

ACCOUNTING COUNCIL

Note of the eighth Meeting of the Accounting Council (2013:01) held on 17 January 2013 at Aldwych House, 71-91 Aldwych, London, WC2

PRESENT

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

IN ATTENDANCE

Michelle Sansom	Director of Accounting
Matt Blake	HMRC
Michael Kavanagh	IAASA Observer
Andrew Lennard	Director of Research
Melanie McLaren	Executive Director, Codes and Standards
Karen Sanderson	HM Treasury
Simon Peerless	Minutes Secretary

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

Apologies were received from Peter Elwin. Mike Ashley, the TEG Observer, submitted written comments.

In the absence of the Chairman at the beginning of the meeting, MS took the chair.

1 MINUTES OF MEETING

- 1.1 The minutes of the meeting held on 6 December 2012 (2012:07) were agreed and approved for publication.

2 DIRECTOR OF ACCOUNTING REPORT

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

2.2 The Council noted:

- a. the publication by the IASB of the feedback statement on its agenda consultation and its updated work plan;
- b. recent exposure drafts issued by the IASB;

- c. discussions at the IASB meeting held on 13 – 17 December 2012, including tentative decisions on the insurance project, on bearer biological assets, and on rate-regulated activities;
 - d. discussions at the EFRAG TEG meeting on 16 January;
 - e. the IASB's consultation on its proposed Accounting Standards Advisory Forum;
 - f. written evidence submitted to the Banking Commission and to the subcommittee on accounting, audit and taxation of the Parliamentary Commission on Banking Standards.
- 2.3 In relation to the IASB's tentative decisions on insurance, the Council reaffirmed its view that interest should not be accreted on residual margin as this was effectively deferred profit.

3 ACCOUNTING RESEARCH ACTIVITIES AND DEVELOPMENTS

3.1 The Council received a report from the Director of Research.

3.2 The Council noted:

- a. progress on the EFRAG project on capital providers' use of financial statements; and
- b. the recent workshop on policy-oriented research.

4 FUTURE OF FINANCIAL REPORTING IN THE UK AND ROI

4.1 The Council resumed its re-deliberation of draft standard FRS 102.

4.2 The Council agreed amendments in relation to:

- a. qualifying insurance policies held by pension funds;
- b. donated goods for non-charitable subsidiaries of charities; and
- c. other drafting amendments.

4.3 The Council approved, for submission to the FRC Board:

- a. the Impact Assessment; and
- b. the Feedback Statement on FREDs 46 to 48.

4.4 The Council considered the draft Advice to the FRC on FRS 102 and approved this subject to drafting amendments.

4.5 The Council noted the draft dissenting Advice of one Council member.

5 DEFERRED TAX

5.1 The Council considered the draft Feedback Statement on the Discussion Paper 'Improving the Financial Reporting of Income Tax'.

5.2 The Council:

- a. expressed concern at the low level of responses, in particular from users of financial statements; and

- b. agreed that no further work should be carried out on the project for the time being, but that the paper might form the basis of further research work in due course.

5.3 The Council approved the Feedback Statement for publication.

6 INTANGIBLE ASSETS

6.1 The Council considered a proposal for a limited scope research project on accounting for intangible assets.

6.2 The Council:

- a. approved the project, subject to suggestions on the nature and scope of the questions to be addressed; and
- b. welcomed the opportunity to develop further links with users that the project would provide.

7 PROBLEMS WITH IFRS AND THE CONCEPTUAL FRAMEWORK

7.1 The Council considered a paper commissioned by the FRC Board summarising criticisms of IFRS and how these criticisms related to the Conceptual Framework.

7.2 The Council made several drafting suggestions for incorporation into a further draft of the paper.

8 FINANCIAL INSTRUMENTS – CLASSIFICATION AND MEASUREMENT

8.1 The Council considered the IASB Exposure Draft 'Classification and Measurement: Limited Amendments to IFRS 9'.

8.2 The Council expressed the view that:

- a. on the classification of financial instruments with interest rate mismatch features, the IASB should develop a principled definition of an instrument whose cash flows comprised solely principal and interest rather than developing a definition based on 'more than insignificant' effects;
- b. on the classification of tranches of financial instruments, the IASB should again develop a principled definition rather than a detailed tests;
- c. the proposal not to allow bifurcation of financial assets would be supported provided the IASB adopted this principled approach to instruments qualifying for amortised cost accounting;
- d. on financial instruments qualifying for fair value through OCI accounting, the IASB should develop a definition based on a business model of a portfolio of assets held to provide cash flows to meet a related portfolio of liabilities;
- e. clarification was needed on the distinction between financial instruments qualifying for fair value through OCI and those at fair value through profit and loss.

8.3 The Council commissioned drafting of responses to the IASB and to EFRAG incorporating these comments, for consideration at a future meeting.

9 INVESTMENT ENTITIES

9.1 The Council considered a response to EFRAG on its draft endorsement advice on the IASB's 'Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27'.

9.2 The Council:

- a. expressed concern that the IASB had rejected a request for exemption for non-investment entities with an investment entity subsidiary; and
- b. supported the EFRAG draft endorsement advice.

9.3 The Council approved a response to EFRAG incorporating these views.

10 INFLUENCING IASB'S WORK ON THE CONCEPTUAL FRAMEWORK

10.1 The Council considered proposals on the strategy for the partnership of EFRAG, the FRC and three other major European standard setters in seeking to influence the IASB's project on the Conceptual Framework, together with a paper for publication setting out this strategy.

10.2 The Council made several suggestions for incorporation into a further draft of the paper.

11 INFLUENCING IASB'S WORK ON THE CONCEPTUAL FRAMEWORK – DRAFT BULLETINS

11.1 The Council considered drafts of three papers for publication as part of the strategy for influencing the IASB's project on the Conceptual Framework, on prudence, the role of uncertainty, and the trade-off between relevance and reliability/faithful representation.

11.2 The Council made suggestions for incorporation into further drafts of the papers.

12 DEPRECIATION AND AMORTISATION

12.1 The Council considered the IASB's exposure draft 'Clarification of Acceptable Methods of Depreciation and Amortisation'.

12.2 The Council expressed the view that:

- a. depreciation and amortisation were necessarily arbitrary allocations of cost over accounting periods;
- b. in limited circumstances a method of allocation based on revenue generated from the asset might be appropriate; and
- c. in determining an appropriate method, prudence must be taken into account.

12.3 The Council approved responses to the IASB and EFRAG incorporating these views.

13 ACQUISITION OF INTEREST IN A JOINT OPERATION

13.1 The Council considered the IASB exposure draft 'Acquisition of an Interest in a Joint Operation'.

13.2 The Council expressed the view that:

- a. a difference between the consideration paid for an interest in a joint operation and the fair value of the assets acquired would rarely constitute goodwill as a joint operation would not normally meet the definition of a business;
 - b. the difference would normally form part of the cost of the assets acquired or be a separate intangible asset, and would therefore be subject to depreciation or amortisation.
- 13.3 The Council requested the response to the IASB and EFRAG incorporate these views.
- 14 EQUITY METHOD: SHARE OF OTHER NET ASSET CHANGES
- 14.1 The Council considered the IASB exposure draft 'Equity Method: Share of Other Net Asset Changes'.
- 14.2 The Council expressed the view that:
- a. the proposal in the exposure draft that other net asset changes in the investee should be recognised in equity by the investor was appropriate; and
 - b. recycling of these amounts to profit and loss when the investor ceases to use the equity method should not be permitted, both because of the varied nature of the items that might be included in equity under the proposals and because the recycling from equity to profit and loss (as opposed to recycling from OCI) was a new concept and should be addressed in a principled way.
- 14.3 The Council approved responses to the IASB and EFRAG incorporating these views.
- 15 NEXT MEETING
- Thursday 14 February at 9.00 a.m.