



ACCOUNTING COUNCIL

**Minutes of the Fifth Meeting of the Accounting Council (2012:05)
held on 25 October 2012 at Aldwych House, 71-91 Aldwych, London, WC2**

PRESENT

Roger Marshall	Chairman
Nick Anderson	
Richard Barker	
Edward Beale	
Peter Elwin	
Andy Simmonds	
Pauline Wallace	

IN ATTENDANCE

Françoise Flores	EFRAG Chair
Melanie McLaren	Executive Director, Codes and Standards
Simon Peerless	Minutes Secretary

Technical Staff: Mei Ashelford, Jenny Carter, Jennifer Guest, Seema Jamil-O'Neill, Susanne Pust Shah, Deepa Raval, Joanna Spencer.

Apologies were received from Ken Lever and Robert Overend.
Mike Ashley, the TEG Observer, had submitted written comments.

1 MINUTES

- 1.1 The minutes of the meeting held on 4 October 2012 (2012:04) were agreed and approved for publication (paper 1A).

2 DIRECTOR OF ACCOUNTING REPORT

- 2.1 The Council received a report from the Director of Accounting and noted developments relating to the IASB, EFRAG and the European Commission.

3 DIRECTOR OF RESEARCH REPORT

- 3.1 The Council received a report from the Director of Research and noted:
- a. proposals for engagement with the IASB's conceptual framework project; and
 - b. IASB's proposals for a dedicated research capacity.

4 FUTURE OF FINANCIAL REPORTING IN THE UK AND ROI

- 4.1 The Council resumed its re-deliberation of draft standards FRS 100 'Application of Financial Reporting Requirements', FRS 101 'Reduced Disclosure Framework' and

FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

- 4.2 The Council considered drafting suggestions on the text of draft standard FRS 101 and agreed revised drafting of certain paragraphs.
- 4.3 The Council noted progress on the revision of the Accounting Directives and the recent amendments to the draft Directives approved by the European Parliament Legal Affairs Committee relating to restrictions on the use of fair values and merger accounting. The Council agreed not to amend FRSs 100, 101 and 102 at present, even though these might require further amendment if the Directive was issued as currently drafted. The Council also agreed to lobby the European Commission, members of the European Parliament and others to seek to reverse these amendments.
- 4.4 The Council considered the measurement of agricultural produce. The Council tentatively decided to recommend to the FRC that FRS 102 should allow an accounting policy choice for measurement of harvested produce between a cost basis and fair value.
- 4.5 The Council considered amendments to FRS 102 relating to financial instruments. The Council tentatively agreed to recommend to the FRC that no changes be made to the amendments previously agreed relating to the fair value option, nor to the derecognition criteria for financial instruments that were set out in FRED 48. The Council also tentatively agreed to recommend to the FRC that financial guarantee contracts should be treated as provisions rather than measured at fair value, and that disclosure should be required even where the likelihood of a liability arising was considered remote.
- 4.6 The Council considered its Advice to the FRC on FRS 100 and FRS 101 and the possible draft dissenting advice of one Council member. The Council agreed that although the quantity of formal input from users to the consultation had been disappointing, sufficient outreach activities had been undertaken to enable the Council to reach valid conclusions on which to base the recommendation to the FRC to issue these FRSs. The Council unanimously approved its Advice to the FRC on FRS 100 and FRS 101.

5 EU ACCOUNTING DIRECTIVES

- 5.1 The Council received a report on the progress on the amendment of the EU Accounting Directives.

6 FRC POLICY TOWARDS IFRS

- 6.1 The Council considered a draft paper on the FRC's proposed strategy on the future of IFRS and influencing the IASB.
- 6.2 The Council agreed to advise the FRC that it should seek to provide evidence-based suggestions to the IASB, and that the high quality of accounting standards, timeliness of addressing issues and global convergence are all equally important objectives. Where a balance needed to be struck between them, convergence should not be given priority. The Council also suggested that a 'user/outreach' box should be added to the table detailing how the FRC influences the IASB.

7 CURRENT AND FUTURE RESEARCH PROJECTS

7.1 The Council received an update on the research projects currently being carried out or planned for the near future.

7.2 The Council agreed that projects on intangibles and the conceptual framework, particularly in relation to stewardship and measurement, should be given priority. The Council also agreed that the research programme should be more closely aligned with the FRC's objectives of influencing the IASB.

8 FINANCIAL INSTRUMENTS

8.1 The Chairman welcomed Françoise Flores to the meeting.

8.2 The Council received an update on recent developments on financial instruments, including the progress on the IASB's project to develop IFRS 9, including classification and measurement, impairment and bifurcation of embedded derivatives, and recent UK developments relating to financial reporting by banks.

8.3 The Council considered a draft paper setting out issues relating to accounting for financial instruments with embedded derivatives, and a proposed EFRAG questionnaire on bifurcation of financial assets.

8.4 The Council agreed that information from banks and other entities on the financial effects of the proposed change in accounting was likely to be more useful than further views on alternative solutions, but this information might be commercially sensitive and discussions were needed to determine the best acceptable way forward.

9 HEDGE ACCOUNTING

9.1 The Council noted an update on the IASB's general hedge accounting review draft and agreed to consider this topic further at a future meeting.

10 IASB REVIEW OF THE IFRS FOR SMEs

10.1 The Council considered the IASB's Comprehensive Review of the IFRS for SMEs.

10.2 The Council expressed the view that:

- a. there should be no presumption that a change in IFRS should be reflected in a subsequent change to the IFRS for SMEs;
- b. a change in an IFRS should be an indicator for considering a similar change to the IFRS for SMEs; evidence of user needs would be another such indicator;
- c. the IASB also needed to take account of the needs of the SME community and the resources available to SMEs; and
- d. the IASB should develop principles for deciding when it was appropriate to make a change to the IFRS for SMEs, and should consult on these.

10.3 The Council asked for these views to be taken into account in the FRC's response to the IASB.

11 IFRS 8 'OPERATING SEGMENTS' – REQUEST FOR INFORMATION

11.1 The Council noted the key messages staff proposed to include in the response to the IFRS 8 request for information.

11.2 The Council agreed to consider this response further at a future meeting.

12 NEXT MEETING

Thursday 15 November at 9.00 a.m.