

Minutes of a meeting of the Accounting Council held on Thursday 17 July 2014 in the Boardroom at 8th Floor, 125 London Wall, London, EC2Y 5AS

Present:

Roger Marshall	Chair
Richard Barker	Council Member
Chris Buckley	Council Member
Gunnar Miller	Council Member
Liz Murrall	Council Member
Veronica Poole	Council Member
Jeremy Townsend	Council Member
Mark Smith	Council Member
Pauline Wallace	Council Member

Observers:

Mike Ashley	EFRAG Observer
Matt Blake	HMRC Observer
Michael Kavanagh	IAASA Observer

In attendance:

Anthony Appleton	Director of Accounting and Reporting Policy
Mei Ashelford	Project Director, Accounting & Reporting Policy Team
Jenny Carter	Director of UK Accounting Standards, Accounting & Reporting Policy Team
Francesca Chittenden	Council Secretary
Rosalind Clarke	Project Manager, Accounting & Reporting Policy Team
Annette Davis	Project Director, Accounting & Reporting Policy Team
Jennifer Guest	Project Director, Accounting & Reporting Policy Team
Andrew Lennard	Director of Research
Seema Jamil-O'Neill	Project Director, Accounting & Reporting Policy Team
Susanne Pust Shah	Project Director, Accounting & Reporting Policy Team
Deepa Raval	Project Director, Accounting & Reporting Policy Team

Welcome and Apologies for absence

The Chair welcomed Mark Smith & Jeremy Townsend to their first Council meeting. Apologies were noted from Ross Campbell (HMT Observer).

1. Minutes of the previous meeting and rolling actions

- 1.1 The Council approved the minutes of the Accounting Council meeting held on 15 June 2014 as an accurate record of the meeting.
- 1.2 The Council noted the rolling action log and that all actions were complete.

2. Director of Accounting Report

2.1 The Council noted a paper which provided an update on developments relating to UK and international accounting standards, matters of policy and an overview of staff activities since the last meeting. Particular attention was given to the following matters:

IASB

2.2 The Council noted:

- A summary of the monthly IASB meeting held on 17–19 June.
- The IASB intends to publish the final version of IFRS 9 by the fourth week of July and that the IASB had issued a call for members of an IFRS Transition Resource Group for IFRS 9 Impairment to be established. It was also noted that there is likely to be some overlap with the work the Basel Group is undertaking in relation to impairment.
- That the IASB is making progress in relation to Insurance Contracts, however, there remains some issues in relation to the proposals for participating contracts. Seema Jamil-O'Neill (SJON) reported that the IASB had agreed the conceptual direction of the approach to participating contracts, namely to align the treatment of participating contracts with the general approach of the rest of the standard, but that there are concerns in the industry that this approach will not be easy to apply in practice. The Council highlighted that there is a need for the IASB to engage with the industry in order for an agreed solution to be found.
- That EFRAG, with the support of the FRC and other National Standard Setters, had issued a consultation document to ask constituents whether they have examples of transactions that would qualify as leases under the proposals, but that in their view are in-substance services and their views on the two alternative approaches for lessee accounting proposed by the IASB and the FASB. Feedback on the responses received will be given to the IASB. Anthony Appleton (AA) reported that noted the questionnaire is available via the FRC website and invited Members to publicise the questionnaire amongst colleagues. The Council also noted that EFRAG had issued a simpler consultation document specifically for users.
- That Sir Win Bischoff (FRC Chair) had given a presentation to the Trustees of the IFRS Foundation on the UK perspective on financial reporting on 10 July. AA reported that the presentation had been well received and undertook to circulate a copy of the transcript to the Council.

EFRAG

2.3 The Council noted that:

- EFRAG had met on 14–16 July and the various documents that had been agreed and subsequently issued.
- EFRAG had agreed to issue to research papers on IFRIC 21 and IFRS 3.
- The European Commission (EC) had requested that EFRAG apply for a position on the IFRS Transition Resource Group for IFRS 9 Impairment.
- The EC had requested endorsement advice on IFRS 15 and it has been agreed that the Technical Expert Group (TEG) will issue the draft advice in September–October and that the newly structured EFRAG Board would finalise the advice.
- The EC had not yet requested endorsement advice on IFRS 14 because this issue is due to be considered at the September meeting of the Accounting Regulatory Committee (ARC).

- The first meeting of the Expert Group on the evaluation of the IAS Regulation had been held and that it had been confirmed that the role of the Group would be to act as a 'sounding board' for the EC.
- 2.4 The Council noted and approved the completed invitation to comment on the draft endorsement advice and effects study report on the *Clarification of Acceptable Methods of Depreciation and Amortisation* (amendments to IAS 16 and IAS 38) and completed invitation to comment on the draft endorsement advice and effects study report on *Accounting for Acquisitions of Interests in Joint Operations* (amendments to IFRS 11).

UK GAAP

- 2.5 The Council noted that at its meeting on 2 July the Board had approved:
- The issue of *Amendments to FRS 101 Reduced Disclosure Framework (2013/14 cycle)* and *Amendments to FRS 102 – Basic Financial Instruments and Hedge accounting*.
 - The issue of *FRED 55 Draft Amendments to FRS 102 – Pension obligations*.
 - The issue of the Consultation Document on the implications of the Accounting Directive, subject to any amendments necessary for consistency with the BIS consultation.
- 2.6 The Council also noted that at its meeting on 25 June the Codes & Standards Committee had agreed to issue the FRC statement on the CCAB SORP for Limited Liability Partnerships (LLPs).

3. Director of Research Report

- 3.1 The Council noted a paper that provided an overview on current accounting research activities. The Council also noted that:
- The IASB is making good progress in finalising its Conceptual Framework that is due to be published by the end of 2014.
 - The FASB has begun work on its Conceptual Framework and will be looking closely at measurement and presentation.
 - A paper on the Statement of Cash Flows will be brought to the Council for consideration in September.

4. SORP: AIC (ICTs and VCTs)

- 4.1 Jennifer Guest (JG) introduced the AIC SORP for consideration. The Council noted that the UK GAAP Technical Advisory Group (TAG) had considered the SORP and that the SORP presented reflected comments made by that group. The Council also noted that no inconsistencies had been identified between the SORP and FRS 102, and that the SORP has been developed in accordance with the FRC SORP policy.
- 4.2 The Council noted that the FRC SORP policy requires consideration of the extent of consistency between related SORPs and discussed in detail whether it is appropriate for the AIC SORP not to include a requirement for a 'Comparative Table of Costs', given the controversy that surrounded the IMA SORP at a similar stage in its production with

regards to the disclosure of costs. The Council discussed the matter in detail and noted that:

- The SORP working party had highlighted the inconsistency in relation to the disclosures of costs between the AIC and IMA SORPs in the consultation documentation and no feedback had been received to suggest that the disclosure requirements set out in the draft AIC SORP were insufficient.
- TAG had requested that the SORP making body produce a document setting out further detail on costs to inform their deliberations and following review of that document concluded the inconsistency to be justified.
- Bodies applying the IMA SORP and the AIC SORP are quite different and that the disclosures are easier to calculate for the IMA SORP.

However, the Council recommended that the FRCs statement on the SORP be expanded to highlight that the FRC is aware of the inconsistency and will continue to monitor the application of the SORP, and to acknowledge that the issue of 'costs' is the subject of impending European Regulations and that it is expected that in the near future, greater disclosure of total costs will be required. The Council also requested that the document setting out further information on 'costs' be published alongside the SORP to improve transparency. The Council noted and was content with the explanations for three further inconsistencies between the two SORPs in relation to the treatment of returns on shares for a fixed amount and debt securities, expenses incidental to purchase or sale and performance fees – split between capital and revenue.

- 4.3 The Council noted an analysis of the SORP consultation responses and were content with the steps that had been taken to address the responses, subject to a minor typographical amendment. Subject to the requested amendments as set out the Council approved its advice that the CSC issues the FRC statement on the SORP.

5. SORP: Housing Federations (Social Housing Providers)

- 5.1 Mei Ashelford (MA) introduced the Housing SORP and reported that the SORP had been developed in accordance with the FRC Policy and Code of Practice on SORPs. MA summarised the key issues that had arisen in developing the SORP and reminded the Council that a further narrow-scope ED had been issued to enable the SORP-making party to develop an approach to the accounting for impairments that is supported by the sector and does not conflict with FRS 102.
- 5.2 The Council noted that for determining recoverable amount, FRS 102 permits the use of "value in use (in respect of assets held for their service potential)" (VIU-SP) in situations where a pure cash flow driven valuation may not appropriate. The draft SORP has adopted this treatment. The SORP Working Party had, on request from the Accounting Council, performed outreach with key lenders to the sector to confirm the appropriateness (or not) of reflecting service potential in financial statements in relation to impairments. The Council was satisfied that the SORP-making body had gathered sufficient evidence from this stakeholder group in support of this treatment. Accordingly, the Council expressed content with the accounting treatment set out in the SORP, noting that the disclosure requirements of the SORP had been extended and the SORP-making body had agreed to keep this area under review.

- 5.3 MA highlighted that the draft SORP proposes that depreciated replacement cost (DRC) is used as a proxy in determining VIU-SP, and that DRC is the least cost option of replacing the service potential of the existing asset after the impairment event. This is determined as the lower of acquiring a replacement asset from another social landlord, acquiring a replacement asset from the open market or constructing a replacement asset. In determining the cost of constructing a replacement asset, the draft SORP requires that the historical cost of land is added to the cost of constructing the property.
- 5.4 The Council discussed the matter in detail, and whilst it was agreed that conceptually, it is incorrect to include a component of the cash generating unit (i.e. the land) on a different measurement basis to the rest of the cash generating unit (i.e. the buildings) when determining the comparator, the Council also noted the SORP-making body's concern that any uplift in the land value could potentially mask an impairment of the property and this would reduce or eliminate any impairment losses being recognised. On balance the Council concluded that the approach proposed by the SORP-making body should be retained, but suggested that the SORP-making body consider if the SORP should require disclosure of the fair value of the land where an impairment has been recognised.
- 5.5 The Council noted, and was content, with the other amendments proposed by the SORP-making body.
- 5.6 The Council agreed to advise the CSC to issue the FRC's Statement on the SORP and to approve the addition of the Northern Ireland Federation of Housing Associations to the SORP-making body.

6. FRS 102 Proposed Clarification statements

- 6.1 Jenny Carter (JC) introduced a paper setting out four proposed clarification statements relating to FRS 102 that the UK GAAP Technical Advisory group had recommended be issued. It was noted that the FRC had anticipated some issues would arise as entities worked towards first-time adoption of FRS 102 and that six editorial amendments / clarification statements had already been issued to avoid misinterpretation of FRS 102 and reduce diversity in practice.
- 6.2 The Council highlighted the importance of balancing the risks of misinterpretation and / or diversity in practice against the impact of the issues if they are not clarified and the likelihood of misinterpretation. The Council also noted the following points:
- the risk of making editorial amendments and/or clarification statements as 'quick fix' solutions in instances where a proper amendment to the standard, which would include due process, should be made;
 - the risk that stakeholders become frustrated that clarifications are being made outside the triennial review process, when a commitment was made by the FRC that FRS 102 would be a stable platform with amendments usually only every three years; and
 - that FRS 102 is intended to be a 'one stop shop' and that users will have to monitor the issuance of (and refer to) editorial amendments and / or clarification statements in addition to the standard.

In light of those considerations the Council discussed the proposed clarification statements.

- 6.3 The Council discussed the issues, including a detailed consideration of the risks associated with not issuing the proposed statements. However, in light of the observations set out at 6.2 concluded that it was unnecessary to issue the statements and that the matters should be reviewed as part of the triennial review of FRS 102. To address any concerns in the meantime the Council suggested that the FRC should liaise with relevant professional bodies to communicate the intended positions with regard to the four areas.
- 6.4 In relation to a further issue, the Council considered that a change to the standard (FRS 102) is necessary in relation to the treatment of an irrecoverable surplus in a defined benefit plan. The Council considered the issue is too common to be addressed as part of the triennial review and suggested that the Executive delay the issue of FRED 55 – *Draft Amendments to FRS 102 – Pensions Obligations* to address the issue through that FRED.

7. Macro Hedging

- 7.1 Deepa Raval (DR) introduced the IASB discussion paper 'Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging' (the 'DP'). The purpose of the discussion was to provide an analysis of the DP and discuss lines to take for the preparation of a draft comment letter to the IASB in response to the DP. The Council noted that whilst the Executive support the IASB's aim to develop a hedge accounting model that is aligned with an entity's risk management policy, further development, including consideration of alternative approaches that will result in useful information for investors, is required.
- 7.2 DR summarised the key proposals set out in the DP. The Council noted that the DP is narrow in scope as it offers a single model for macro fair value hedge accounting - a portfolio revaluation approach (PRA) that has been drafted with interest rate risk management in banks in mind. The Council also noted that the DP does not address macro cash flow hedge accounting.
- 7.3 Through discussion of the proposals the following observations were made:
- The IASB should be encouraged to take an approach that seeks to make visible how macro hedging has been used; the current drafting is too complex and does not facilitate this objective.
 - It is unlikely that the proposed approach will be operational across a broader scope than the banking sector.
 - The IASB should consider whether the proposed approach is consistent with its Conceptual Framework.
 - The proposed approach is likely to have a consequential impact on many other issues including pipeline transactions and behaviouralisation assumptions.
 - The Council is unsure whether the behaviouralisation approach will be operational for non-portfolio accounts and warns about confusion over behaviour and intent.

- 7.4 The Council highlighted the importance of assisting the IASB in identifying a solution and suggested that the FRC response should highlight areas of the DP that the FRC consider to be workable. The Council also suggested that the IASB should be encouraged to re-explore some of the constraints set out in IFRS 9 hedge accounting, to consider whether a cash-flow based approach would address a number of the issues that have been raised, and how internal transactions are used. In relation to the issues that had been identified with regard to scope the Council suggested that the IASB should be encouraged to liaise with stakeholders outside of the banking sector, such as stakeholders in the electronics, telecommunications and insurance sectors.
- 7.5 The Council noted that the comment period for responses to the DP closes on 17 October 2014 and suggested that FRC response should not answer all of the detailed questions but that the FRC response should be more general and should encourage the IASB to look for a simple solution. DR reported that a draft response, reflecting the suggestions and views of the Council would be brought to the Council for consideration in September.

8. Any other business

- 8.1 There was no other business.
- 8.2 The Chair closed the formal meeting which was to be followed by a strategic discussion.