

Minutes of a meeting of the Accounting Council held on Thursday 24 March 2016 in the Boardroom at 8th Floor, 125 London Wall, London, EC2Y 5AS

PRESENT

Roger Marshall Chair
Chris Buckley
Michael Gallagher
Gunnar Miller
Liz Murrall
Mark Smith
Jeremy Townsend
Pauline Wallace

IN ATTENDANCE

Anthony Appleton	Director, Accounting and Reporting Policy
Mike Ashley	EFRAG Observer
Matt Blake	HMRC Observer
Lee Piller	FCA Observer
Melanie McLaren	Executive Director, Codes & Standards
Jenny Carter	Director of UK Accounting Standards, Accounting & Reporting Policy Team
Andrew Lennard	Director, Research
Seema Jamil-O'Neill	Project Director, Accounting & Reporting Policy Team
Deepa Raval	Project Director, Accounting & Reporting Policy Team
Trevor Rushe	IAASA Observer
Matthew Dent	Notetaker, Ubiquis

Apologies were noted from Richard Barker and Veronica Poole (Council Members)

1 Minutes of the last meeting of the Accounting Council on 25 February 2016 & rolling actions

- 1.1 The minutes of the meeting held on 25 February were approved for publication subject to the insertion of the word 'consider' at paragraph 2.6.
- 1.2 The rolling action log was noted. The Chairman suggested the Council should reconsider the start time of Council meetings.

2 Director Of Accounting Report

- 2.1 The Council noted a paper that 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:

EFRAG

- 2.2 Anthony Appleton (AA) reported that both the IASB and FASB Leases Standards had been issued. Whilst EFRAG had not yet received a formal request from the Commission to endorse its advice in respect of the standards, EFRAG, with input from its Technical

Experts Group (TEG) had begun its review. The Council noted that as part of the review EFRAG will look at the impact on small entities in Europe.

- 2.3 The Council noted that, at the TEG meeting on 24-25 February, there had been proactive considerations around dynamic risk management. AA reported that EFRAG staff intend to discuss interest rate risk management, in respect of core demand deposits and equity, with a number of European Banks. The Council noted there had also been discussions in respect of the endorsement advice for IAS 7 relating to net debt, and the transfer of investment property.

Draft LLP Regulations

- 2.4 The Council noted that the draft LLP regulations had been laid and it was expected that they would come into force in April or May.
- 2.5 It had been previously discussed that changes to FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* could be made without consultation, owing to the administrative nature of the changes. A draft of the amendments had been sent to UK GAAP TAG for drafting comments. Subsequently, they would be sent to the Council for its Advice, then to the Codes and Standards Committee and the Board, with approval taken offline.

UK GAAP Technical Advisory Group (UK GAAP TAG)

- 2.6 The Council approved the appointment of Miles Hedges (Finance Director, Open University) and Steve Collings (Director, LWA Ltd) to the Group.

Charity SORP

- 2.7 AA reported that there continues to be high profile press comments about charities and that the Charities SORP-making body is developing a high-level consultation on where further development of the Charities SORP might be needed. The Council noted that the consultation is expected in late spring / early summer and whilst it will not be an exposure draft that will require formal FRC approval, staff continue to monitor its development to ensure this continues to be the case. The SORP making body remain receptive to our comments and suggestions.

FRC matters

- 2.8 AA reported that the FRC had hosted a number of roundtables with investor groups and with preparers over the past two months. The Council noted that whilst interesting points had come out of all of the events, the views expressed were generally consistent with the FRC response to the BIS consultation and that views relating to deregulation would feed in to the FRC's work with BIS. AA reported that whilst moving to virtual AGMs had been mentioned on more than one occasion, this might be outside the FRC's scope.
- 2.9 The Council noted that the FRC's Guidance on the going concern basis of accounting and reporting on solvency and liquidity risk was well-progressed and would be published in early April.
- 2.10 The Council noted the report of the Codes & Standards Executive Director to the March meeting of the Codes & Standards Committee and received a verbal update on matters

considered by the Committee. The Council also received an update on matters under consideration, or recently considered, by the FRC Board. The Council noted that, whilst a number of changes to the executive structure of the FRC would take effect on 1 April, there would be minimal impact on the governance structure which would remain largely unchanged.

3 Director Of Research Report

3.1 The Council noted an update on accounting research activities covering the IASBs Conceptual Framework, the Multilateral Network Group's research on pension accounting, research on cash flow statements and the March meeting of the academic panel.

3.2 Andrew Lennard (AL) provided an oral update on the IASB Board's discussions of the consultation feedback. It was noted that:

- Further work is required in respect of the proposals for measurement and the P&L/OCI distinction.
- The Board had discussed pushback from respondents on the need for more on stewardship, prudence and reliability. The Board did not consider reliability to be a priority and the Board's position in respect of prudence is likely to remain.
- There is limited progress on performance reporting
- Respondents did not express a huge demand to define profit and loss, or performance, etc.
- A revised Framework is expected in early 2017.

4 Responses to FRED 64 Amendments to FRS 103 – Solvency II

4.1 Jenny Carter (JC) introduced a paper summarising responses to FRED 64 *Draft amendments to FRS 103 – Solvency II* and proposed amendments to those proposals. JC reported that the comment period had ended in February 2016, and the amendments are expected to be issued in May, being relevant to June year-ends. It was noted that a key objective of the proposed amendments is that entities would not be required to make changes to their accounting policies.

4.2 The Council noted that whilst all seven responses were supportive of the overall objectives two issues had been raised relating to new entrants and the updates to key definitions, which had been heavily based on the old regulatory regime.

4.3 JC reported that some respondents had queried whether the requirement set out in FRS 103 for new entrants, in setting accounting policies for the first time, to consider the requirements of Section 3 of FRS 102 in order to establish a benchmark still works effectively given that it is based on an outdated regulatory regime and with the introduction of Solvency II. The Council discussed the issue and possible approaches that could be taken to address the issue. The following observations were made:

- (i) It was suggested, and agreed, that risk margin should be added to the list of aspects of Solvency II that should not be reflected in financial reporting.
- (ii) JC noted that, following feedback from respondents, it was now proposed to make it clear that moving to accounting policies based on Solvency II was allowed, under the improvement option. The Council agreed.
- (iii) It was noted that IFRS 4 did not deal with new entrants in the same way as FRS 103, but set out basic criteria to take into account when setting policies.

4.4 The Council supported the proposal that the benchmark for new entrants should be either section 3 of FRS 103 or the relevant aspects of Solvency II.

4.5 JC reported that a number of respondents did not consider the approach to include principle-based definitions of 'established long term insurance business liability basis' and 'realistic value of liabilities', based on the text of the INSPRU, to be effective, suggesting that the terms were drafted broadly and used undefined terms which would result in a need for more guidance. The Council discussed the concerns that had been raised in respect of the matter and expressed the following views:

- (i) The proposal may not be an improvement. Either way it referred back to the old regulatory regime, but in practice, Section 3 remained primarily for new entrants.
- (ii) It was noted that, at present, INSPRU could be viewed as at any date.

The Council considered a number of approaches and advised that the previous definitions should be reinstated with a cross-reference to INSPRU as at 31 December 2015.

4.6 The Council noted the additional issues that had been raised and that the final proposed amendments would be brought to the April meeting.

5 UK GAAP Triennial Review – Principles

5.1 JC introduced a paper setting out a proposed approach to the triennial review of UK GAAP. JC reported that the paper had been developed in response to the discussion at the previous meeting when the Council had debated the scope of the triennial review and requested the opportunity to review the principles more fully.

5.2 JC invited the Council to consider the overriding objective and revised supporting principles. Through discussion the following observations were made and advice was given:

- (a) The Council reaffirmed its advice there should be no change to the overarching objective, of enabling users to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.
- (b) In respect of the revised supporting principles:
 - (i) It was noted that whilst the FRC does not define who the user of the information would be, as this has to be read in terms of the entity in question.
 - (ii) Whilst it was noted that accounting standards are always set within the context of company law it was suggested it would be useful to include a

reference that all standards are subject to an overriding requirement to comply with applicable law.

- (iii) In response to a query as to whether principle (a) should refer to stability, it was noted that principle (b) included balancing 'improvement through reflecting up-to-date thinking' (eg changes in IFRS) with stability.

5.3 The Council supported the proposed changes to the principles supporting the overriding objective.

5.4 JC reported that the meaning of public interest had been raised in the discussion the year before and that, whilst it is a matter of debate in many fora, there is no agreed definition. The Council discussed actions taken by the FRC regarding SORPs and public interest and noted that public interest should be taken into account on a case-by-case basis, with explanation provided where public interest was a factor. Following detailed discussion the Council confirmed its support for a list of potential indicators to be developed. It was suggested that, in developing the list the FRC should seek to bring together different elements of the FRC and have regard to developments at EFRAG. It was noted that the list would be brought to the Council for discussion in due course.

5.5 JC highlighted that the principles refer to an IFRS-based solution and that all changes to IFRS, not just the IFRS for SMEs, should be considered as a potential source of changes for FRS 102. JC reported that, in practice, changes to IFRS can be broken down in to three categories:

- (a) new standards that have been issued (or fundamental revisions of existing standards,
- (b) less significant amendments to existing standards; and
- (c) amendments to IFRS for SMEs.

and noted that changes that fall within the scope of (b) may represent improvements that should be made to FRS 102, when the underlying requirements of IFRS and FRS 102 are similar .

5.6 The Council discussed the matter in detail; it was noted that:

- (a) There is a need to be clear as to whether or not a change in IFRS represents a potential improvement to FRS 102.
- (b) Changes would need to be considered on a case by case basis.
- (c) The need for potential changes reflecting new IFRIC interpretations may vary, as FRS 102 is less prescriptive than IFRS, and in some cases has different requirements.

Following the changes made to the IFRS for SMEs in 2015 the FRC is not anticipating any further changes whilst carrying out the triennial review of FRS 102. The 2015 amendments will be considered to determine any potential improvements to FRS 102.

- (d) As set out in principle (b) there is a balance to be struck between improvements reflecting changes in IFRS and stability.

5.7 The Council continued to discuss application of the principles to the most significant changes in IFRS and expressed a desire to return to the topic at its next meeting before providing advice in respect of the initial conclusions.. The Council requested that a

significant amount of time be dedicated to this at the April meeting, in order to consider the individual proposals, including IFRS 3 *Business Combinations* (revised 2008), IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*.

- 5.8 The Council was reminded that on FRS 101, all of the new IFRSs and the disclosure requirements therein were considered as part of each annual review to determine whether disclosure exemptions should be provided.

6 IASB Project Update – Applying IFRS 9 with IFRS 4 (Insurance Contracts)

- 6.1 Seema Jamil-O'Neill (SJON) introduced a paper that provided an update on the IASB'S Insurance Contracts Project. SJON reported that the user feedback considered by the IASB at its March 2016 meeting provides an interesting contrast to the feedback received as formal responses to the IASB's ED; showing preparers at one end of the argument and the users at the other.

- 6.2 The Council noted the decisions taken by the IASB Board. Whilst it was noted that the IASB decision not to permit assessment of whether an entity qualified for the deferral approach below the reporting entity level would not be a significant issue in the UK SJON highlighted that the FRC response requested the IASB consider as it is likely to be significant for conglomerates located in other European countries.

- 6.3 The Council welcomed the paper.

7 Final guidance on going concern and risk

- 7.1 This item was not covered.

8 Any other business

- 8.1 AA reported that the Council's advice to the FRC in relation to FRS 103 had set out that the Memorandum of Understanding (MoU) between the Accounting Standards Board, the ABI and a number of the biggest insurers in respect of FRS 27 *Life Assurance* would be withdrawn and that a query had been received to ascertain whether in fact it had been withdrawn. The Council reaffirmed its view that the MoU should be withdrawn and advised that the process to confirm the withdrawal of the MoU should be agreed with the signatories.

- 8.2 The Chair noted that it was Ms McLaren's final meeting, and thanked her for her contribution.