

**Minutes of the meeting of the Accounting Council of the FRC on 13 March 2014
at Aldwych House, 71-91 Aldwych, London, WC2B 4HN**

Present:

Pauline Wallace	Council Member (Alternate Chair)
Richard Barker	Council Member
Chris Buckley	Council Member
Anne McGeachin	Council Member
Ken Lever	Council Member
Gunnar Miller	Council Member (from minute 6)
Liz Murrall	Council Member
Veronica Poole	Council Member (from minute 6)

Observers:

Mike Ashley	EFRAG Observer
Matt Blake	HMRC observer
Michael Kavanagh	IAASA Observer
Phillip Trotter	HMT Observer

In attendance:

Anthony Appleton	Director of Accounting and Reporting
Mei Ashelford	Project Director, Accounting & Reporting Policy Team
Jenny Carter	Director of UK Accounting Standards, Accounting & Reporting Policy Team
Francesca Chittenden	Council Secretary
Annette Davis	Project Director, Accounting & Reporting Policy Team
Jennifer Guest	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
Susanne Pust Shah	Project Director, Accounting & Reporting Policy Team
Deepa Raval	Project Director, Accounting & Reporting Policy Team

Apologies

Apologies were noted from Roger Marshall (Chair).

1. Minutes of the Previous meeting and rolling actions

- 1.1 The minutes of the previous meeting were approved for publication.
- 1.2 The rolling action log was noted. The Council also noted that the response to the IASB ED on the equity method had been finalised following the discussion held at the

February Council meeting and had been submitted. The Director of Accounting undertook to circulate the response to the Council for information.

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, the European Commission and an update on decisions taken by the Codes & Standards Committee (CSC) and FRC Board. Particular attention was given to the following matters:

International developments

- 2.2 The Council noted that the IASB had met on 19–20 February 2014 and had discussed financial instruments and its research project on rate regulated activities. The Council noted that the IASB had also discussed, and subsequently published, its latest work plan and that the target dates for a number of narrow-scope amendments had been delayed. The Council also noted that the new effective date for all phases of IFRS 9 was now set at 1 January 2018 and that publication of the new standard for revenue recognition was delayed to Q2 2014. The Director of Accounting informed the Council that the IASB had begun the public consultation stage of its Post-Implementation Review of IFRS 3 by publishing a request for information and that the FRC would be holding a joint outreach event with the ICAEW to draw out issues to inform the FRC response.

- 2.3 The Council noted that the Accounting Standards Advisory Forum (ASAF) had met on 3–4 March 2014 and had been attended by Roger Marshall and Andrew Lennard (AL). The Council noted that ASAF had considered:

- the Complexity Bulletin, which had been generally well received;
- a presentation from the IASB on rate regulation;
- the Leases project;
- the Conceptual Framework; and
- the Disclosures initiative, including reference to the FRC's work on cash flows.

The Council was pleased to note that the IASB staff had requested a meeting with AL and the Chairman to discuss the FRC's views on prudence in the context of the Conceptual Framework.

European Developments

- 2.4 The Council noted the following:
- Work to implement the Maystadt recommendations on the reform of EFRAG was continuing and debate was currently focused on interaction between the EFRAG Board and the Technical Expert Group;
 - The European Commission has dismissed the contract awarded to ICAEW and Mazars for a study to assess the effects of using IFRSs in the EU due to complaints about a lack of independence and is considering how to proceed with the evaluation of the IAS Regulation. The Council noted the European Parliament had approved funding for EFRAG and the IASB on the basis of the review being undertaken and accordingly, the FRC was considering how it and other standard setters in the EU could assist with undertaking that review.

UK Developments

2.5 The Council noted the following:

- The FRC was continuing discussions with the National Housing Federation (NHF) and the Housing Association SORP Working Party and that it had been proposed that the SORP-making body should issue a narrow-scope exposure draft on impairment for an 8 week consultation period, and that the SORP-making body would be encouraged to engage with users of the sector's financial statements, especially providers of debt finance, to ensure that the proposals meet their information needs.
- The directive for disclosure of non-financial information has been agreed by the European Parliament and the Council. The Council noted that the FRC was pleased with the outcome for the proposals and placed on record its thanks to Deepa Raval and Jonathon Compton for their work in influencing the proposals.
- ESMA has launched a consultation on Alternative Performance Measures and the ARPT team would be leading the development of an FRC response and the Council would have the opportunity to consider the response at its April meeting.

3. **Director of Research**

3.1 Andrew Lennard (AL) informed the Council that a meeting of the Academic Panel was taking place the following day (13 March) and invited Council members to attend.

4. **Draft SORP: PRAG (Pension Schemes)**

4.1 Discussion of the Draft SORP: PRAG (Pension Schemes) was deferred to the April meeting to allow the SORP-making body to finalise the draft in light of a discussion held at the Technical Advisory Group meeting on 6 March.

5. **FRED 52: FRSSE (Micro-entities)**

5.1 Jenny Carter (JC) introduced a paper that set out a number of amendments to the FRSSE – Micro-entities which were required to incorporate the new legal framework for reporting by micro-entities. The Council noted that the Financial Reporting Exposure Draft (FRED 52) had been issued in December and proposed amending the FRSSE to provide entities with a micro-entity regime within accounting standards that was compliant with the new regulations; it would be effective for accounting periods ending on or after 30 September 2013. The Council also noted that the proposals would be a short-term measure pending revisions to accounting standards relating to the implementation of the full Accounting Directive.

5.2 JC reported that nine responses to FRED 52 had been received and that two significant issues relating to user-friendliness and transitional provisions had been raised and considered by the UK GAAP Technical Advisory Group (TAG) which had recommended that:

- a. given the longer-term aim of issuing a separate accounting standard for micro-entities sufficient improvements in user-friendliness could be achieved by including disclosure requirements in full and by improving the summarised definition of a micro-entity; and

- b. a paragraph be added to the Accounting Council's advice to highlight that the requested transitional provision to permit micro-entities to carry forward a previous revalued amount as 'deemed cost' for fixed assets is not permitted by the legal framework and will not be included.
- 5.3 The Council agreed with the recommendations proposed by the TAG and suggested that it would be useful for the paragraph referred to at bullet point 'b' above to highlight that the micro-entities regime is optional and should a micro-entity wish to carry forward a revalued amount the micro-entity can opt not to apply the micro-entities regime.
- 5.4 The Council approved its advice to the FRC Board to issue the *Amendments to the Financial Reporting Standard for Smaller Entities (effective April 2008)* and the *Financial Reporting Standard for Smaller Entities (effective January 2015) – Micro-entities*, subject to the point raised above at bullet b and minor drafting amendments.
- 6. Accounting by small and micro-entities – Accounting Directives**
- 6.1 Mei Ashelford (MA) introduced a paper which provided an update on the progress made on the review of the accounting standards for small and micro-entities necessitated by the introduction of the EU Accounting Directive and the need to align the FRSSE with FRS 102.
- 6.2 MA reported that staff had initially proposed that both small and micro-entities be brought into the scope of FRS 102, with amendments to accommodate legal requirements. The Accounting Council and Codes & Standards Committee, had agreed with the proposal, subject to the FRC performing further informal outreach. The outreach had shown that the proposals had generally been well supported, and accordingly, work to develop the new framework for micro-entities had begun. The Council noted that it had been concluded by the team that the clearest and most efficient way to present the micro-entities framework would be through the production of a separate standard, rather than through the introduction of a new section in FRS 102. MA informed the Council that the revised approach had been considered and generally supported by the Technical Advisory Group despite varying views in relation to the loss of a 'one stop shop'.
- 6.3 The Council supported the recommendation that a standalone standard (The Financial Reporting Standard for Micro-Entities) is developed and supported the approach set out, that this should be developed from FRS 102. The Council noted and considered a number of proposed exemptions and simplifications and the most significant amendments that would be required to FRS 102 for it to be compliant with the Micro-Entities Accounting Regulations.
- 6.4 The Council noted that the team had not yet begin considering whether any amendments will be required to FRS 102 as a result of the implementation of the EU Accounting Directive due to a number of uncertainties. MM provided an update following a meeting of the BIS Programme Board 'Implementing the Audit and Accounting Directive'. The Council noted that it will be kept up-to-date on the development of proposals for implementing the Directive, both in terms of law and accounting standards.

6.5 Despite the uncertainties the Council agreed that small companies should be brought into the scope of FRS 102; and that a new sub-section is added in to Section 34 of FRS 102 (entitled Specialised Activities) for residential management companies. However, the Council noted that further work was required in relation to the requirements that will be included in FRS 102 on residential management companies.

7. FRED 51: Hedge Accounting – Initial analysis of responses and key issues

7.1 Susanne Pust-Shah (SPS) introduced a paper which provided an analysis of the responses the FRC received to FRED 51 and proposals for consideration to address the issues raised by respondents in respect of hedged items.

7.2 The Council noted that 21 responses to FRED 51 had been received and that the majority of respondents were broadly supportive of the proposal and agreed that simplified hedge accounting requirements based on IFRS 9 serve best the needs of users and preparers of financial statements prepared in accordance with FRS 102. The Council advised that based on this feedback it agreed that the existing hedge accounting requirements should be amended on the basis set out in FRED 51, subject to technical comments raised by respondents. The Council noted that it may be beneficial to conduct further targeted outreach to clarify aspects of some of the responses.

7.3 The Council noted the Building Societies Association (BSA) response letter and that whilst the BSA agrees with the overall objectives of FRED 51, the BSA is concerned by the lack of a macro hedging provision and suggests that macro-hedging should be expressly permitted within Section 12 *Other Financial Instruments Issues* of FRS 102. The alternative currently available within FRS 102 to use either IAS 39 or IFRS 9 for the recognition and measurement of financial instruments, where macro-hedging is possible, is not an adequate solution for the majority of smaller building societies in the view of the BSA. In discussion of the concerns and whether or not FRS 102 should be amended to specifically provide for macro-hedging, the Council concluded that further information on the specific hedging strategies of building societies is needed, as well as on the practical difficulties building societies have identified if they were to adopt the requirements of IAS 39. Accordingly the Council asked that BSA representatives come to the April Council meeting to inform the Council's future deliberations on this topic.

7.4 The Council considered the recommendations set out in the paper and the rationale for the amendments and advised that in respect of eligible hedged items it would be appropriate:

- To explicitly permit that a group of eligible items can constitute a hedged item. The Council deferred its advice decision in relation to the hedging of net positions and requested that further information on the need for net position hedging is gathered to inform debate at the next meeting.
- To explicitly allow that components of eligible items can be hedged items and include a description of what constitutes a component in FRS 102.
- Provide the exemptions in IFRS 9 concerning the hedging of intragroup transactions in FRS 102.

7.5 The Council noted that recommendations in relation to a number of other issues identified by respondents, including recommendations relating to transitional provisions will be brought to the Council for consideration at a future meeting.

8. Guidance on the Strategic Report: Remaining issues

8.1 Deepa Raval (DR) introduced a paper which set out proposals to address the outstanding issues on the Strategic Report Guidance.

8.2 The Council noted that following the discussion of the Council, and discussions with the Narrative Reporting Working Group (NRWG) the Guidance had been revised so that the 'placement of information in the annual report' section encourages preparers to consider the annual report as a whole, rather than focussing on the strategic report, and also encourages preparers to concentrate on the communication outcomes rather than on the use and definition of specific terms. The Council also noted that the Guidance had been revised to make clear the different treatments of information that is required for compliance purposes and that which is considered voluntary and also to provide clarity on the concepts of 'signposting' and 'cross-referencing'.

8.3 The Council noted that the FRC had been working closely with BIS to obtain clarification on a number of legal questions relating to the regulations that have been identified as a result of the consultation. BIS would be sending a letter to the FRC, clarifying the questions raised, which would be published alongside the Guidance. The Council noted that the letter would provide clarity on cross-referencing and the safe harbour provisions and the legal provisions for preparing a standalone strategic report.

8.4 The Council welcomed the revised section of the Guidance in relation to placement and suggested some minor drafting improvements. The Council also suggested that further consideration should be given to paragraphs 1.4-1.7 of the Guidance relating to the purpose of the Annual Report and the hierarchy of the categories of stakeholders listed. The Council highlighted the importance of continuing dialogue with the International Integrated Reporting Council and noting areas of consistency.

8.5 The Council noted that the complete draft Guidance on the Strategic Report would be brought to the Council for advice in April with the intention that the Guidance be published in June 2014 following consideration by the Codes and Standards Committee.

9. Intangible assets and their amortisation

9.1 Seema Jamil-O'Neill introduced a paper presenting the findings of a research project undertaken by the FRC to gather views from Investors in relation to the accounting treatment and presentation of intangible assets and their amortisation. The Council noted that the FRC intends to publish the research paper on 25 March ahead of its IFRS3 outreach event.

- 9.2 The Council welcomed the paper and commented on the interesting views and insights that were presented. The Council identified some findings which it suggested should be highlighted and explored in further detail in the paper, particularly, the findings relating to the accounting of goodwill for intangible assets acquired as a result of a business combination.
- 9.3 The Council also discussed the drafting of the paper. It suggested that the recommendations and conclusions should be toned down so that it is clear that the paper is a report on the findings of a research project which has identified areas for exploration and further consideration and that it does not purport to be formal recommendations of the FRC. The Council also suggested that the paper could be strengthened by detailing statistically the extent of the support for the views that had been expressed and by amending the tables at the start of each section.
- 9.4 The Council requested that a revised draft of the paper, taking into account the comments made at the meeting, be circulated to the Council members by email for review prior to publication.

10. Draft Bulletins on cash flow and unit of account

- 10.1 AL introduced draft Bulletins on cash flow and unit of account. He explained that, as agreed by the partners, two outlines on cash flow had been prepared: one that addressed issues on the cash flow statement of general application, and one that addressed the circumstances of financial institutions. The same outlines had been discussed by the ERFAG Technical Advisory Group (TEG). The view had been expressed that they should be merged into a single Bulletin. It was also considered that the general outline raised issues that were appropriately dealt with at the level of standards and that the Bulletin should be confined to issues that were relevant to the Conceptual Framework.
- 10.2 The Council considered that further analysis was required on the objective of the cash flow statement.
- 10.3 The Council welcomed the development of a Bulletin on unit of account.
- 10.4 It was noted that these Bulletins would be considered again by the Council when they were at a more developed stage.

11. Leases

- 11.1 Annette Davis (AD) introduced a paper that provided an update on the FRC's outreach activities, a summary of the discussion at the ASAF meeting on the leases project and ideas for simplification.
- 11.2 AD informed the Council that a common theme arising from the outreach was that the scope encompasses too many contracts that contain significant service components and that, in response to this view; the FRC had prepared a paper to facilitate discussion of a proposed modification to the ED to scope contracts with significant services out of the leasing standard. The Council welcomed the paper and considered that the paper presented views that were consistent with the views the FRC had previously suggested to the IASB. However, the Council was unsure that

the proposed modification would be the solution to the complexity of the leases proposals.

- 11.2 The Council requested feedback on the IASB's discussions of possible simplifications at its next meeting.

12. Any other business

- 12.1 The Council noted that the IFRS Interpretations Committee had issued a tentative agenda decision on issues related to the application of IAS 1 *Presentation of financial statements* in the January 2014 edition of IFRIC Update. A member commented that they did not agree with IFRIC's view that the addition of pro forma columns to the primary statements would be unlikely to meet the requirement in IAS 1 relating to the presentation of additional information in the financial statements and did not consider that IFRIC should propose restrictions on the use of columns in the financial statements.

- 12.2 There was no other business.

13. Next meeting

- 13.1 The next meeting of the Accounting Council will be on 10 April 2014.