Financial Reporting Council

Minutes of a meeting of the Corporate Reporting Council
held on 22 June 2017 in the Dearing Room, 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 (from Minute 1 to 10.2)
Liz Murrall	Member
Veronica Poole	Member
Mark Smith	Member

Observers:
Seema Jamil-O'Neill (BEIS) – from Minute 10
Alison Ring (HMRC)
Vikki Lewis (HMT) – in place of Vicky Rock
Trevor Rushe (IAASA)

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
Jennifer Guest	Project Director
Andrew Lennard	Director of Research
Deepa Raval	Project Director

1. Welcome and apologies for absence

The Chairman welcomed everyone to the meeting. Apologies were noted from Council Members Roger Marshall and Jeremy Townsend and the FCA Observer Lee Piller. It was reported that Seema Jamil-O'Neill will be joining the meetings as BEIS Observer. Vikki Lewis was attending the meeting in place of Vicky Rock. Trevor Rushe will be attending the meetings as IAASA Observer until a replacement is found for Michael Kavanagh. The Chairman informed that Jeremy Townsend's first term comes to an end on 30 June 2017. Due to business commitments, Jeremy has decided to step down from the Council and a recruitment process will be undertaken to fulfil the vacancy created by him.

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 25 May 2017

3.1 The minutes of the Corporate Reporting Council meeting held on 25 May 2017 were approved for publication.

Rolling actions

3.2 The matters arising log was noted. It was reported that the FRC Risk Register would be presented to the Council at a future meeting.

4. Chairman's update

The Chairman reported that the Board had not met since the last Council meeting. The Codes & Standards Committee had met on 21 June and amongst other matters had discussed the following:

- Update to the Guidance on the Strategic Report
- Post-Brexit process for adoption of IFRS
- Developments in Audit Report 2016-17
- The Executive Director's Report included approval of the continuation of working groups established under Councils and reappointment of members on Councils
- Update on Corporate Governance Reform and Stewardship Code – Tier 3
- Horizon scanning – the impact of technology on FRC's work
- Approval of the recommendations relating to Triennial review – Approach to IFRS, FRS 101 Review – 2016/17 cycle and SORPs
- Approval of the Audit & Assurance projects

5. Director of Accounting and Reporting Report

5.1 Anthony Appleton (AA) introduced his report highlighting the outreach event on Principles of Disclosure Discussion Paper which will be hosted jointly with EFRAG on 4 July 2017. Member of the IASB board will be present at the event. The Council Members were invited to attend it.

5.2 In response to a query relating to the next steps for the Digital Reporting, it was agreed that a presentation from the Lab Team would be helpful. The Council discussed the use of the XBRL Taxonomy for tax and Companies House purposes.

5.3 The Council also discussed the launch of European Single Electronic Format (ESEF) draft Taxonomy by ESMA. The ESEF mandate covers the consolidated financial statements of listed companies that are prepared using EU-adopted IFRS.

6. Director of Research Report

6.1 Andrew Lennard (AL) reported that the Corporate Reporting Council's Academic Panel will next meet on 8 November 2017. The Members were invited to send him suggestions for the agenda.

6.2 AL further reported on the 'Reporting beyond the numbers: Rival perspectives' considered at the Annual Manchester Business School / LSE conference, held in Manchester on 12 June 2017. The event was themed on Integrated Reporting and Corporate Sustainability Reporting.

7. SORPs

FEHE SORP annual review

7.1 The Council noted the paper on the FEHE SORP annual review.

7.2 Following a query in relation to the transformation of some Sixth Form colleges into Academies and the applicability of relevant SORP to such bodies, AA agreed to explore with the Further and Higher Education SORP Board.

IA SORP annual review

7.3 Jennifer Guest (JG) provided a brief update on the paper highlighting the review carried out by The Investment Association in November 2016. The amendments to the SORP relate to changes previously made to FRS 102. The Council agreed to advise the Codes & Standards Committee to issue the FRC's statement on the amended IA SORP.

7.4 Following a query, AA agreed to provide a list of SORPs annual reviews considered by the Council since December 2016.

7.5 In response to a query whether it was necessary to receive an update from the SORP-making bodies if there were no significant changes, it was noted that the bodies are required to undertake an annual review as set out in the FRC's *Policy on Developing Statements of Recommended Practice (SORPs)* and annual contact with the bodies is a good policy which helps keep SORPs up-to-date.

7.6 It was further queried whether every SORP annual review should be reviewed by both the Council and the Codes & Standards Committee, the Secretary agreed to take this forward for consideration as part of the wider Governance Review.

8. Frequency of FRS 102 reviews

8.1 Mei Ashelford (MA) reminded the Council of its discussion at the April 2017 meeting in respect of the approach to updating UK GAAP for changes in IFRS. The main reason for recommending to move to a four year review is to allow more time for entities to implement the revised standard, so that the FRC could gather more meaningful and better quality evidence of any implementation issues. It is estimated that it takes on average 18 months to develop, consult and finalise any proposals and the FRC aims to allow a minimum of 12 months implementation period. With a three-year cycle this limited the practical experience of entities prior to asking them for feedback.

8.2 The Council noted FRC would continue to assess emerging implementation issues as they arise to determine how significant the issue is, and consequently how urgently it needs to be dealt with. Urgent issues can still be dealt with by amending the standard outside the review cycle, non-urgent issues can be held over until the next review.

8.3 The Council thoroughly discussed whether the review cycle should be tied to 4 years or the possibility of extending to a 5 year cycle. It was important to recognise stability and have time to address issues arising from the review. It was felt that 3 years was too short to have quality evidence of issues and 5 years would be a long time to let an issue continue. The Council acknowledged the process that when an issue is raised, the FRC assess the importance and urgency of the issue by considering how widespread its impact is and whether it creates significant diversity in practice, and, if deemed necessary, will take immediate action rather than waiting until the next review. It was agreed that it would be useful to receive a periodic update on implementation issues arising from the discussion with the UK GAAP TAG and other bodies. In the light of the discussion, the Council agreed to move to a four year review cycle for FRS 102 going forward.

8.4 It was also agreed that the FRC principles in relation to the issues arising from the implementation of FRS 102 revised standards as outlined in the above discussion would be reiterated in AA's report.

9. FRED 68 – Gift aid payments by subsidiaries

9.1 Jenny Carter (JC) provided a brief background of the differences arising in practice in relation to accounting for gift aid payments made by non-charitable subsidiaries to their charitable parents. In response to this issue, the Executive proposed to issue FRED 68 *Draft amendments to FRS 101 – Gift aid payment by subsidiaries to their charitable parents* to amend FRS 102 to achieve consistency in financial reporting on this issue and ensure that the resulting information is useful to users of financial statements.

9.2 The Council thoroughly discussed the options available to secure consistency and provide useful information, and the intention to address the issue as part of the ongoing triennial review. Through discussion, a number of comments and observations were made including:

- The gift aid payment is a donation for tax purposes. However, ICAEW had obtained legal advice that the gift aid payment is a distribution in company law, as it is a distribution of the company's assets to its members. Sufficient distributable profits must be available in order to make the gift aid payment.
- The proposed FRS 102 amendment was not necessary as a year-end liability could be created using a deed of covenant but, given the gift aid rules alleviated the need for a deed of covenant in order to get tax relief, it would recreate a burden for which relief has been previously given.
- Without amendment, it is believed by some charities and their advisors that FRS 102 does not permit an expected gift aid payment to be recognised until it is paid, which would then require the subsidiary to recognise a current tax liability.
- Different approaches are being adopted to the presentation of the expected gift aid payment; the debit may be shown as either an expense, other comprehensive income (expense) or as a deduction from equity. As a transaction with owners, it should be shown as a deduction from equity.
- The new PBE paragraph may only be applied by public benefit entities and, when specifically directed, entities within a public benefit entity group.

9.3 The Council gave due consideration to the mixed views in respect of the two options – amending FRS 102 or encouraging charities to use deed of covenant if they wish to have certainty on the recognition of a liability at the reporting date. The Council also discussed the option of issuing a consultation on the two options and after careful consideration agreed to discuss the option of using deed of covenant as a solution to address the issue with the Charity Commission, the Office of the Scottish Charity Regulator and other sectors contacts and interested parties.

10. Feedback Statement on the Discussion paper – Improving the Statement of Cash Flows

10.1 Annette Davis (AD) reminded the Council of the initial review of responses to the Discussion Paper. The Council noted in the Feedback Statement that it does not include the FRC's own views but simply reports the views of respondents.

10.2 The Council considered the contents of the Feedback Statement and the Letter to the Chairman of the IASB and suggested emphasizing in the letter, the overarching points that the FRC is supportive of. The letter could highlight the FRC's expectation on the actions required from the IASB. AD agreed to take the suggestions into consideration and review the papers.

11. IASB Discussion paper on Principles of Disclosure: Initial views

11.1. AA provided a brief update on the IASB Discussion Paper Disclosure Initiative – Principles of Disclosure highlighting the concerns that have been often raised on the quantity and quality of disclosures in IFRS financial statements. The FRC has long promoted the need for improvements in disclosures, both in terms of the requirements set and the practice of complying with them.

11.2 The Council considered the initial views as identified in the paper. A number of comments and observations were made including:

- There are problems in applying the standards when preparing financial statements which include difficulties in the application of judgement on what information to include and how to communicate it.

- The FRC places significant focus on the behaviours and judgement of the actors in the financial reporting process through the Clear and Concise initiative or by identifying the behavioural barriers to change in previous FRC Disclosure Framework papers.
- It was important to encourage consideration of how cross-referencing could be permitted so as to balance the ability for innovation in reporting models (e.g. through the use of new technologies) with retaining the integrity of the information (and assurance over it) as regulatory and assurance models can be developed.
- There should be development of non-mandatory communication principles which will re-inforce messages to preparers but they should be given a lower priority compared to the development of disclosure objectives and changes to existing disclosure requirements.
- Disclosure of accounting policies that are not significant is not required, but if it is disclosed, it can be done as a separate note or cross-reference to another source such as a company website.
- Disclosure objective should be linked to principles to determine when specific types of information should be required at the standard level.

11.3 AA agreed to take the Council's discussion into consideration in the development of the FRC's comment letter. The outreach event would take place on 4 July which will also inform the FRC's response. An update on the views expressed at the event and revised lines to take in the response will be presented at the July Council meeting and the draft response at the September meeting.

12. Strategic Report Guidance Update

12.1 The Chairman provided a brief update on the discussion at the Codes & Standards Committee on 21 June and noted that there was an agreement that the matters as set out in the paper should be in form of guidance. The Committee had felt that there may be different interpretations of the legal requirements relating to the new NFR regulations which would have impact on approach taken in updating the Guidance. The Strategic Report should not be a vehicle to disseminate all company information to shareholders. It was essential to signpost details of other information that was not material to other areas and keep the document cohesive and operative at strategic level. The Committee had suggested including visuals and diagrams in the Guidance to make it easy to understand.

12.2 The Council discussed the interpretation and the requirements of section 172 and the guidance in relation to 'value creation'. Various comments and suggestions were made including:

- One of the purposes of the Guidance is to enhance the linkage between section 172 and the strategic report and therefore 'suggested content elements' is proposed to be introduced.
- Examples are identified which are not required by law but may help a company to ensure that shareholders have information to help them assess how the directors have performed their duty under section 172.
- To support what is required and not required by law, the Guidance is well structured with bold text describing the main principles and content elements that form the basis of Guidance. There are references to legislative or other regulatory requirements in the footnote of the Guidance.
- The purpose of the strategic report was to provide information relevant to company's 'shareholder' and therefore it was suggested to review paragraphs relating to 'Value creation' which made reference to 'other stakeholders' in order to create value and how entity's business model translates into value creation for key stakeholder groups. It was noted that companies do not exist in isolation; they need to build and maintain relationships with a range of stakeholders in order to create and maintain value. The strategic report should provide information about the relationships that are important to the entity's ability and how those relationships are taken into account in directors'

decision making. This information will enable shareholders to understand the culture and purpose of the entity.

- The type and extent of disclosures will vary from company to company and from industry to industry.

12.3 The Council agreed to exchange their further views with Deepa Raval (DR) through email in respect of interpretation of the Guidance. DR agreed to take the Council's discussion into consideration in finalising the Exposure Draft.

12.4 The Chairman reported the positive comments received from the Codes & Standards Committee on the clarity of work produced in the proposed Guidance. He commended AA and his team for this achievement.

13. Post-Brexit Process for Adoption of IFRS

13.1 AA outlined the purpose of the paper which was to respond to BEIS's request to provide an analysis of FRC's current thinking on the process for endorsing IFRS in the UK post-Brexit.

13.2 The focus of the endorsement work should be during the development of the standard, with additional consultation in the UK to identify country specific issues. This would then be updated as the IASB re-deliberate and finalise the standard. There should be a presumption that UK will not alter the standard except in exceptional circumstances. The Council noted the options and the potential mechanisms for endorsement and the FRC's role in the process.

13.3 The Council discussed the characteristics of 'public good' and involvement of the FCA and the PRA / Bank of England in the endorsement process. Through discussion, various points relating to endorsement process were made including giving considerations to regulatory or other issues arising in the UK, whether the proposals are in the best interest of the UK economy and an assessment of costs and benefits of the proposals.

13.4 It was queried whether the Japanese model of voluntary adoption of IFRS as issued by the IASB could be adopted. It was clarified that the process might conflict with UK listing rules and it would be up to the UKLA to address this.

13.5 It was noted that the proposals as set out in the paper would evolve as the matter progresses further with BEIS.

14. Any other business

14.1 There was none.

15. Date of next meeting

18 July 2017 at 9am.