultation on the implementation of the International Integrated Reporting Framework. The FRC's draft response included suggestions on the future role of the IIRC, how the IR Framework could evolve and how the Framework could support other initiatives, including collaboration with other regulators. The response also included encouraging the IIRC to continue with its thought leadership work and focus on influencing broader developments in narrative reporting.

12.2 A Member queried if there should be focus on frequency of reporting; it was noted that if there are strategic changes, timely reporting would be useful. The Council supported the key considerations and the FRC's draft response to the Consultation as set out in the paper.

## **13. Any other business**

*Corporate Reporting Council meeting dates for 2018*

13.1 The paper on the proposed meeting dates for the Corporate Reporting Council in 2018 was tabled. The Council noted the dates.

13.2 Vikki Lewis reported that following the Public Administration and Constitutional Affairs Committee's inquiry into the annual reports and accounts and management accounts in the public sector, a report had been published entitled, 'Accounting for democracy: making sure Parliament, the people and ministers know how and why public money is spent'. The Secretary agreed to circulate the link to the Members.

## **14. Date of next meeting**

25 May 2017 at 9am.