Financial Reporting Council

**Minutes of a meeting of the Corporate Reporting Council held on 18 July 2017 in the FRC Boardroom, 8th Floor, 125 London Wall, London EC2Y 5AS**

Present:

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| Paul Druckman | Chairman |
| Michael-John Albert | Member |
| Michael Gallagher | Member |
| Roger Marshall | Member (from minute 1 to 11.1) |
| Liz Murrall | Member (via teleconference) |
| Veronica Poole | Member |

Observers:
Andrew Death (BEIS) – attending in place of Seema Jamil-O'Neill
Lee Piller (FCA) (from Minute 1 to 11.3)
Alison Ring (HMRC) (from Minute 1 to 10.1)
Vicky Rock (HMT)
Trevor Rushe (IAASA)

In attendance:

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| Anthony Appleton | Director, Accounting & Reporting Policy |
| David Andrews | Head of Delivery Unit |
| 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 |
| Susanne Pust Shah | Project Director |
| Deepa Raval | Project Director |

**1. Welcome and apologies for absence**

The Chairman welcomed everyone to the meeting. Apologies were noted from Richard Barker, Chris Buckley, Sian Morgan and Mark Smith.

**2. Declaration of conflicts of interests**

2.1 Roger Marshall and Paul Druckman declared their directorship of insurance companies and the related interest in the agenda item - IFRS 17 *Insurance Contracts*.

**3. Minutes and rolling actions**

*Minutes of the Corporate Reporting Council meeting held on 22 June 2017*

3.1 The minutes of the Corporate Reporting Council meeting held on 22 June 2017 were approved for publication.

*Rolling actions*

3.2 The matters arising log was noted.

**4. Chairman's update**

4.1 The Chairman reported that the Codes & Standards Committee had not met since the last meeting of the Corporate Reporting Council. He reported that the Board had met on 5 July 2017 and amongst other matters had discussed:

- The CEO Report – Update on Corporate Governance Reform
- The Chairman's agenda which included an update on the FRC Governance Review and proposals for the Board Strategy Away Day
- The new FRC mission
- The FRC's powers in relation to corporate governance
- The amendments to FRS 101 (2016/17 cycle) which were approved
- The Audit & Assurance Policy updates and the Report on the Developments in Audit 2016-17, which was approved

4.2 The Council briefly discussed the new FRC Mission, the main focus and prioritisation and the FRC's wider regulating responsibilities.

**5. Director of Accounting and Reporting Report**

5.1 Anthony Appleton (AA) introduced his report highlighting the key points of the recent developments in corporate and financial reporting. The update included:

- The ARC's vote for the endorsement of IFRS 16 *Leases* and *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4).*
- The views expressed at the outreach event, held in conjunction with EFRAG, on the IASB's Disclosure Initiative Discussion Paper which were broadly consistent with those expressed at the June Council meeting.
- ESMA has shared a draft of Q&As on the implementation of a European Single Electronic Format for listed company filings based on the IFRS Foundation's XBRL Taxonomy and due to be a requirement from 2020. A key concern has been the EC insistence that, under the Transparency Directive, this will be subject to audit. In conjunction with the Audit & Assurance Policy Team, FRC have expressed concerns about the requirement and the lack of clarity in the draft guidance.

5.2 AA reminded the Council of the proposal discussed at the June 2017 meeting in respect of addressing the emerging and urgent issue concerning gift aid payments made by subsidiaries to their charitable parents. The Council had advised undertaking further outreach in relation to this matter. However, AA proposed an alternative amendment highlighting an analogy with the accounting requirements for 'funding commitments' (e.g. donations). The Council considered the differences between a gift aid payment and a dividend and discussed whether a consultation should be issued based on the analogy with 'funding commitments'. In light of the fact that different charitable groups are adopting different accounting treatments, the Council agreed the proposal to develop a revised FRED 68 with a shortened consultation period in order to include changes in the December amendments.

5.3 In response to a query, AA clarified that the reference to IAS 12 and Brexit would not be included in the 2016/17 Annual Review of Corporate Reporting.

**6. The FRC's Corporate Reporting Research Activities: Feedback from Consultation and discussion of future directions**

6.1 Andrew Lennard (AL) provided an update on the responses to the Consultation Paper and recommendations for future work on research activities. Thirteen responses had been received to the Consultation Paper: this was in line with the specialised nature of the consultation. The Council considered the responses received and supported the view that the FRC should continue its Corporate Reporting Research Activities at approximately the current level. With regards to working with others, the Council was supportive that:

(i) The FRC should be alert for opportunities to discuss research topics as they progress with other standard-setters, including the IASB, at forums such as EFRAG, CFSS, IFASS and the Multilateral Network Group, and provide constructive input to research undertaken by others.

(ii) The FRC should be prepared to undertake research in partnership with other standard-setters, but should do so only where a project has clear leadership and a well-defined outcome.
(iii) The FRC should be alert to research initiatives by others, for example the professional bodies, and suggest that they should be encouraged to undertake research on topics that would be of interest to the FRC where they are better placed to do so than the FRC.

6.2 The Council discussed which new research projects that should be undertaken and supported research into intangible assets and variable and contingent consideration. The Council noted that the FRC was having discussions with the PRA on Financial Instruments: Disclosures. It was suggested that the ARP Team should be alert for opportunities to contribute to the FRC's work in investor communication outside the financial statements and reporting to other stakeholders and develop ideas for substantial improvements in these areas.

6.3 AL suggested that a number of academic research topics suitable for academia could be presented at the Corporate Reporting Council's Academic Panel meeting in November 2017 and their contributions could possibly be published on the FRC website.

**7. Amendment to Strategic Report Guidance (Non-Financial Reporting) – Final Exposure Draft**

7.1 Debbie Crawshawe (DC) provided a brief update on the changes incorporated in the document since the last Council meeting and the members' views exchanged via email. The Council Advice presented with the papers aims to reflect the discussion held at various Council meetings. It was noted that the Advice was on the amendments only but when the final document is issued, it will be incorporated into the existing advice and presented as a basis for conclusion.

7.2 It was reported that since the Council meeting in June 2017, the Commission had published its Guidelines on non-financial reporting, which takes a position that is more stakeholder focused than the position adopted in the UK.

7.3 The Council considered the Guidance on the Strategic Report and made various points and suggestions including:

- That the Guidance is intended to illustrate and promote best practice reporting and the Corporate Reporting Council believes that entities should be 'encouraged' to take account of the principles set out therein.
- It is important for the guidance to 'encourage' entities to think more broadly about their relationships with other stakeholders and how the entity's activities result in both costs and benefits for them and society in general.
- The draft amendments should be drafted with the aim of helping entities implement the NFR regulations in a manner that ensures that the strategic report remains a cohesive and coherent document.
- In order to avoid boiler plate reporting on resource distribution statement and value generation statement, it was suggested reviewing the guidance and encouraging entities to think about the impact of its activities on different stakeholders.

7.4 The Council discussed the intended audience of the strategic report and implications on materiality. It was noted that the strategic report should contain only information that is material to shareholders. Sometimes, company's shareholder base will comprise of groups with different needs and interests including investors; the needs of all significant shareholder groups should be considered when determining if a matter is material. It was agreed that the view stated in point (xii) on page 103 of the paper should be consistently used in positioning the audience of the strategic report.

7.5 DC agreed to take the above discussion into consideration in finalising the Exposure Draft, which would be subject to review by the Executive Director.

**8. FRED 67: Initial review of responses to triennial Review**

8.1 Jenny Carter (JC) provided a brief overview of the responses to the triennial review on FRED 67 *Draft amendments to FRS 102 – Incremental improvements and clarifications.* The following was noted:

- 35 responses were received, plus feedback from outreach events.
- Respondents agreed with focusing on incremental improvements and clarifications at this stage.
- Respondents continue to be supportive of the need for improvements and addressing known issues and simplifications.
- Many respondents reiterated their view that now is not the right time to make major changes to FRS 102 for consistency with recently issued IFRS. Most respondents had submitted their comments before the FRC's feedback statement confirming that amendments for IFRS 9, IFRS 15 and IFRS 16 had been deferred.

*Directors' Loans*

8.2 FRED 67 had proposed that a basic financial liability of a small entity that is a loan from a director who is a natural person and a shareholder in the small entity can be accounted for at transaction price, rather than present value using an estimate of the market rate of interest for a similar loan.

8.3 The Council gave due consideration to the respondents' comments and supported the initial thoughts for taking them forward as below:

- Any exemption should be limited to small entities.
- There should be no exemptions for loans made by small companies, including intragroup and loans to directors or shareholders.
- An equivalent exemption should be available for small LLPs.
- Further consideration needs to be given to issues around shareholders that are not directors and directors that are not shareholders.
- Transitional provisions should be provided for companies moving from small to medium-sized, but not the other way round.

*Classification of financial instruments*

8.4 FRED 67 had proposed to widen the scope of financial instruments that are considered basic (and therefore usually measured at amortised cost) by inserting a new paragraph into Section 11 *Basic financial instruments*, immediately after the conditions for a basic debt instrument, giving a principle-based description of a basic financial instrument. The Council advised continuing with the proposed principle-based description of a basic financial instrument, subject to drafting improvements.

*Definition of a financial institution*

8.5 FRED 67 had proposed that the definition of a financial institution should be amended, by simplifying the catch-all at the end of the definition so that it simply refers to entities similar to banks, building societies, credit unions, insurers etc. Retirement benefit plans were also deleted, but this has no practical effect on the financial reporting by retirement benefit plans.

8.6 The Council considered the respondents' comments and supported the view that stockbrokers should be removed from the list of financial institutions. The Council also supported the view that providing further guidance on the interpretation of 'similar' would help ensure appropriate entities are brought within the definition of a financial institution.

*Undue cost or effort*

8.7 FRED 67 had proposed to remove all three existing instances of ‘undue cost or effort’ exemptions from FRS 102. The Council supported the view that ‘undue cost or effort’ should not be retained as a concept in FRS 102, but proportionate and cost-effective accounting requirements / solutions should continue to be provided.

*Investment property rented to another group entity*

8.8 FRED 67 had proposed to remove the undue cost or effort exemption relating to investment property and replace it with an accounting policy choice for property rented to another group entity (fair value or cost less depreciation and impairment). All other investment property would be measured at fair value. The Council gave due consideration to respondents’ comments and the reasons as to why relaxations should not be available. The Council supported the proposal to permit an accounting policy choice for investment property rented to another group entity and all other investment property to be measured at fair value.

*Intangible assets acquired in a business combination*

8.9 FRED 67 had proposed amending the requirements for separating intangible assets in a business combination to delete the reference to ‘immeasurable variables’ and limit the intangible assets to be separated to those that are separable and arise from legal or contractual rights. An option was also proposed to permit an entity to recognise more intangible assets if they chose to, provided it was applied consistently to that class of intangible assets.

8.10 The Council gave due consideration to the respondents’ comments and supported the view of providing a list of examples of intangible assets that should be separated from goodwill, and being clearer about how the option to separate more intangible assets should be applied to prior and future business combinations.

*Identification of other issues*

8.11 JC provided a brief update on issues other than the principal changes proposed in FRED 67 as set out in the paper.

**9. Response to IASB ED/2017/2 Improvements to IFRS 8 *Operating Segments***

9.1 Annette Davis (AD) provided a brief update on the draft FRC comment letter responding to the IASB’s Exposure Draft in relation to ED/2017/2 *Improvements to IFRS 8 Operating Segments (Proposed amendments to IFRS 8 and IAS 34)*. The Council noted the comments in the letter in respect of the proposal to clarify the determination of the chief operating decision maker (CODM) and the proposal to include a requirement for entities to explain why segments identified in the financial statements differ from segments identified elsewhere.

9.2 The Council discussed the IASB’s Exposure Draft ED/2017/2, the EFRAG’s draft response to the IASB’s Exposure Draft and the FRC’s draft response to the IASB’s Exposure Draft. The discussion included the following observations and suggestions:

- The IASB is proposing to clarify that a group of people can be identified as CODM even if it includes members who do not participate in all decisions made by the group, e.g. non-executive directors on a Board of Director. In the UK this has not been an issue and many companies consider that the Board is the CODM by applying the existing requirements of IFRS 8.
- It is not clear whether the role of the CODM includes making strategic decisions which is implied by retaining the phrase ‘decisions about allocating resources’.
- The comparison of segments between the financial statements and the ‘annual reporting package’ is too broad. Other sources of information may include responsibilities of other regulatory authorities, and are not under the control of an entity.

- Consideration should be given to limiting the disclosure of differences in the disclosure of segments to the annual report as it usually has a similar purpose to that of the financial statements.
- Reconciliation should be prepared segment-by-segment basis and there should be sufficient explanation to describe the reconciling items to enable users of the financial statements to understand the nature of reconciling items.

9.3 The Council supported the views presented in the draft responses to the IASB's Exposure Draft.

**10. IFRS 17 *Insurance Contracts***

10.1 Susan Pust Shah (SPS) introduced a presentation on some of the key aspects of the IFRS 17 *Insurance Contracts* which covered the following points:

- Types of common insurance policies
- Measurement of an insurance contract and what it incorporates – future cash flows, discounting, risk adjustment
- Measurement of an insurance contract – fulfilment cash flows, Contractual Service Margin
- Premium allocation approach which included initial recognition and subsequent measurement
- Variable fee approach

10.2 The Council found the presentation very useful and suggested providing a further session for more understanding.

**11. Preliminary Earnings Announcements**

11.1. Jennifer Guest (JG) outlined the initial overview of the responses to the Audit Policy Discussion Paper on Preliminary Earnings Announcements as set out in paragraph 2.1 of the paper.

11.2 The Council noted that the Audit Policy Team would prepare a detailed analysis of the responses to the Discussion paper which will be considered at the Audit & Assurance Council meeting in September 2017. The Corporate Reporting Council would be informed of any conclusion or next steps which may be considered by the Audit & Assurance Council.

11.3 The Council also noted that the CFIE project, which is FRC sponsored research work to identify whether there are concerns about the tone, content and style of preliminary reports, has provided an update which has taken account of the suggestions to modify the parameters to their programme. The Council considered the feedback that the FRC intend to provide to the CFIE project and were supportive of the points listed in paragraph 3.4 the paper.

**12. FRC Risk Perspective**

12.1 David Andrews (DA) provided a high level summary of the FRC Risk Perspective. The FRC Risk Management framework is based on a Risk Register that identifies a small number of Principal Risks that are kept under review by the Board and published in the FRC Annual Report. The Register also identifies, in relation to corporate reporting, a number of other risks as set out in Appendix 1 of the paper. Input to the Risk Register is received from the FRC Board and the ExCo and monitored by the Audit Committee.

12.2 The Council discussed if there were any additional significant risks in relation to corporate reporting that should be included in the analysis of Principal Risks or any other risks that should be considered for inclusion in the Risk Register. The discussion included the following comments and observations:

- The post Brexit governance arrangements within FRC to ensure the ability to endorse and adopt IFRS.
- FRC's role, remit and powers in respect of promoting and ensuring integrity of people in business as well as the integrity of profession as a whole.

**13. Any other business**

13.1 The Chairman informed the Council that a recruitment exercise will take place to replace Jeremy Townsend. The advertisement will be published on the FRC and other social media sites and the Secretary agreed to share the links with Council when published.

**14. Date of next meeting**

5 September 2017 at 9am.