

Minutes of the meeting of the Accounting Council of the FRC on 12 December 2013 at Aldwych House, 71-91 Aldwych, London, WC2B 4HN

Present:

Roger Marshall	Chair
Anthony Appleton	Council Member
Chris Buckley	Council Member
Anne McGeachin	Council Member
Gunnar Millar	Council Member
Liz Murrall	Council Member

Observers:

Liz Alford	HMRC Observer (in place of Matt Blake)
Michael Kavanagh	IAASA Observer

In attendance:

Mei Ashelford	Project Director, Accounting & Reporting Policy Team
Jenny Carter	Director of UK Accounting Standards, Accounting & Reporting Policy Team
Jonathan Compton	Secondee, Accounting & Reporting Policy Team
Francesca Chittenden	Council Secretary
Annette Davis	Project Director, Accounting & Reporting Policy Team
Seema Jamil-O'Neill	Project Director, Accounting & Reporting Policy Team
Andrew Lennard	Director of Research
Melanie McLaren	Executive Director
Deepa Raval	Project Director, Accounting & Reporting Policy Team
Susanne Pust Shah	Project Director, Accounting & Reporting Policy Team

1. Welcome and Apologies

- 1.1 Apologies were also noted from Richard Barker, Ken Lever, Veronica Poole, Pauline Wallace (Council Members) and Mike Ashley (EFRAG Observer).

2. Minutes of the Previous meeting and rolling actions

- 2.1 The minutes of the previous meeting were approved for publication subject to minor typographical amendments.
- 2.2 The rolling action log was noted.

3. Director of Accounting Report

- 3.1 The Council noted a paper which provided an update on developments relating to both UK and International accounting standards, the European Commission and an update on decisions taken by the FRC Board.

- 3.2 The Chairman provided a verbal summary on the ASAF meeting held on 5 and 6 December. The Council noted the various agenda items that had been considered and that the FRC proposals on stewardship had been well received but responses to the proposals on reliability were mixed.
- 3.3 The Council also noted that the consultation period for the leases project had closed and that a summary of the responses to the consultation had been given at the meeting. The Chairman informed the Council that FASB and the IASB are to meet in January to discuss the feedback in detail and that the FRC had offered to undertake engagement sessions with users of the standard in an attempt to identify practical solutions to feed back to the IASB in March 2014.

IFRIC 14

- 3.4 The Council noted that the UK GAAP TAG would consider whether there were any implications for FRS 102 arising from IFRIC 14 at its January meeting and that any recommendations would be brought to Council in due course.

Association of Investment Companies (AIC) SORP for Investment Trust Companies and Venture capital Trusts

- 3.5 The Council noted that the AIC had considered the request of the Accounting Council that the draft AIC SORP includes a statement on 'performance and charges' and had sent a letter to staff at the FRC on the matter. The Council considered and acknowledged the letter but reconfirmed its request that a statement be included in the exposure draft.
- 3.6 To assist the Councils' understanding of the issue and to inform a decision on whether an amendment to FRS 102 may be desirable, the Council requested that a paper be presented to the January meeting which sets out the existing requirements of the relevant SORPs and how this combines with the new policy on the scope of SORPs.

4. Director of Research

- 4.1 The Council received an update on accounting research activities and developments since the last meeting and a summary of the 18 October meeting of the Academic Panel.
- 4.2 The Council noted that EFRAG's Planning & Resources Committee had held a conference call on 11 October with the FRC and that the FRC would be taking the lead on a Bulletin on cash flows, whilst EFRAG would be considering the position of banks and insurance companies.
- 4.3 Andrew Lennard (AL) informed the Council that a progress report on the intangibles work stream would be presented at the January meeting.

5. Response to the IASB Discussion paper 'A review of the Conceptual Framework for Financial Reporting'

- 5.1 AL introduced the paper and invited the Council to review (i) the FRC's draft response to the IASB's discussion paper and (ii) a response to EFRAG's Draft Comment Letter on the IASB's discussion paper. AL thanked the Council for their contributions to the development of the responses thus far.
- 5.2 In discussing the draft response the following observations and suggested amendments were made:
- a) General approach
The Council suggested that:
- it would be useful for an introductory section to emphasise the main points, particularly those where the FRC applauded the direction taken by the Discussion Paper;
 - it would be better to refer to the FRC's papers relating to disclosures rather than including a reference to the Integrated Reporting Framework;
 - the paragraph relating to disclosure outside of the financial statements should be reviewed as the current drafting is ambiguous.
- b) Fundamental concepts
The Council suggested that:
- more emphasis should be given to the importance of reinstating the concepts of prudence, accountability and reliability in the Framework and throughout the response greater reference should be made to those concepts;
 - the reference to academic research should be expanded;
 - the paragraph highlighting the importance of identifying the primary users should be strengthened.
- c) Purpose and statement
The Council suggested that it should be clarified that whilst the FRC does suggest that the relationship between a new or revised standard and the Conceptual Framework should be explained in all cases, the explanation may be very brief. The Council also suggest expanding the response to state that in instances where a new standard conflicts with the Conceptual Framework the IASB should identify the conflict and use it as a learning point.
- d) Elements of financial statements
The Council suggested that:
- the response to question 3, regarding the definition of assets and liabilities, should be expanded and there should be reference to recognition criteria;
 - the response should suggest that the IASB define 'gains and 'losses' rather than 'income' and 'expense';
 - the examples given in response to question 5 should be reconsidered and paragraph 4.13(iii) should be softened;
 - paragraph 24 of the draft response appears to exclude trade date accounting and should be reviewed;
- e) Definition of equity
The Council suggested that the conclusion should be reviewed to reiterate the Council's views in a more direct manner.
- f) Measurement
The Council suggested expanding the section of the draft response relating to the consequences for the measurement of changing prices.

g) Presentation and Disclosure

The Council suggested:

- that the response might refer to the offsetting principles in FRS 5;
- that paragraph 7.7 of the response should highlight that the definition of 'disclosure' is restricted to disclosure in the notes of the financial statements;
- paragraphs 7.19 and 7.27 should be revised.

h) Comprehensive income

The Council suggested that paragraph 8.14 of the draft response should be reviewed to clarify that the FRC does not suggest that everything would require revaluation.

i) Other issues

The Council requested that paragraph 9.2 of the draft response be deleted.

5.3 The Council noted that AL would amend the draft response in light of the comments received and circulate the revised draft to the Council for comment and approval for discussion by the Codes & Standards Committee (CSC) in early January.

5.4 The Council congratulated AL for drafting such a well written and thorough response.

5.5 The Council noted that the conclusions reached by EFRAG in response to the IASB Conceptual Framework were broadly similar to the conclusions reached by the FRC. The Council was content with the draft response to EFRAG and the proposed approach to circulate, unofficially, the FRC draft response to the IASB to EFRAG staff.

6. Bulletins: Complexity

6.1 Anne McGeachin (AM) introduced the draft bulletin which had been revised following discussion at the November Council meeting. The Council noted that the Bulletin would also be presented to EFRAG TEG at its meeting on the week commencing 19 December for comment.

6.2 The Council considered that the revised draft reflected the views the Council had expressed and that the Chairman should finalise the Bulletin in consultation with the partners.

7. FRED 54: Financial Instruments FRS 102 Amendments

7.1 Susanne Pust Shah (SPS) introduced the paper and invited the Council to comment on the exposure draft *FRED 54 Amendments to FRS 102 – Basic Financial Instruments*. SPS reminded the Council that the objective of the proposed amendments is to broaden the conditions and permit a wider range of debt instruments to be measured at amortised cost. The Council noted that the draft incorporated comments made at the previous meeting of the Council and comments from the UK GAAP TAG.

7.2 The Council considered the draft and the specific recommendations set out. Through discussion the following observations and advice decisions were made:

- The Council noted the rationale for excluding all derivatives from the basic financial instrument category; accordingly the Council agreed that it would be appropriate to insert a reference in paragraph 11.8 of the draft to paragraph 11.6(b) of FRS 102 which lists derivative instruments. Despite acknowledgement of the issues associated with derivatives the Council suggested that the FRC should consider whether or not it would be sensible to use the term derivative instead of making reference to examples of derivative instruments when undertaking the 3 year post implementation review;
- The Council agreed that there is no need to clarify the requirements in FRS 102 regarding dual currency bonds in the draft amendment;
- The Council agreed the proposed clarification to paragraph 11.9(a) – Return to the holder which confirms that the return to the holder can only be a positive fixed or variable rate or a combination of a variable and fixed rate;
- The Council considered that an additional condition should be added to deal with inflation linked features and remove the reference to inflation indices in the definition of a variable rate;
- The Council agreed that the proposed drafting in relation to compensation payments and extension options was appropriate;
- The Council agreed that the requirements of paragraph 11.9(e) relating to conditional return are superfluous and can be removed;
- The Council was content with the proposed illustrative examples;
- The Council also suggested that a statement should be included in the introduction of the amendment to state that the implementation issues concerning the classification conditions were identified post issuance of FRS 102;
- The Council suggested that the Advice to the Board is amended to clarify that IFRS 9 only contains principles in relation to the classification of financial assets and not liabilities.

7.3 The Council requested that the draft amendment be updated to reflect the amendments set out above and circulated to the Council for comment before submission to the Codes & Standards Committee. The Council noted that it was expected the draft would be issued for consultation from 12 February 2014. The Council was content that the comment period would be reduced from the standard three month period to a period ending on 30 April 2014 in order to shorten the timetable until the final amendment could be published. The Council agreed that no transitional provisions would be included in the proposal.

7.4 The Council noted that FRC staff would update the Council's Advice to the Codes & Standards Committee and Board to improve drafting and to include an additional brief summary of the reasons why the Council advises the Board to approve the publication of the FRED 54.

8 Comment letter: Proposed amendments to IFRS for SMEs

8.1 Mei Ashelford (MA) introduced the draft FRC response to the IASB's IFRS for SMEs consultation which had been developed following discussion by the Council at its October meeting and consideration by the UK GAAP Technical Advisory Group (TAG).

- 8.2 The Council noted TAG had advised that the FRC response should not be overly UK-centric and that consideration should be given to the appropriateness of the proposed amendments for the IASB's intended target user of the IFRS for SMEs – ie small entities in emerging economies. In considering the advice of TAG the Council noted that the stated scope of the standard was inconsistent with the IASB's interpretation of that scope set out in its Basis for Conclusions. The Council considered the FRC's draft response should highlight the inconsistency and that the scope of the standard should be reviewed, however, it would not be useful for the FRC's response to the IASB to disagree with all the amendments proposed on the basis of this inconsistency; instead our response should be written from the perspective that the FRC accept the IASB's interpretation of the scope. The Council suggested that the response should state the Council's regret that the IASB has not considered the advice of the SME Implementation Group who had highlighted a number of amendments including introducing some accounting policy choices.
- 8.3 The Council agreed that the principles proposed by the IASB relating to the new and updated IFRSs need to be revisited and that the FRC comment letter should highlight this issue. The Council also suggested that the principles that the FRC originally proposed in its response to the IASB's Request for Information are expanded to include reference to cost benefit analysis, relative complexity and acknowledgement of the differing needs and levels of understanding of the users of the standard.
- 8.4 The Council noted that the draft response letter highlighted issues FRC staff had encountered (ie classification of financial instruments and hedge accounting requirements) that were significant enough that the IASB may want to consider them as part of this review.
- 8.5 Subject to those amendments the Council considered the draft response to appropriately reflect the Council's view; accordingly, the Council approved the draft response (subject to the amendments listed) for publication on the FRC website for comment. The Council noted that the final draft, incorporating any comments received via the website, would be brought back to the Council for consideration at its February meeting.
- 8.6 The Council noted that the changes made to the IFRS for SMEs would be reviewed in more detail as part of the three yearly review of FRS 102 to evaluate whether amendments to FRS 102 were appropriate and/or desirable.

9. Narrative reporting – overview of responses and main issues

- 9.1 Jonathan Compton (JCo) introduced a paper that set out an analysis of the comment letters received in response to the Exposure Draft: *Guidance on the Strategic report*.
- 9.2 The Council noted that a relatively high proportion of the comments letters received had been from Civil Society groups and that the issues they had raised, although valid, were in areas of specific interest to those groups. The Council noted that in order to address the concerns appropriately the FRC was in the process of

scheduling a meeting with the Civil Society Groups who had responded. BIS and a number of other investors would also attend this meeting.

9.3 The Council noted that the draft guidance had been well received and that the majority of respondents had expressed support for the FRC's work on the 'cutting clutter' and 'more relevant annual reports' debates. However the Council noted that despite the support, a number of issues and suggested amendments had been identified. Through discussion of the issues the following observations and amendments to the draft were agreed:

- A statement is included in the guidance to clarify that the guidance has been produced with quoted companies in mind but that other, non-quoted companies, may find the guidance useful. However, It would be helpful to refer users of the guidance to the table in the appendix which clearly sets out what the specific legal requirements are;
- The Council noted that many respondents were confused by the use of the terms 'core' and 'supplementary' information and suggested that further consideration should be given to clarify the terms;
- The Council noted that legal advice had been sought from BIS in relation to the suggestion put forward by many of the Civil Society Group respondents that the application of materiality in the environmental, employee, social, community and human rights issues (EESCH) content element of the draft guidance was unnecessary restrictive and that directors' may not be meeting all the requirements of the Companies Act if they adhere to the guidance. The Council noted that BIS had confirmed that there was no issue but that the FRC would consider strengthening the materiality section to emphasise that non-financial matters should be given an equal weighting to financial matters in an attempt to address the concern;
- The Council noted that legal advice will also be sought from BIS in relation to the safe harbour protections afforded to the directors in respect of information that is included by cross reference in the annual report and BIS had agreed to work with the FRC to develop the guidance in the area and would consider issuing a statement or amending the legislation if necessary;
- The Council did not consider it appropriate to provide guidance on an acceptable level of disclosure to be included in 'non-statutory summary financial statements' but suggested that companies should be encouraged to consider what information would be useful to include with the strategic report.

9.4 The Council noted that a large proportion of the respondents had highlighted that there is little detail in the guidance on how to address the new requirement to include information on human rights issues and debated whether or not to expand paragraph 6.67 in the draft guidance which deals with EESCH matters more generally. Through discussion the following observations were made:

- The Council did not consider it would be difficult to justify providing explicit guidance in relation to human rights and not the other subject areas covered within EESCH, as human rights is a new requirement and therefore guidance in this area could be justified;

- The Council considered that if guidance in the area is provided it should highlight suggestions for the Company to think about, for example, whether the company has links to areas where human rights are a concern, the guidance should not encourage or facilitate boiler plating;
- The Council suggested that it may be useful to direct Companies to relevant examples of disclosures relating to human rights or to include a cross reference to other guidance in the area;
- The Council noted that the new EU Directive is likely to require Companies to provide disclosures in relation to EESCH issues and therefore, it may be beneficial to issue guidance in relation to these issues so that Companies are well equipped to report once the EU Directive has been implemented;
- The Council noted the issues faced by preparers in relation to the application of guidance and the pressure that is put on Companies to explain when guidance is not followed and the potential negative consequences this may have.

In conclusion the Council considered that there should be some expansion of the guidance in the area but that the onus should be placed on Companies.

- 9.5 The Council noted that revised guidance, incorporating the suggestions discussed and any issues identified through a further detailed analysis of the comment letters would be brought to the Council for approval in early 2014.

International Integrated Reporting Council (IIRC)

- 9.6 Deepa Raval (DR) informed the Council that the IIRC had published the International Integrated Reporting Framework and that although the revised Framework offers a number of clarifications and the drafting has been improved, a number of areas the FRC had highlighted for review remain unchanged. The Council noted that the FRC would review the final framework in detail to identify similarities and differences between the Framework and existing FRC guidance to see how the two relate.

- 9.7 The Council also noted that Melanie McLaren had attended a meeting of a forum including representatives from the IIRC, IASB, FASB and GRI to discuss integrated reporting. MM had highlighted that the FRC, with its remit over different parts of the annual report, is in a unique position to provide input into this initiative.

10. FRS 103: Insurance Contracts

- 10.1 JC introduced the paper which set out the key issues arising in response to FRED 49 Draft FRS 103 *Insurance Contracts* and recommended solutions to those issues.

- 10.2 The Council agreed the following:

- The accounting policy 'improvement' option should be retained;
- Captive insurers should not be permitted disclosure exemptions in relation to financial instruments and insurance contracts, it was noted that this is consistent with the treatment of all subsidiaries that are financial institutions;
- No amendment should be made to FRS 102 in respect of insurance contracts denominated in foreign currencies subject to confirmation from Lloyd's that this would be the preferred option and would result in greater consistency.

10.3 The Chairman requested that a paper highlighting the key issues be presented to the Codes & Standards Committee at its January meeting for consideration prior to recommendation to the Board in early March 2014 that FRS 103 be issued.

10.4 The Council noted that consideration was being given to whether the Memorandum between the FRC, ABI and certain insurers that was issued in 2004 when FRS 27 was issued to address a timing issue relating to the application of EU-adopted IFRS by listed groups and the effective date of FRS 27 had served its purpose and could be withdrawn on the issue of FRS 103.

11.0 FRED 50 Residential Management Companies – overview of responses

11.1 The discussion on FRED 50 was postponed to the January 2014 Council meeting.

12. Any other business

12.1 None.

13. Next meeting

13.1 The next meeting of the Accounting Council will be on 16 January 2014.