

Minutes of a meeting of the Accounting Council held on Thursday 15 January 2015 in the Boardroom at 8th Floor, 125 London Wall, London, EC2Y 5AS

Present:

Roger Marshall	Chairman
Richard Barker	Council Member
Chris Buckley	Council Member (from minute 5.3)
Michael Gallagher	Council Member
Liz Murrall	Council Member
Mark Smith	Council Member
Jeremy Townsend	Council Member
Pauline Wallace	Council Member

Observers:

Matt Blake	HMRC Observer
Michael Kavanagh	IAASA Observer
Lee Piller	FCA Observer

In attendance:

Anthony Appleton	Director of Accounting and Reporting Policy
Mei Ashelford	Project Director, Accounting & Reporting Policy Team
Jenny Carter	Director of UK Accounting Standards, Accounting & Reporting Policy Team
Francesca Chittenden	Council Secretary
Annette Davis	Project Director, Accounting & Reporting Policy Team
Andrew Lennard	Director of Research
Seema Jamil-O'Neill	Project Director, Accounting & Reporting Policy Team
Melanie McLaren	Executive Director, Codes & Standards
Susanne Pust Shah	Project Director, Accounting & Reporting Policy Team
Deepa Raval	Project Director, Accounting & Reporting Policy Team

Welcome and Apologies for absence

Apologies were noted from Gunnar Miller and Veronica Poole (Council Members)

1. Minutes of the previous meeting and rolling actions

- 1.1 The minutes of the meeting held on 11 December 2014 were approved for publication.
- 1.2 The Council reviewed and noted the rolling action log. All actions had either been completed or were the subject of subsequent agenda items.

2. Director of Accounting Report

- 2.1 The Council noted a paper which provided an update on developments relating to UK and International financial reporting standards, matters of policy and an overview of staff activities since the last meeting. Particular attention was given to the following matters:

IASB - Insurance

2.2 The Council noted that:

- The accounting for participating contracts remains unresolved and the IASB is in discussions on possible ways forward with the CFO Forum, EFRAG's insurance working group, the ABI and the FRC.
- The IASB has submitted a set of 25 questions to the CFO Forum and the EFRAG insurance accounting working group for completion. The questions focus on how participating contracts are managed by insurance companies and whether the proposal put forward by the CFO Forum to fully unlock the contractual service margin for all changes that impact the expected future cashflows is workable.
- The responses to the questions would form the basis of discussions on the topic at future IASB meetings.
- The IASB work plan notes that it will be re-deliberating the topic during Q1 but no indication is given as to when the IASB expect to finalise the standard. SJON undertook to keep the Council updated on developments.

IASB - Leases

2.3 The Council noted that:

- The IASB and FASB considered the definition of a lease at a December meeting and tentatively decided that the definition to be 'a contract that conveys the right to use an asset for a period of time in exchange for consideration'.
- Sir Win Bischoff, FRC Chairman, and Melanie McLaren had met with Hans Hoogervorst Chairman of the IASB Board, and Suzanne Lloyd, IASB Board Member to discuss the direction of the IASB's leases project and its finalisation.
- The Council noted a number of concerns in relation to the IASB's proposals and noted that there is currently no FRC view as to the suitability of the IASB approach and / or the FASB approach.
- Roger Marshall (RM) reported that the EFRAG Board will be considering a detailed paper setting out the issues that have been identified in respect of the IASB proposals and suggested the paper be presented to the Council for discussion once it becomes available.
- In order to inform the Council's deliberations and advice in the development of an FRC view, the Council requested that this project is discussed at its February meeting.

EFRAG

2.4 The Council noted that the EFRAG Board had considered at its December meeting a request from the European Commission to provide endorsement advice on IFRS 9 *Financial Instruments*. RM commented that the request was welcomed by EFRAG and is considered to be a helpful method through which the concerns of Member States could be targeted. FRC will hold a constituent outreach session to consider EFRAG's draft endorsement advice to the Commission once it is published for consultation.

Other matters

2.5 The Council noted that the SEC had recently issued an announcement stating that it is looking at whether domestic US issuers could prepare IFRS information as a non-GAAP measure alongside their US GAAP financial statements.

3. Director of Research Report

3.1 Andrew Lennard (AL) provided a verbal update on current, accounting research activities. It was noted that:

- The Accounting Standards Advisory Forum was yet to receive the 'fatal flaw' draft of the IASB Conceptual Framework but that the Framework is on the agenda of the January IASB Board meeting and it is expected the 'fatal flaw' draft would follow after that meeting. AL reported that the IASB had not yet indicated how long the consultation period would be but that he hoped it would be for a period of at least 6 months.
- The IASB had considered the paper on 'cash flows' discussed by the Council at its December meeting. It was now being considered whether this work fits within the scope of the 'Principles of Disclosure' project or whether the work should feed in to the IASB's proposed work on presentation of financial statements project. Further meetings to discuss the matter had been scheduled, and AL undertook to keep the Council informed of the outcome of those meetings. He noted that it was important that the FRC work resulted in a visible 'product' within a reasonable timescale.

4. FRED 58: Draft FRS 105 The Financial Reporting Standard applicable to the Micro-Entities Regime

4.1 Mei Ashelford (MA) introduced FRED 58: Draft FRS 105 The Financial Reporting Standard applicable to the Micro-Entities Regime. The Council noted that FRED 58 is one of a suite of three FREDs that have been developed that set out proposed changes to UK accounting standards in anticipation of the implementation of the EU Accounting Directive. MA reported that, subject to the Council's advice, the suite of FREDs would be presented to the Codes & Standards Committee and the FRC Board for approval with publication expected in mid-February.

4.2 MA reported that the draft had been updated to reflect the two amendments requested by the Council at its December meeting as follows:

- a) To simplify the treatment for financing transactions so that they are initially recognised at cost rather than present value; and
- b) To insert additional text in to the Summary to indicate that the micro-entities regime is optional and that a micro entity is not prohibited from making further voluntary disclosures if it chooses to apply the micro-entities regime.

4.3 The Council discussed in detail the proposed changes to the requirements for financing transactions and concluded that the requirement for micro-entities to calculate effective interest rates is too complex for entities of this size. Accordingly, the Council advised that draft FRS 105 permits the use of the straight line method for calculating interest where the micro-entity is buying or selling inventory, fixed assets or services on credit. The Council also discussed whether the straight line method should be permitted for calculating interest in respect of bank loans, however, it noted that interest on bank loans is not accrued on a straight line basis, and that draft FRS 105 permits any arrangement fee that is immaterial to be written off. The Council concluded no amendments in respect of bank loans were necessary.

- 4.4 The Council also discussed whether the decision to align the numbering of sections within FRS 105 with the numbering of sections within FRS 102 is 'user friendly' and whether sequential numbering would be more helpful. As benefits for and against the two options could be identified the Council advised that FRED 58 include a question to ask respondents to indicate a preference.
- 4.5 The Council was content with the additional text inserted to the Summary of FRED 58 regarding voluntary disclosures, and the text inserted in to the Accounting Council's Advice in relation to residents' management companies to state the legal options that RMCs always act as principles and can never be dormant. Subject to the advice given at 4.3, the Council agreed to recommend to the Codes & Standards Committee and FRC Board the issue of FRED 58 for consultation.
- 4.6 The Council noted that the suite of FREDs would be accompanied by a press notice and advised a separate note should provide more detail on the proposed financial reporting framework for stakeholders.

5. FRED 59: Draft amendments to FRS 102 Small Entities & Other Minor Amendments

- 5.1 Jenny Carter (JC) introduced FRED 59: Draft amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland - Small Entities and other minor amendments*. The Council noted that FRED 59 proposes amendments to FRS 102 to bring in the new small companies regime and to reflect proposed changes in the law where FRS 102 would otherwise be inconsistent. JC reported that FRED 59 had been developed within a short timeframe and that discussion with members of the UK GAAP Technical Advisory Group in respect of the draft was on-going.
- 5.2 The Council reviewed the proposed amendments as outlined in the cover paper. Through discussion the following points and observations were made:

Small entities - true and fair view

- The Council noted that, as a result of restrictions in the Accounting Directive, the FRC cannot require disclosures of small companies that are in addition to those set out in the Directive. The Council supported the proposal to provide guidance to small companies and advised –that ~~they~~ small companies should be encouraged to consider to ensure financial statements give a true and fair view in accordance with EU and UK law.
- The Council noted that the Government is considering whether to take up an option to permit small companies to prepare abridged financial statements for shareholders where shareholders have agreed, and that should this option be taken, there may be a tension between the abridged information and the requirement for financial statements to give a true and fair view. The Council discussed in detail the proposal to include paragraphs in FRS 102 to remind small entities taking this option that additional disclosures may be necessary in order to meet the true and fair view requirement. Whilst it was suggested by one member that the reminder could be considered 'gold-plating', the Council concluded that it would be unhelpful not to assist entities in identifying additional disclosures that may be necessary to provide a true and fair view and supported the proposed approach.

All entities - alternative presentation requirements

- The Council noted that FRED 59 had been drafted to permit the application of the expected additional flexibility in the formats of the financial statements with presentation requirements based on IAS 1.
- The Council was content with the new definition of non-current assets and current assets, noting the amendments were necessary to accommodate both approaches to the statement of financial position.

Small entities - transitional provisions

- The Council noted that some members of the UK GAAP TAG had expressed differing views on the need for additional transitional provisions for small entities. The Council advised not including any additional transitional provisions for small entities, but noted that a question on the subject was included in the FRED.
- The Council noted that early adoption would be permitted to the extent permitted by law.

All entities - inventories at fair value

- The Council noted that paragraph 13.3 of FRS 102 would be amended to prevent the inappropriate use of the option for stock to be measured at fair value through profit and loss apart from commodity traders.

5.3 JC summarised a number of further amendments that had been identified by members of the UK GAAP TAG. The Council noted that:

- The small company definition would be redrafted to specifically refer to LLPs.
- A new paragraph would be inserted at the beginning of sections 3-7 to scope small companies out of the presentational requirements.
- A paragraph is to be inserted in to the Council Advice to note that, aside from group reconstructions, merger accounting by PBEs that are companies will no longer be permitted in law. A paragraph will also be inserted to note that the use of the equity method in individual financial statements is not proposed at the current time.
- New paragraphs are to be inserted at 11.2a and 12.2a for entities that have chosen to apply the recognition and measurement of IFRS 9 in respect of fair value adjustments for own credit risk. The Council noted that the treatment of own credit risk under IFRS 9 is inconsistent with UK law when following the fair value rules as under IFRS 9 the movement is recorded through other comprehensive income and the fair value rules require this movement to be reported through the profit and loss account. The Council considered the inconsistency and agreed that recording the movement through OCI should be permitted. Accordingly, the Council advised that paragraphs 11.2a and 12.2a should be amended and that text should be inserted into the legal appendix, to permit entities to apply the true and fair override where necessary. The Council noted that there would only be a limited number of instances in which this option would be taken.
- Amendments will be made to the disclosure exemptions for qualifying entities with the aim of ensuring alignment with disclosures that are required by company law.

5.4 Subject to the points raised in discussion, and any drafting amendments necessary to align FRED 59 with the draft Regulations, the Council agreed its advice in respect of FRED 59 and to recommend to the Codes & Standards Committee and FRC Board that FRED 59 should be issued for consultation.

6. FRED 60 – Amendments to FRS 100 & 101 as a result of the Accounting Directive

6.1 JC introduced FRED 60 and reported that the FRED had been drafted based on the proposals set out in the consultation document taking into account respondents feedback.

6.2 The Council considered the proposed amendments to FRS 100 and FRS 101 as set out in the paper and advice that had subsequently been given by the UK GAAP TAG. The following observations were made and advice was given:

- It was noted that the amendments to FRS 100 principally withdraw the FRSSE and insert references to draft FRS 105.
- It was noted that the amendments to FRS 101 reflect the changes expected in law that will reduce the number of conflicts between IFRS and company law.
- It was noted that some of the changes to FRS 101 will not apply to Schedule 2 (banking) and Schedule 3 (insurance) of the Regulations and that this has complicated the drafting.
- The Council advised that text be inserted into the Advice to highlight that FRS 101 will be updated to include IFRS 9 once IFRS 9 had been endorsed.
- It was noted that the expected changes to the format requirements of Schedule 1 should permit the presentation requirements of IFRS, which can be deemed equivalent other than in relation to discontinued operations. The Council welcomed this decision and advised that the decision be highlighted in any communications.
- Changes in respect of the treatment of contingent consideration were noted.
- In relation to the use of the equity method in individual financial statements the Council advised those prospective changes be made clear in the Advice.
- It was noted that company law requires a consistent framework to be applied across subsidiaries, either IFRS or UK GAAP. The Council requested that consideration of the differences between the two be included in the future work programme.
- It was noted that a Consultation Stage Impact Assessment, covering FREDS 58, 59 & 60 will be issued alongside the suite of FREDS.

6.3 Subject to the points raised in discussion, and any amendments necessary to align with the draft Regulations, the Council agreed its advice in respect of FRED 60 and to recommend to the Codes & Standards Committee and FRC Board that FRED 60 should be issued for consultation.

7. Amendments to FRS 102 – Pension Obligations

7.1 JC introduced the final Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland - Pension obligations* to the Council. JC reported that the Amendments had been updated to clarify one of the existing disclosure requirements of FRS 102 relating to the funding policy, as had been requested at the December Council meeting.

7.2 The Council considered the Amendments, the Impact Assessment and Feedback Statement and approved its Advice and recommended to the FRC Codes & Standards Committee and Board that the Amendments should be issued.

8. Measuring quoted investments in subsidiaries, joint ventures and associates – draft comment letter

- 8.1 AL introduced a draft response to the IASB's Exposure Draft ED/2014/4: Measuring Quoted investments in Subsidiaries, Joint Ventures and Associates at Fair Value: Proposed Amendments to IFRS 10, IFRS 12, IAS 27, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13. The Council noted that the ED addresses the application of fair value to investments that are quoted on an active market, is narrow in scope and has limited application.
- 8.2 It was noted that the main issue addressed in the ED is the method to be used for obtaining the fair value of an investment in quoted subsidiaries, joint ventures and associates and that two views have presented:
- a) as there is no level 1 (i.e. market based) measurement available for the investment as a whole, and it is necessary to estimate the fair value of the investment using inputs additional to or in place of market prices, the resulting amount would include a control premium or blockage discount
 - b) because a level 1 measurement is available for the individual instruments, that value should be used.
- 8.3 The Council considered the draft response in detail and a variety of differing views were presented. The Council suggested the FRC response to the IASB should set out the issues Council members have identified, particularly in respect of relevance vs reliability and stewardship. The Council also suggested that the IASB should be encouraged to explain the rationale underpinning its conclusions.
- 8.4 The Council requested that the draft be amended to reflect the Advice given at para 8.3. The Council also suggested that greater emphasis should be placed on the inconsistency that would arise, should 'view b' be adopted, between Level 1 fair value measurements (which would exclude the effect of holding premiums and discounts) and Level 2 and 3 measurements (which would include such premiums and discounts). AL undertook to amend the response and to circulate the revised draft to Council before submission.

9. Rate-regulated activities – draft comment letter

- 9.1 Annette Davis (AD) introduced a draft comment letter in response to the IASB's Discussion Paper (DP) *Reporting the financial effects of rate regulation*. The Council noted that the draft reflects the views expressed by the Council at its December meeting that the FRC remain to be convinced that rate-regulated activities create assets and liabilities.
- 9.2 AD reported that the 100 Group is supportive of the Discussion Paper and that the FRC is in on-going dialogue with the Group on the matter.
- 9.3 The Council considered the draft comment letter, the following observations were made and advice was given:

- The response be amended to acknowledge that for rate-regulated entities this is a significant issue and they consider that accounts produced using IFRS do not accurately reflect their operations.
- The response to Q6 should be toned down as the Council has not yet reached a view as to possible accounting requirements.

9.4 Subject to the advice given the Council advised that the draft comment letter be submitted to the IASB.

10. Going concern – non-Code companies

10.1 DR introduced a paper seeking the Council's advice on the publication of guidance on reporting on solvency risk, liquidity and risk and going concern for companies that are not within the scope of the UK Corporate Governance Code. DR provided the Council with context to the proposal and reported that there is an expectation for the FRC to issue some form of clarification on going concern for non-Code companies as soon as possible.

10.2 The Council discussed the proposal and agreed with the recommendation that there is a need for the FRC to issue some form of clarification for non-Code companies or guidance in respect of reporting on risk and going concern. However, the Council's preferred an alternative approach to developing guidance, the Council advised that the Executive review and update the 2009 Guidance for Directors on Going Concern and Liquidity Risk. The Council suggested that the 2009 Guidance is still referred to by small companies who find the practical examples and the format of that Guidance to be user friendly. To assist a refresh of the guidance the Council suggested the Executive prepare a paper for consideration analysing the differences between the 2009 guidance and the approach proposed in the paper.

11. Any other business

11.1 There was no other business.