

Minutes of the meeting of the Accounting Council of the FRC on 17 October 2013 at Aldwych House, 71-91 Aldwych, London, WC2B 4HN

Present:

Roger Marshall	Chairman
Anthony Appleton	Council Member
Richard Barker	Council Member
Chris Buckley	Council Member
Anne McGeachin	Council Member
Ken Lever	Council Member
Liz Murrall	Council Member
Veronica Poole	Council Member (to minute 10)

Observers:

Matt Blake	HMRC Observer
Michael Kavanagh	IAASA Observer

In attendance:

Mei Ashelford	Project Director, Accounting & Reporting Policy Team
Jenny Carter	Project Director, Accounting & Reporting Policy Team
Francesca Chittenden	Council Secretary
Annette Davis	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
Carol Page	Director, Corporate Reporting Review Team
Michelle Sansom	Director of Accounting

1. Welcome and Apologies

- 1.1 Apologies were noted from Mike Ashley (EFRAG Observer), Gunnar Miller (Council Member), Karen Sanderson (HMT Observer) and Pauline Wallace (Council Member).

2. Minutes of the previous meeting and rolling actions

- 2.1 The minutes of the previous meeting were approved for publication subject to two minor amendments.
- 2.2 The rolling action log was noted. In response to a query Jenny Carter (JC) explained that the amendments to the Financial Reporting Standard for Smaller Entities – Micro entities had been made and approved by the technical Advisory Group and that the update would be circulated once the Regulations had been published.

3. Director of Accounting Report

- 3.1 The Council received an update from the Director of Accounting (Michelle Sansom (MS)) on developments relating to UK accounting standards, international accounting, the European Commission and in the UK. Particular emphasis was given to the following matters:

International Accounting Standards Board (IASB)

- 3.2 The Council noted the following updates:
- the insurance project is progressing, the feedback indicates a general level of support for the FRC draft response however, there is concern with regard to whether the issues on participating contracts are fully described which will need to be addressed;
 - the Leases responses have been made and feedback to IASB is mixed and whilst there is some support for what the IASB is attempting to do, there is concern about the complex approach the IASB is proposing;
 - the IASB intend to publish a discussion paper on Macro-Hedging in early 2014 which will look at internal risk management;
 - the Revenue recognition project has been delayed due to issues arising from the fatal flaw review and will be published in 2014;
 - responses to the IASB rate regulation project which proposed grandfathering rate regulation were mixed and there was a spilt of views according to geographical location.

IFRS Interpretations Committee (IFRIC)

- 3.3 The Council were informed that IFRIC had met on 10 & 11 September and had considered a very full agenda. The Council noted the decisions taken by the Committee.

EFRAG Meeting:

- 3.4 Annette Davis (AD) provided verbal feedback on the meeting of EFRAG held on 9–11 October 2013; the Council noted that:
- EFRAG had revised its draft response letter to the IASB regarding the Leases proposals and that the response submitted was broadly in line with that submitted by the FRC; and
 - EFRAG had discussed a number of the Conceptual Framework bulletins and this would be addressed at agenda item 7.

Accounting Regulatory Committee (ARC)

- 3.5 The Council noted that the proposed amendments to non-financial reporting within the Accounting Directive had been delayed due to proposals around country by country reporting and that the FRC had held discussions with members of European Parliament in an attempt to influence the proposals discussed by the Accounting Council. The Council also noted that the ARC vote on IFRIC 21 – Levies is due to take place at the ARC's December meeting.

- 3.6 AD informed the Council that endorsement of the amendment to IFRS 10 relating to investment entities is likely to be published in the Official Journal in mid-November

2013. AD highlighted that whilst the ARC voted for the endorsement of the amendments to IAS 39 *Novation of derivatives and continuation of hedge accounting* at its September meeting the endorsement regulation amendments had not yet been endorsed by EFRAG. AD also highlighted there would be a very short window of opportunity for the endorsement to occur before the end of 2013.

UK GAAP:

3.7 The Council noted that a narrative feedback outreach event had been scheduled for November.

4. Director of Research

4.1 The Council noted the update on accounting research activities and developments since the last meeting.

4.2 The Council noted that the FRC would be hosting two outreach events, one in partnership with the CBI and a second in partnership with ICAEW, to discuss the IASB's discussion paper 'A review of the Conceptual Framework for Financial Reporting'.

5. Corporate Reporting Review Team Feedback (CCR)

5.1 Carol Page (CP) introduced the Corporate Reporting Review Annual Report 2012/13 and a presentation setting out the technical findings of the Corporate Reporting Review Panel.

5.2 CP highlighted the challenge faced by the CRR team in addressing the poorer quality reporting that is evidenced in smaller and AIM quoted companies and identified a number of steps taken to address this as follows:

- a slimmer, more succinct and accessible Annual Report has been prepared which, it is hoped, will make the report more attractive and assist the CRR team in reaching the boards and audit committees of companies whose accounts are likely to be reviewed;
- the Report focuses on a small number of common areas of challenge, supported by case studies, to illustrate the types of issues dealt with by the CCR team;
- the technical detail which historically was included with the report will be published on the FRC website;
- a seminar has been arranged to which representatives of firms within the remit of the FRC (but outside of the six largest audit firms) have been invited. The seminar will provide an opportunity for the CRR team to discuss the findings of the Annual Report and provide advice on how to assist clients who receive correspondence from the CRR team.

5.3 The Council noted that a feedback form would be included with the Annual Report when circulated as a success measure and to determine whether the revised approach provides the information needed.

- 5.3 The Council suggested that the common errors identified by the CRR team are a result of the complexity of IFRS and the lack of resources available to smaller companies. The Council suggested that the CRR team should focus attention on the firms, and individuals within those firms, that are employed to advise the smaller companies on IFRS, the Council also suggested that the Annual Report should be circulated to all listed companies and also to audit firms. The Council discussed whether smaller listed companies should have to follow full IFRS and noted that this issue had been raised with the IASB and the Commission.
- 5.4 The Council noted that the FRC reform in 2012 had facilitated the establishment of a feedback loop allowing communication between the accounting and reporting team and the CRR team including in relation to their input to ESMA, and that this loop enables the outcomes of the CRR team's work to have influence on international policy. Difficulties with ESMA's committee structure were discussed.

6. True and Fair

- 6.1 AD introduced the paper which provided an update on the FRC's activities relating to the true and fair view. The Council noted that the FRC issued a press statement, alongside the Martin Moore QC Opinion on the 3 October, and that a statement had been published by BIS on the same day.
- 6.2 The Council's view was that the FRC's True and Fair publication, issued in July 2011, should be updated in light of developments in the UK Corporate Governance Codes and updated interpretations of UK law.
- 6.3 The Council's view was that a full consultation on the revised publication would not be necessary but that informal consultation should be undertaken.

7. Response to the IASB Discussion Paper – 'A review of the Conceptual Framework for Financial Reporting'

- 7.1 Andrew Lennard (AL) introduced the paper and asked the Council to discuss the proposed FRC response in relation to the definition of an asset, issues relating to liabilities, and equity as set out in the draft Framework.

The definition of an asset

- 7.2 The Council considered whether the term 'capable' within the definition of an economic resource was too broad and would result in an endless search for assets. However, following a detailed discussion, the Council agreed that for the purpose of a Conceptual Framework (from which standards would be drawn) it is appropriate to have a broad definition. Furthermore, the number of instances in which a user would be required to default to the definition as set out in the Framework would be very infrequent. In reaching this conclusion the Council stressed the relationship with the recognition criteria.

- 7.3 The Council supported the proposed response but suggested that greater clarity as to what exactly is meant by 'control' and 'rights' be provided.

Liabilities and related issues

- 7.4 The Council considered the proposals in relation to constructive obligations and agreed with the draft response that the Framework should not restrict liabilities to those that are enforceable.
- 7.5 The Council discussed the three alternative views in relation to 'present' obligations and concluded that further clarity should be provided on what exactly is meant by 'practical ability' as set out in view 2 before a firm opinion can be reached. The Council agreed with the IASB that view 1 should be ruled out.
- 7.6 The Council broadly welcomed the proposed guidance on reporting substance. It noted that the guidance seemed inferior to that previously set out in FRS5 in that it did not refer to the need to identify assets and liabilities.

Equity and the distinction between equity and liabilities

- 7.7 In considering the proposals the following observations were made:
- the proposals go beyond what should be expected from a Conceptual Framework;
 - the proposals increase unnecessary complexity which is of little benefit;
 - the proposals do not provide useful information for the shareholder.
- 7.8 Following discussion the Council confirmed that whilst it is content with the definition of equity and the distinction between equity and liabilities as set out in the Framework it does not support the recommendations around re-measurement.
- 7.9 The Council noted the schedule of topics to be brought to the Council for discussion. It was noted that a discussion on 'unit of account' would be held at the November meeting.

8 Draft Bulletin: 'Complexity in accounting for transactions and events'

- 8.1 Anne McGeachin (AM) introduced the draft bulletin which addresses the issue of whether requirements in accounting standards sometimes introduce unnecessary complexity in accounting for transactions and events. AM invited the Council to provide guidance on how the bulletin could be made more useful and how the bulletin could be concluded.
- 8.2 The Council highlighted that standards become complex for many reasons, three causes identified were:
- the result of attempt to satisfy too many users;
 - for anti-avoidance;
 - when the principles underpinning standards conflict.
- The Council suggested that the bulletin could be improved by expanding the list of causes for complexity and attempting to provide solutions. A solution suggested was

that the Conceptual Framework provide guiding principles to focus the development of standards on the needs of one user, which in most instances, should be the shareholder who bears the residual risk.

- 8.3 The Council identified share payments, pensions and tax as particularly complex standards which should be highlighted in the bulletin, it was suggested that a worked example on pensions would be helpful. It was also suggested that the bulletin could include consideration of the link between the complexity of measurement and reliability of outputs.
- 8.4 The Council suggested that further redrafting to tie the examples in to the main body of the bulletin would enhance the usefulness of the report.

9. Comment Letter: IASB Insurance Exposure Draft

- 9.1 Seema Jamil O'Neill (SJO) introduced the draft FRC response which had been revised in light of views expressed at an FRC constituent event, responses to an EFRAG-IASB-ENSS field testing questionnaire and consideration by the FRC's Actuarial Council. It was also noted that despite best efforts feedback from users had been limited with the majority expressing the view that the ED is too complex.
- 9.2 The Council considered the views expressed and corresponding changes to the draft response. It was clarified that the Actuarial Council had recommended that there should be a requirement for a disclosure of reconciliation between the accounting regime and the capital regime; the Actuarial Council considered that this disclosure would provide users with additional information on the sustainability of the company. It was requested that paragraph 22 should be amended to reflect this more clearly.
- 9.3 Subject to the amendments listed above, and a request that the response highlight concern with the lack of engagement of users throughout the consultation period, the Council was supportive of the proposed response.

10. Update on Stewardship and Intangible Assets Projects

- 10.1 SJO introduced a paper that provided an overview of the research projects on stewardship and intangible Assets. The Council noted that it had suggested the research should consider the practical issues for fund managers in the context of both projects and that accordingly, the scope of the two projects had been amended to focus on the needs of users and two questionnaires had been developed by FRC and used to interview fund managers at Henderson Asset management.

Intangible assets

- 10.2 The Council noted that it is clear from the initial set of interviews that there is concern within the user community about the inclusion of intangible assets in the primary financial statements. However, it was also noted that the sample is small and that further discussion with investors from other asset management houses is necessary to reach a conclusion.

- 10.3 The Council supported the proposals to undertake further interviews and suggested that it would be useful to expand the research to talk to investors in both the buy and sell side. The Council also supported the proposal that a briefing paper or bulletin be issued by the FRC summarising the research in due course.

Stewardship

- 10.4 The Council noted that those interviewed were in agreement that Stewardship is an importance objective of financial reporting but that no further conclusion had been reached. The Council supported the proposal that the work on the topic be subsumed in to the work on the Conceptual Framework and that the evidence collected be submitted to the IASB.

11.0 Update on IASB's project: IFRSs for SMEs

- 11.1 Jenny Carter (JC) informed the Council that the IASB had published an Exposure Draft of proposed amendments to the IFRS for SMEs. JC invited the Council to express initial views in order to support the development of an FRC response.
- 11.2 The Council noted that whilst the IASB had adopted a number of the more minor recommendations put forward by staff, there remained some areas where more could be done. The Council supported the proposal that the response should highlight a missed opportunity to permit certain accounting policy options, such as revaluation of property, plant and equipment and capitalisation of borrowing and development costs. The Council also suggested that the response should highlight caution of a potential over-emphasis on stability and simplicity, bearing in mind the large SMEs which will be affected by the proposals.
- 11.3 The Council considered the implications of the ED on the FRC's approach to future reviews of FRS 102 and agreed that the principles it set in developing FRS 102 did not prevent FRS 102 from keeping pace with both full IFRS and the IFRS for SMEs; the first principle only refers to "consistency with global accounting standards through the application of an IFRS-based solution...". The Council highlighted the need to clarify to users of FRS 102, that the FRC will consider any relevant amendments or updates to both full IFRS and the IFRS for SMEs in performing its three-yearly review of FRs 102.
- 11.4 It was suggested that the FRC's response to the ED should highlight the following:
- a) clear principles should be set out to indicate when IFRS should be adopted and when it should not;
 - b) there should be options for simplicity in light of the broad range and size of companies that use IFRS for SMEs; and
 - c) the IASB should be encouraged to consider revising fast track the hedge accounting requirements of the IFRS for SMEs as part of this revision, rather than waiting until the next three-year review, and the FRC solution (ie FRED 51) should be submitted as a suggested approach.

12. On-going implementation of new UK GAAP

- 12.1 Mei Ashelford (MA) introduced the paper which provided an update on the current status of the implementation of UK GAAP.
- 12.2 The Council approved the responsibilities of the UK GAAP Technical Advisory Group (TAG) and the revised responsibilities for the Committee on Accounting for Public-Benefit Entities and noted that the terms of reference for each group would be finalised following completion of a wider Council effectiveness review.
- 12.3 The Council noted the minutes and actions arising from the TAG meeting which took place on 10 September 2013. The Council endorsed the process that had been agreed by TAG for receiving and resolving technical queries on new UK GAAP. The Council noted that TAG had identified a range of amendments to be made to FRS 101 and that those amendments would be brought to the Council for approval at its meeting in November 2013.
- 12.4 The Council considered the following recommendations from TAG:
- a) that paragraph 62 of the Accounting Council's advice in FRS 102 be amended to clarify that hedge accounting is permitted in the separate financial statements of a parent of a foreign operation that is a branch. Whilst the Council agreed that the clarification was necessary the Council did not feel it could amend its advice and instead the Council agreed that a clarification statement should be published;
 - b) that a statement be published clarifying the treatment of tax as set out in paragraph 29.11 of FRS 102: Deferred tax arising on a business combination. The Council approved the recommendation with some minor drafting improvements.
- 12.5 The Council endorsed the suggestion that periodic update statements containing any amendments to guidance / points of clarification such as those listed above should be issued as opposed to issuing individual amendments on an ad hoc and random basis.
- 12.6 The Council approved the reappointments of Miles Hedges, Geoff Whittington and Bob Humphreys to the Committee on Accounting for Public-Benefit Entities (CAPE), and the appointment of Richard Moore to the UK GAAP Technical Advisory Group (TAG).

13. Any other business

- 13.1 None