

**Minutes of a meeting of the Accounting Council held on Thursday 12 February 2015 in the Boardroom at 8<sup>th</sup> Floor, 125 London Wall, London, EC2Y 5AS**

Present:

Roger Marshall	Chair
Chris Buckley	Council Member
Gunnar Miller	Council Member
Liz Murrall	Council Member
Veronica Poole	Council Member
Mark Smith	Council Member
Jeremy Townsend	Council Member
Pauline Wallace	Council Member (Alternate Chair)

Observers:

Michael Kavanagh	IAASA Observer
Alison Ring	HMRC Observer (in place of Matt Blake)
Lee Piller	FCA Observer

In attendance:

Anthony Appleton	Director of Accounting and Reporting Policy
Jenny Carter	Director of UK Accounting Standards, Accounting & Reporting Policy Team
Francesca Chittenden	Council Secretary
Ufuk Cengiz	Economist, FRC Strategy Team (minute 4 only)
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
Rosalind Szentpéteri	Project Manager, Accounting & Reporting Policy Team

**Welcome and Apologies for absence**

Apologies were noted from Richard Barker and Michael Gallagher (Council Members).

**1. Minutes of the previous meeting and rolling action**

- 1.1 The minutes of the meeting held on 15 January 2015 were approved as an accurate record of the meeting subject to a minor typographical amendment and a revision to the wording at para 8.2.
- 1.2 The Council noted the status of the actions set out on the rolling action log.

## 2. Director of Accounting Report

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

### UK GAAP Technical Advisory Group

- 2.2 The Council noted that Iain Selfridge had resigned from the UK GAAP TAG and that approval for a replacement member would be sought from the Council before next Council Meeting.

### Insurance Contracts

- 2.3 The Council noted that the EFRAG insurance project team had met with the IASB's insurance contracts project team to discuss the numerical model the IASB project team is developing to understand accounting for participating insurance contracts in accordance with the CFO Forum model. Seema Jamil-O'Neill (SJON) reported that whilst it had been a lengthy meeting at which detailed aspects such as timing of the release of the contractual service margin had been discussed, the detailed elements would only be finalised once the IASB had received responses to the 25 clarification questions it submitted to the CFO Forum in December. SJON reported that UK members of the CFO Forum indicate there is a common UK view on responses to the questions but that view is not necessarily shared by continental European members of the group.
- 2.4 The Council noted that IASB Board members have expressed mixed views in respect of the CFO Forum model but are keen to explore the issues that have been identified in order to drive the project towards completion. SJON reported that a key issue the FRC has identified through analysis of the CFO Forum model is that, for the model to produce understandable accounting, the definition of a 'portfolio' will need to be clearly defined, a matter which raises serious concern for some insurers.
- 2.5 SJON reported that a number of concerns had been raised in respect of the tentative decision taken by the IASB at its January meeting to permit companies implementing IFRS 4 *Insurance Contracts Phase II* for the first time to be able to reconsider their business model for financial instruments under IFRS 9 *Financial instruments*. The Council noted that the majority of European insurers are against early adoption of IFRS Phase II and are concerned about the proposed two step implementation approach in light of the costs associated with reclassification and the difficulties that will arise in communicating the changes in quick succession to investor groups. The Council had sympathy for the concerns raised by insurers and noted the solution proposed by insurers to permit the deferral of IFRS 9 in Europe for regulated insurers. The Council supported the use of a meeting between the FRC and the Associate of British Insurers (ABI) and its members to discuss a UK approach to accounting for participating contracts and the endorsement of IFRS 9.

### European developments

- 2.6 The Council noted that the Basel Committee on banking supervision had published its consultative document "Guidance on accounting for expected credit losses" on 2

February 2015 and that the FRC is working with the PRA on the proposals and on a response.

#### EFRAG

2.7 The Council noted that EFRAG TEG had met on 28-30 January 2015 and had considered two key issues:

- IFRS 9 *Financial Instruments*. AA reported that TEG considered papers on comparisons of IFRS 9 with IAS 39, differences to US GAAP, the meaning of prudence and how IFRS 9 may be measured against that meaning and a draft analysis on the consistency of IFRS 9 with the endorsement criteria. The Council noted that whilst some elements of IFRS 9 were criticised, including recognition that more work is needed on prudence, the majority view was that IFRS 9 is an improvement and is consistent with the presentation of a true and fair view. AA reported that one TEG member has indicated dissent and will vote against endorsement.
- FRS 15 *Revenue from contracts with customers* - The Council noted that the recommendation from the TEG to defer the effective date on FRS 15 by one year had been rejected by the Board and discussed whether or not the board should be encouraged to reconsider its decision. AA reported that the recommendation from TEG to defer had been made in response to calls from preparers in Germany and Poland for further time to prepare and in response to developments in the US that indicate the FASB may defer its standard. The Council debated the issue in some detail and a number of views were expressed. Whilst no clear consensus was reached as to whether or not the FRC should encourage deferral the Council highlighted the need to encourage the IASB and FASB to work together in order to achieve consistent outcomes.

#### Financial Reporting Lab

2.8 The Council noted a summary of the Lab's steering group meeting and a brief update on the following three Lab projects, disclosure of dividend policy and capacity, digital reporting and clear and concise.

#### UK GAAP TAG

2.9 The Council noted that the UK GAAP TAG at its January meeting had discussed the triennial review of FRS 102 and had provided some initial advice on the shape of that review. The Council also discussed the advice of UK GAAP TAG in relation to a FRS 102 implementation issue on share-based payments and advised that the matter is of sufficient importance for the FRC to consider an amendment before the triennial review process.

### **3. Horizon Scanning**

3.1 The Council noted that the FRC is developing an approach to horizon scanning to identify and analyse issues in the future that may have a material impact on its ability to meet its objectives. Ufuk Cengiz (UC) reported that the approach, which is based on the research commissioned by the Cabinet Office (known as 'STEEPLE'), is at an early stage of development and that input is being sought from the three Councils in response to requests from the Councils for a formal process through which their views can be captured and fed in to the FRC's strategy and risk planning.

- 3.2 The Council welcomed the proposed approach and reiterated the need for there to be a formal and disciplined process and for there to be visible outputs.
- 3.3 The Council noted that the approach would be discussed at a Governance event on 26 February and that a further paper on the approach would be presented to the Council in due course. The Council welcomed the proposal from the Chair suggested that, moving forward, the Council consider one topic from the 'STEEPLE' framework per meeting.

#### **4. Director of Research Report**

- 4.1 Andrew Lennard (AL) introduced a paper that provided an overview on recent accounting research activities.
- 4.2 The Council discussed a suggestion that the work undertaken by the FRC in respect of Cash Flows be used as the basis of a Research Paper, which would be developed in collaboration with the IASB, to provide early input into future work on the IASB's Performance Reporting Project. The Council supported the suggestion but noted that the further discussion to agree the detailed arrangements was needed and that consideration of whether or not to exclude financial institutions from the scope of the research was necessary.
- 4.3 The Council noted:
- That ASAF Members have access to the Fatal Flaw draft of the IASB's Conceptual Framework. AL reported that on first review it appeared that the tentative conclusions reached in the document address many of the issues raised by the FRC.
  - Feedback from an event hosted by the ICAEW on 28 January entitled 'IFRS in Europe: The Empirical Evidence'.
  - That an event entitled 'The 'Real' Impact Factor: Accounting Research, Practice and Users' will be held on 9 September. The Council was invited to submit suggestions of topics the FRC may wish to present at the event.
- 4.4 The Chair reported that the IASB is due to undertake a review of its governance in 2015 and suggested that the Council have the opportunity to consider and discuss the IASB's governance arrangements in advance of the review.

#### **5. FRS 104 Interim Financial Reporting**

- 5.1 Susanne Pust-Shah (SPS) introduced draft FRS 104 *Interim Financial Reporting* and a cover paper summarising feedback to FRED 56 and the actions taken in response to that feedback. The Council noted that the scope of FRS 104 is narrow in that only a relatively small number of entities will be applying it. The Council also noted that whilst the application of FRS 104 is voluntary it is in line with the FRCs' Principles for the development of Codes, Standards and Guidance to issue the interim requirements in a standard.
- 5.2 SPS reported that the majority of respondents to FRED 56 were supportive of the proposal to replace the existing ASB Reporting Statement *Half Yearly Financial Reports*

with interim reporting requirements based on IAS 34 *Interim Financial Reporting*; however, some suggested amendments to the detailed requirements. The Council discussed the suggested amendments and the actions taken in response and the following advice was given:

- The Council supported the proposal to include the Appendices to IAS 34 in FRS 104 noting that a number of respondents had requested the inclusion of the Appendices on the basis they are considered useful and could prevent unacceptable diversity in practice.
- The Council suggested that more emphasis should be given in the drafting to the effect that the application of FRS 104 is voluntary. The standard should also be clear that it does not impose an obligation to prepare interim financial reports. It should be made clearer how FRS 104 should be applied by entities that prepare half-yearly financial reports in accordance with the DTRs.
- The Council supported the insertion of a new paragraph into FRS 104 to allow entities to use the simplified basis of presentation at an interim date if an entity changes its presentation in the next annual financial statements.
- The Council supported the inclusion of a glossary in FRS 104 that sets out the definitions of all terms used in FRS 104 on the basis that this is more user-friendly and consistent with the approach proposed for draft FRS 105.
- The Council supported an amendment to FRS 104 to set out that a statement of cash flow is not required in the interim financial statements if the entity does not present a cash flow in the next annual financial statements.

5.3 The Council noted that the majority of respondents had been supportive of the proposal to withdraw the ASB Reporting Statement *Preliminary announcements* without replacement. It was noted by the Council that preliminary announcements, although voluntary, are still common practice in the UK and it was queried whether for that reason guidance is still useful. Through discussion it was clarified that the ASB Reporting Statement is out of date as it was introduced in 1998 when the preparation of preliminary announcements was mandatory in the UK. The Council noted that the FRC is considering more broadly the spectrum of corporate communication, including preliminary announcements, as part of a future project. It was suggested that the press notice accompanying FRED FRS 104 make reference to this broader project.

5.4 The Council noted that the FCA will seek to make changes to the Disclosure and Transparency Rules to refer to pronouncements on interim reporting issued by the FRC, instead of the ASB.

5.5 Subject to the suggestions made by the Council and a few minor drafting amendments the Council gave its advice to the FRC Board to issue FRS 104 and to withdraw the ASB Reporting Statement *Preliminary Announcements* and the ASB Reporting Statement *Half Yearly Financial Reports*.

## **6. Foreword to Accounting Standards**

6.1 Jenny Carter (JC) introduced a revised *Foreword to Accounting Standards* for consideration. JC reported that in developing FRED 56 it had become apparent that

there is a need for a comprehensive review of the Foreword, which, other than updates in 2012 to reflect factual changes, remains unchanged since it was drafted 1993.

- 6.2 The Council noted the approach that had been taken in drafting the revised Foreword had been to focus on its purpose of providing information about the scope, authority and identification of accounting standards. JC reported that some material from the current Foreword had been retained but that much had been deleted on the basis that it is duplicative of other sources or superfluous.
- 6.3 The Council supported the approach taken and noted that the approach had also been supported, subject to minor editorial amendments, by the UK GAAP TAG and relevant CCAB bodies. Through discussion it was:
- Concluded that it is appropriate to delete the detailed discussion of 'True & Fair' on the basis that a clear reference is made to the True & Fair publication issued in June 2014.
  - Noted that the title *Foreword to Accounting Standards* draws on the legal definition of the standards.
  - Suggested that the second footnote regarding the application / requirements of True & Fair for micro-entities should be removed.
- 6.4 Subject to the drafting amendments identified, the Council agreed to advise the Codes & Standards Committee to issue the revised *Foreword to Accounting Standards*.

## **7. Draft response – Reconciliation of liabilities from financing activities (IAS 7) and update on IASB's Disclosure Initiative**

- 7.1 Rosalind Szentpéteri (RS) introduced a draft response to the IASB's Exposure Draft (ED) '*Disclosure Initiative: Proposed Amendments to IAS 7*'. The Council noted that the ED proposes introducing new disclosure requirements in response to demand from investors for additional information on net debt and liquidity and that the disclosures proposed in the ED would require entities to provide a gross debt reconciliation. RS reported that respondents have expressed mixed views on the proposals; some consider that the proposals are 'adding clutter' and others simply do not consider the proposals address the need that has been identified.
- 7.2 RS reported that the FRC has previously highlighted the need for additional disclosure on net debt and liquidity and that there is a wealth of evidence, including evidence gathered as part of the Financial Reporting Lab project on net debt reconciliations, that investors find such disclosures useful. Accordingly, the draft response supports the IASB in developing disclosure requirements in this area but, to assist the IASB in responding to the concerns that have been raised, suggests a number of improvements to the approach adopted.
- 7.3 The Council noted that neither the IASB Board or EFRAG Board have been able to reach a collective view on the proposals and that there is a concern that the project is deferred and considered as part of the performance reporting project or that the IASB discontinue its deliberations entirely.

7.4 The Council discussed the draft response in detail and a variety of views were expressed. Through discussion the following advice was given:

- The Council supported the proposal to encourage the IASB to continue its thinking in the area on the basis that there is evidence to support the need for information on the reconciliation of debt.
- The Council advised that text be inserted to encourage the IASB to focus on the objectives of the disclosures, which should be: 1) to provide users with a better explanation of the connection of the balance sheet and the cash flow statement and 2) provide users with a clear understanding of the movement of debt.
- The Council advised that the detailed suggestions in respect of the definition of debt should be taken out of the response and that the focus should be to encourage the IASB to give preparers flexibility in defining their debt and determining what disclosures they consider would present the information investors require in a meaningful way.
- The Council suggested that it would be beneficial if support could be gathered from investors outside of the UK to reinforce the demand for the development of disclosures in this area and therefore encourage the IASB to continue with its thinking in this area.
- The Council highlighted a number of concerns regarding the proposed disclosures on 'restrictions on the use of cash, cash equivalents and liquid resources'. The Council suggested that the IASB be encouraged to require qualitative descriptions of restrictions on cash and only provide quantitative data where there is an absolute bar on access to cash. The proposed changes to the taxonomy risk interpreting the proposed disclosure requirements.
- The Council noted that the IASB propose to amend the IFRS taxonomy simultaneously to making amendments to the standards and to consult on those proposed changes in each ED. The Council supported the view of the executive that this approach would be inefficient and agreed that it would be difficult to assess whether the proposed changes to the taxonomy are appropriate when they are reviewed in isolation. The Council agreed that the view could be strengthened if reference was made to the FRC's experience in taxonomies.

7.5 RS undertook to revise the draft response to reflect the advice given by the Council.

## **8. IASB Leases - Update**

8.1 Annette Davis (AD) introduced a paper summarising the purpose and current status of the IASB's leases project. AD reported that the IASB has almost concluded its redeliberations and expects to issue the Standard by the end of 2015. The Council were invited to comment on the direction of the project and the FRC's influencing activities in this area and noted that views would subsequently be sought from the Codes & Standards Committee and FRC Board.

8.2 The Council discussed three key areas, noting that the FRC had led influencing activities in those areas. Through discussion the following observations were made and views were expressed:

Due process

- 8.3 AD reported that the FRC had been successful in encouraging the IASB to improve its due process and that appropriate steps had been taken by the IASB.

#### Divergence between the IASB model and the FASB model

- 8.4 The Council was unable to reach a clear consensus as to which model the FRC should support and there was a clear division between investor and non-preparer members who were in favour of the IASB model and the preparer members who were in favour of the FASB model. The Council suggested that the FRC should continue to influence the development of the standard.

#### The scope of the standard and contracts for services

- 8.5 It was commented that service contracts continue to be an issue. The Council suggested that detailed testing and analysis of the boundary between what would and would not be classified as a service contract is required before a view could be reached as to whether the scope of the standard includes service contracts.
- 8.6 The Council noted that the proposals had been considered by the EFRAG Board from a public good perspective and had identified concerns in respect the impact the proposals could potentially have on entities debt and bank covenants.
- 8.7 The Council highlighted the importance of continuing to monitor and influence the finalisation of the standard and noted that routine updates would be brought to the Council for consideration.

## **9. AOB**

- 9.1 The Council noted that the March Council meeting had been cancelled and that the next meeting would be on 16 April 2015.