Financial Reporting Council

Minutes of a meeting of the Corporate Reporting Council of the FRC held on Thursday 9 February 2017 at the FRC, 8th Floor, 125 London Wall, London EC2Y 5AS

Present:

Paul Druckman	Chairman
Michael-John Albert	Member
Richard Barker	Member
Chris Buckley	Member
Michael Gallagher	Member
Sian Morgan	Member
Liz Murrall	Member
Veronica Poole	Member
Mark Smith	Member
Jeremy Townsend	Member

Observers:
Michael Kavanagh (IAASA)
Lee Piller (FCA)
Alison Ring (HMRC)

In attendance:

Anthony Appleton	Director, Accounting & Reporting Policy (AA)
Mei Ashelford	Project Director, Accounting & Reporting Policy Team (MA)
Anu Bhartiya	Committee Secretary, Corporate Reporting Council (AB)
Jenny Carter	Director of UK Accounting Standards, Accounting & Reporting Policy Team (JC)
Debbie Crawshawe	Project Director, Accounting & Reporting Policy Team (DC)
Annette Davis	Project Director, Accounting & Reporting Policy Team (AD)
Paul George	Executive Director, Corporate Governance & Reporting (PG)
Deepa Raval	Project Director, Accounting & Reporting Policy Team (DR)
Susanne Pust Shah	Project Director, Accounting & Reporting Policy Team (SPS)

Welcome and apologies for absence

The Chairman welcomed everyone to the meeting. Apologies were noted from Roger Marshall and Vicky Rock (HMT).

1. Minutes of the previous meetings and rolling actions

The Council approved the minutes of the meeting held on 15 December 2016 for publication, subject to minor amendments. The Council also approved the minutes of the Conference Call meeting held on 17 January 2017 for publication. The matters arising log was noted.

2. Director of Accounting and Reporting Report

Anthony Appleton (AA) introduced his report. The discussion included the following reports, points and observations:

- IFRS 9 *Financial Instruments: Symmetric Prepayment Options* – It is expected that the Exposure Draft will be published in April 2017 with a short consultation period and FRC will be responding to it.
- Endorsement process of the IASB amendment *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)* – The Accounting

Regulatory Committee (ARC) discussed EFRAG's Endorsement Advice on the amendment on 31 January.

- IFRS 16 *Leases* – EFRAG are in the process of finalising its advice following the issue of its Preliminary Consultation Document. FRC had supported EFRAG's preliminary view that IFRS 16 meets the technical criteria in the IAS Regulation. A further short public consultation is planned in mid-February with EFRAG's conclusions on whether IFRS 16 is conducive to the European public good. FRC will be responding to this further consultation and the response would be circulated to the Council by email.
- Phil Aspin has stepped down as a member of EFRAG TEG but will continue to contribute to EFRAG's work on rate-regulated activities.
- FRS 103 *Insurance Contracts* – With regards to the change in law requiring insurers to have regard to the actuarial principles of Solvency II in determining their long-term provisions, a letter from BEIS is expected imminently which will clarify that this does not require a change in accounting policies.
- Council's Advice to the FRC Board as appended to FRSs– Following the Council's discussion on 17 January, the Codes & Standards Committee had a preliminary discussion and recognised the merits of reformulating the Council's Advice appended to an FRS as a Basis for Conclusions. The first opportunity to do this will be when the next revision to FRS 102 is finalised. The Council's Advice on amending a standard will then be provided directly to the FRC Board, consistent with that of other Councils. The Members supported the idea.
- The Financial Reporting Lab's Clear & Concise case study report on WM Morrison Supermarkets PLC – The Chairman commented that it was interesting to note how transparent reporting and disclosure on emergent issues evolving over time translates into investors' positive confidence in the company.

3. Director of Research Report

In absence of Andrew Lennard (AL), Director of Research, AA gave an update including:

- FRC open consultation on *Improving the Statement of Cash Flows* – The consultation period has been extended to 31 March 2017.
- IASB *Conceptual Framework* – Re-deliberations on revisions to the *Conceptual Framework* look likely to lead to further improvements in the text. The revised *Framework* is expected to be published in the second half of 2017.
- Multilateral Network Group – The FRC will be hosting the next meeting in June. The agenda may include papers on accounting for pension schemes, discounting, the triennial review of UK GAAP and the international organisation of standard-setting.

4. FRED 67: Triennial Review – Incremental improvements and clarifications

4.1 Jenny Carter (JC) introduced the item highlighting that feedback had been obtained from UK GAAP TAG members on a number of proposals and that the paper presented to the Council addresses a few final issues in order that the Council is able to provide its advice to the FRC to issue FRED 67. JC confirmed that this will lead to incremental improvements and clarifications to FRS 102 and a short paper highlighting the changes will be issued for stakeholders to help to get the key messages across.

Section 7 – statement of cash flows

4.2 JC noted that the research project on improving the statement of cash flows was still ongoing. Comments on the Discussion Paper are requested by 31 March 2017. It identified a number of ways in which the cash flow statement could be improved which could be equally applicable to FRS 102 as to IAS 7 *Statement of Cash Flows*.

4.3 The Members suggested that if substantive changes were required from the ongoing Discussion Paper, then those changes would require consultation and therefore suggested not to reference that consultation at this stage.

Section 9 – investment entity exemption

4.4 It had been suggested that, in order to minimise the scope for inappropriate use of the investment entity exemption, the Council's Advice might draw attention to the origin of this exemption.

4.5 The Members advised that as the rationale for the underlying treatment had not changed no further discussion in the Council's Advice was necessary.

Section 11 – introductory paragraph

4.6 JC highlighted that the proposed introductory paragraph discussed at an earlier meeting was duplicative of paragraph 11.1, which sets out the scope of Section 11. A Member of the Council remarked that Section 11 was rather complex and an introduction in simple words could have made it more accessible. However, the Members supported not having an introductory paragraph and noted that paragraph 11.9A may also be helpful in this regard.

Section 11 – investment in shares

4.7 JC highlighted the replacement of a reference to certain shares by their legal name to a definition based on the equity/liability distinction will result in shares that are in substance basic financial instrument liabilities being measured at amortised cost rather than fair value. This corrects the anomaly in FRS 102 that currently requires an issuer to account for them on the basis of their substance whilst investors' accounting is driven by their legal form. The Members were supportive of this change.

Section 11 – classification of financial instruments

4.8 These paragraphs had been redrafted so that an entity first considers the detailed conditions in paragraph 11.9. If a financial instrument meets these conditions there is no need to look further. If it doesn't meet the conditions, it can then be assessed against the description in new paragraph 11.9A to determine whether it might nevertheless be basic.

4.9 The Members suggested that JC reviews the Council's Advice to ensure that it is clear that preparers should consider the conditions before the description, in order to avoid any confusion.

Section 11 – housing loans with two-way compensation clauses

4.10 JC reported that there was ongoing work by the IASB on *Symmetric Prepayment Options* and during the time when FRED 67 will be out for consultation, the Exposure Draft from the IASB would be issued. The current draft of the Council's Advice makes reference to it being possible to take account of the IASB's thinking when finalising the amendments to FRS 102, i.e. after the FRED 67 consultation. The Members advised retaining the discussion on the issue of two-way compensation clauses in the Council's advice.

Section 18 – intangible assets acquired in a business combination

4.11 JC reported that the Council's Advice has been redrafted to make clear that the provision of flexibility to separate specific additional intangible assets in a business combination can be done on an asset-by-asset basis.

4.12 The Members had a detailed discussion about whether this was a pragmatic solution or whether there was a need for a consistent approach to be applied to all subsequent business combinations. The Members debated how acquisitions of various classes could be treated. The Members advised that if intangible assets are recognised beyond those that the revised standard will require, all other intangible assets of the same class (that have been acquired in a business combination) should be recognised, and that there should be no retrospective changes to those previously recognised on first time application of the revised standard. It was suggested and supported by the Members that the rationale of this provision be explained in the Council's Advice and if there are concerns, it will emerge from the responses to FRED 67.

Section 33 – key management personnel compensation

4.13 JC explained the proposal to provide an exemption from disclosure of total key management personnel compensation for those entities that are already required to disclose directors' remuneration by law (or other regulatory requirement) if there is no significant difference in amounts to be disclosed as directors' emoluments and as key management personnel compensation.

4.14 The Members discussed the proposal and noted the need for transparency of information whilst not duplicating the legal requirements with extra disclosures. The Members advised that an exemption be given when the key management personnel and the directors whose remuneration is subject to the statutory disclosure are the same individuals.

Glossary – definition of a group reconstruction

4.15 The Members advised that the proposed amendment to the definition of a group reconstruction should be made.

4.16 The Members advised that the transitional provisions should be available as proposed in the paper, subject to no previously separated intangible assets being subsumed within goodwill.

4.17 JC informed the Council that any significant amendment to FRED 67 after this meeting will be discussed with the Executive Director, Corporate Governance and Reporting and the Chairman of the Corporate Reporting Council.

4.18 Subject to the above, the Members agreed to provide its advice to the FRC Board that FRED 67 should be issued for consultation.

5. IASB Exposure Draft ED/2017/1 *Annual Improvements to IFRS Standards 2016–2017 Cycle*

The Council discussed a paper that provided an analysis of the IASB Exposure Draft ED/2017/1 *Annual Improvement to IFRS Standards 2015–2017 Cycle*. The three proposed amendments are:

- IAS 12 *Income Taxes* – The Exposure Draft proposes to clarify paragraph 52B of IAS 12 on the presentation of income tax consequences of dividends. EFRAG's draft comment letter which agrees with this proposal, was discussed at the TEG meeting in January. The Council supported the FRC's draft response to the amendment.
- IAS 23 *Borrowing Costs* – The Exposure Draft proposes to clarify that when a qualifying asset is ready for its intended use or sale, an entity treats any outstanding borrowing made specifically to obtain that qualifying asset as part of the funds that it has borrowed generally. EFRAG's draft comment letter agrees with this proposal and the TEG had also agreed with the view that it will reduce diversity in practice. The Council supported the FRC's draft response to the amendment.
- IAS 28 *Investments in Associates and Joint Ventures* – The Exposure Draft proposes to clarify that an entity is required to apply IFRS 9, including its impairment requirements, to long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendment is proposed to apply from 1 January 2018 so as to have the same effective date as IFRS 9. EFRAG's draft comment letter generally agrees with this proposal and the FRC supports the proposed amendment as it will reduce diversity in practice. However, it is believed to be helpful for the IASB to include an illustrative example for of the proposed amendment. The Council supported the FRC's draft response to the amendment.

6. Response to Task Force on Climate-related Financial Disclosures Recommendations

6.1 In the absence of Rosalind Szentpeteri, Project Director, AA introduced a suite of papers on the Phase II consultation of The Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD).

6.2 He provided an overview of how climate change is an increasingly important issue to stakeholders including many investors, and that it is important that the FRC's response is balanced, recognising the importance of the issue the TCFD is addressing whilst arguing for a proportionate and company specific response. The FRC's draft response broadly supports the TCFD's aim, whilst emphasising that the annual report must remain fair, balanced and understandable and the recommendations should be scalable and proportionate with appropriate emphasis on the application of materiality. The TCFD's intention for a gradual implementation process and incremental improvements in disclosure to take place over a number of years should be clearly communicated. Through discussion, Council Members made a number of comments and observations in respect of the TCFD's recommendations and FRC's response including:

- The recommendations would arguably be excessive and onerous for certain companies or lead to unbalanced corporate reporting.
- Key question for the businesses is to understand who its primary stakeholders are and how relevant the TCFD disclosures are to those stakeholders.
- Materiality, weighing the balance of costs and benefits should be the key principles while communicating with the stakeholders.
- Whilst many of the fundamental principles of effective disclosure are substantially aligned to the communication principles in the *FRC's Guidance on the Strategic Report*, they do not include an explicit materiality filter nor is the application of materiality sufficiently emphasised in the consultation documents.
- In making disclosures, the businesses should assess whether the climate related risk is a principal risk to the business, ensure disclosures are relevant and material and establish the medium of disclosure which could be within the Annual Report, a Corporate Social Responsibility Report or elsewhere.
- The importance placed on scenario analysis to be subject to considerations of proportionality.

6.3 The Members supported the FRC's general response in principle and in the light of the above discussion, AA agreed to review the response and circulate the final version to Council Members once submitted which would be after review by the Executive Director.

7. Council Effectiveness Review

7.1 The Chairman gave an update on this paper and highlighted the positive comments that were received in respect of Roger Marshall's chairmanship. He informed that the details of some comments were worth highlighting and were missing in the report. The document will be revised and submitted to the Codes & Standards Committee for noting and then to the Board for review.

8. Any other business

There was none.

9. Date of next meeting

27 April 2017 at 9am.