



ACCOUNTING COUNCIL

**Minutes of the Fourth Meeting of the Accounting Council (2012:04)  
held on 4 October 2012 at Aldwych House, 71-91 Aldwych, London, WC2**

PRESENT

Roger Marshall	Chairman
Nick Anderson	
Richard Barker	
Edward Beale	
Robert Overend	
Andy Simmonds	
Pauline Wallace	

IN ATTENDANCE

Michelle Sansom	Director of Accounting
Matt Blake	HMRC
John Instance	Project Director, Actuarial Policy Team
Andrew Lennard	Director of Research
Melanie McLaren	Executive Director, Codes and Standards
Michael Kavanagh	IAASA Observer
Chris Wobschall	HM Treasury
Roger Nicklen	Minutes Secretary

Technical Staff: Jenny Carter, Grant Chatterton, Jennifer Guest, Seema Jamil-O'Neill, Deepa Raval and Joanna Spencer.

Apologies were received from Peter Elwin and Ken Lever.

1 MINUTES

- 1.1 The minutes of the meeting of the Accounting Council held on 6 September 2012 (2012:03) were agreed and approved for publication subject to amending the end of paragraph 6.8 as follows:

*replace "with one member expressing reservations about the lack of user feedback" with "with one member disagreeing that the Accounting Council (despite its best efforts) had been successful in obtaining sufficient input from users."*

2 FUTURE OF FINANCIAL REPORTING IN THE UK AND ROI - INSURANCE

- 2.1 The Council received a report on progress on the Solvency II timetable and noted the implications of the probable delay for its proposals on accounting for insurance under UK GAAP.
- 2.2 The Council considered the need for a UK accounting standard on insurance and agreed that the obligation placed on the former ASB by the Penrose report to provide

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accounting standards requiring consistent realistic accounting for long-term insurance business continued to exist.

- 2.3 The Council:
- a. considered the implications for UK insurers of introducing IFRS 4 into UK GAAP;
  - b. agreed that the most significant change for insurance companies arising from introducing IFRS 4 would be the reclassification between insurance contracts and financial instrument contracts; and
  - c. tentatively decided to recommend that the additional requirements of IFRS 4 should be embedded into FRS 102 by adding a sub-section on insurance accounting into Section 34 (Specialised Activities) with a cross reference to the guidance in IFRS 4.
- 2.4 The Council considered the requirements of FRS 27 not covered elsewhere and:
- a. endorsed the view previously taken by the ASB that IFRS 4 did not prevent application of FRS 27;
  - b. concluded that the requirements in FRS 27 needed to be retained in UK GAAP; and
  - c. commissioned the staff to consider the form in which FRS 27 might be developed into something providing a benchmark that companies could depart from only under the conditions allowed by IFRS 4.
- 2.5 The Council considered the implications of the ABI's recent announcement of its intention to retract its SORP, discussed ways of maintaining its guidance and commissioned the staff to consider the best way of combining FRS 27 and the SORP into something providing a minimum benchmark that companies could depart from only under the conditions allowed by IFRS 4.
- 3 DIRECTOR OF ACCOUNTING REPORT
- 3.1 The Council received a report from the Director of Accounting and noted:
- a. Developments relating to the International Accounting Standards Board, including the establishment of a Conceptual Framework Review Committee of which Mr Lennard had been invited to be a member;.
  - b. Developments relation to EFRAG and cooperation in Europe including the decision by the four major European Stands Setters to work more closely together in the wake of the abandonment of the EFRAG Governance Review and progress on the Conceptual Framework pr-active project and on the better management of pro-active projects; and
  - c. Further development of the FRC paper on its policy regarding international financial reporting standards.
- 4 RESEARCH ACTIVITIES AND DEVELOPMENTS
- 4.1 The Council received a report on research activities and developments.
- 4.2 The Council noted the latest position on PRC projects and considered the case for a new research project on whether financial reports gave adequate information for assessing stewardship and on how investors used information on intangible assets recognised in a business combination.
- 4.3 The Council commissioned the staff to further develop proposals for a research project dealing with investors needs for stewardship information and with investors' use of information relating to intangible assets acquired in a business combination.

5 FRC PLANNING 2013/14

- 5.1 The Committee discussed the FRC's two key IFRS objectives related to ensuring standards were fit for purpose and ensuring that FRC was an effective influencer and made a number of proposals for the FRC to consider when developing its 2013/14 Plan

6 THE ROLE OF PRUDENCE IN DEVELOPING ACCOUNTING STANDARDS

- 6.1 The Council further considered a draft of a paper commissioned by the Codes & Standards Committee (CS) on the role of prudence in developing accounting standards and made a number of suggestions for its improvement.
- 6.2 The Council discussed the importance of setting the discussion of prudence into the wider context of the conceptual framework and of presenting the arguments in a balanced and unbiased way.
- 6.3 The Council agreed that the paper should be reviewed in the light of the comments made, particularly with a view to removing some of the detail and focussing on the key messages, and sent to Council members for comment.

7 BUSINESS MODELS

- 7.1 The Council considered a report on the joint project on The Role of Business Models in Financial Reporting and noted the current position.

8 SHARE BASED PAYMENTS

- 8.1 The Council considered proposals for a research project on share-based payments by unlisted entities.
- 8.2 The Council discussed the importance of establishing the range and nature of share-based payment schemes in use as a precursor to surveying users and the importance of casting research among users in terms of the information users needed about share based payments.
- 8.3 The Council instructed the staff to consider further the proposals for a research project in the light of the comments made.

9 FUTURE OF FINANCIAL REPORTING IN THE UK AND ROI: FINANCIAL INSTRUMENTS

- 9.1 The Council considered the options in relation to updating UK GAAP for IFRS 9 'Financial Instruments'.
- 9.2 In relation to hedge accounting the Council tentatively agreed to issue FRS 102 as proposed (subject to drafting amendments), and to recommend issuing a supplementary Exposure Draft amending Sections 11 and 12 of proposed FRS 102 when the IASB issues an amendment to IFRS 9 for hedge accounting.
- 9.3 In relation to impairment the Council tentatively agreed to recommend issuing an Exposure Draft of amendments to FRS 102 once the IASB position had become clear and to consider at that stage what transitional provisions might be required to enable implementation with the rest of FRS 102 from January 2015.

9.4 The Council also tentatively agreed to recommend adding a reference to IFRS 9 into Section 11 of FRS 102.

## 10 FUTURE OF FINANCIAL REPORTING IN THE UK AND ROI: SWEEP ISSUES

10.1 The Council considered a number of sweep issues in relation to FRS 102 and tentatively agreed to recommend:

- a. clarifying the position regarding exemption from disclosure of intra-group outstanding balances;
- b. including a single entry into Section 2 of FRS 102 dealing with cross references to fair value;
- c. a range of amendments to FRS 102 relating to taxation;
- d. a change to the restriction on early application by public benefit entities.

10.2 The Council deferred for consideration outside the meeting recommendations on providing a definition of a public benefit entity group and drafting amendments to the definition of a concessionary loan.

10.3 Council members were asked to provide comments on a response to the proposed Comprehensive Review of the IFRS for SMEs outside the meeting.

## 11 ADMINISTRATIVE MATTERS

11.1 The Council:

- a. approved the appointment of Hilary Lower, Ken Youngman and Harry Mears as CAPE members for a two-year period to 31 October 2014; and.
- b. agreed to support the proposed change to the IFRS Foundation Constitution.

## 12 PROPOSED AMENDMENTS TO IAS 28 AND IFRS 10

12.1 The Council considered the proposed amendments to IAS 28 and IFRS 10 and raised no objections to the proposals.

## 13 DEVELOPMENTS ON THE IASB'S PROJECT TO DEVELOP IFRS 9 "FINANCIAL INSTRUMENTS"

13.1 The Council received a report on recent developments on the IASB's project to develop IFRS 9 "Financial Instruments" and on recent staff monitoring and other interactions with banking regulators.

13.2 The Council considered a paper prepared by the Italian National Standard Setter 'Impairment of loans: which way forward?' and provisionally agreed to lend its support to the paper subject to members having the opportunity to comment on the detail outside the meeting.

## 14 NEXT MEETING

Thursday 25 October, 9.00 a.m.