

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

Present:

Roger Marshall	Chair
Richard Barker	Council Member
Chris Buckley	Council Member
Anne McGeachin	Council Member
Ken Lever	Council Member
Gunnar Miller	Council Member
Liz Murrall	Council Member
Veronica Poole	Council Member
Pauline Wallace	Council Member

Observers:

Mike Ashley	EFRAG Observer
Michael Kavanagh	IAASA 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
Jonathon Compton	Seconded, Accounting & Reporting Policy Team
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

1. Welcome and Apologies

- 1.1 Apologies were noted from Matt Blake (HMRC observer).

2. Minutes of the Previous meeting and rolling actions

- 2.1 The minutes of the previous meeting were approved for publication subject to a minor typographical amendment.

2.2 The status of the actions listed on 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 Codes & Standards Committee (CSC) and FRC Board. Particular attention was given to the following matters:

International and European developments

3.2 The Council noted that the IASB had issued IFRS 14 *Regulatory Deferral Accounts* and a Request for information *Post-Implementation Review: IFRS 3 Business Combinations*. The Council noted that the development of an FRC outreach programme to inform the FRC's response to IFRS 3 was underway and that the EFRAG questionnaire, which was due to be issued shortly, would provide a framework for that outreach.

3.3 The Council noted that the Accounting Regulatory Committee (ARC) had met on 11 February and had:

- Advised that the Directive for Non-Financial Reporting was expected to be adopted in April.
- Advised that it had awarded the tender for a study to review the IAS Regulation to the ICAEW and Mazars. The study would focus on preparer and user views of the IAS Regulation. The findings of the study, together with other information the European Commission plans to gather will be presented at a conference on 4 December and reported to European Parliament by the end of 2014.
- Voted in favour of the endorsement of IFRIC 21 *Levies* which would most probably be adopted by the end of June.
- Advised that *Defined Benefit Plans: Employee Contributions (amendment to IAS 19 Employee Benefits)* and the Improvements to IFRSs: Cycles 2010–2012 and 2011–2013 would most probably be endorsed by the end of the year as a result of the European Parliament recess from March to July. Endorsements of other IASB standards and amendments issued this year, such as IFRS 14 *Regulatory Deferral Accounts* would be discussed over the recess period but a vote will not take place during that period. The Council noted that this delay should not be problematic for preparers.

Maystadt

3.4 The Council noted that discussions around the recommendations of the Maystadt report were continuing. Anthony Appleton (AA) informed the Council that European Supervisory Authorities (ESAs) had written to the European Commission (EC) to express concerns over the proposed voting model as recommended by Maystadt, on the basis that the ESAs believe responsibility for giving endorsement advice to the EC should be led by those who have a duty to protect public interest, not those representing private interests. The Council also noted that whilst no official timetable is in place the EC will present a report to the European Parliament on the progress of the implementation by 31 March.

Financial instruments

- 3.5 The Council noted that the IASB had discussed a number of papers in relation to classification & measurement and impairment at its January meeting with a view to conclude the projects. Seema Jamil-O'Neill (SJON) highlighted that the IASB had tentatively concluded that the FVOCI model is likely to be applicable to entities holding insurance contracts despite an acknowledgment by IASB members of the 'mismatch' that would arise.
- 3.6 SJON noted that the IASB planned to consider proposals on transition for IFRS 9 at its February meeting. One option it is likely to consider is to finalise the "classification and measurement" and "impairment" phases of IFRS 9 at the same time. The Council also noted that the FRC had discussed with the PRA and FCA the lack of convergence between IFRS and US GAAP

European Legislation on Non-Financial Reporting

- 3.7 The Council noted that progress in relation to the development of the legislation was very fast moving and although issues had been identified in relation to the scope and the audit-ability of disclosures, it could be expected that a vote on the proposals could be made shortly.

UK GAAP

- 3.8 The Council noted that the FRC had met with the Chairman of the Housing SORP-making body and representatives from the National Housing Federation (NHF) to discuss the concern that had been identified in relation to the impairment model proposed in the Social Housing SORP. It was noted that the meeting has been constructive and that useful information had been gained which would be used to inform deliberations on the issue.

4. Director of Research

- 4.1 Andrew Lennard (AL) introduced a paper which provided an overview of current research challenges and opportunities.
- 4.2 AL highlighted the importance of the FRC continuing to influence the development of the Conceptual Framework and identified four specific areas the FRC had identified when preparing the response to the IASB's discussion paper that the FRC should influence further. The Council considered that it would be appropriate to undertake research activities in relation to those four issues: measurement, profit and loss and OCI, unit of account and the definition of liabilities.
- 4.3 The Council noted that the FRC would continue to contribute to the development of bulletins and that the FRC would be leading the development of a bulletin on cash flows. The Council welcomed this undertaking and provided a steer on the direction that should be taken in drafting the bulletin.

- 4.4 The Council discussed the FRC communication strategy and highlighted the importance of ensuring that the FRC engages with the general public as well as relevant stakeholder organisations and professions.

5. IFASS Preparation – Cash Flows

- 5.1 AL introduced a paper that was to be presented to the International Forum of Accounting Standard-Setters (IFASS) at its meeting on 6-7 March 2014. AL invited the Council to provide views to assist AL in presenting the paper to IFASS and to inform planning on future work on the topic.
- 5.2 The Council welcomed the approach that had been taken in drafting the paper to breakdown the broad scope of cash flows in to smaller 'bite sized' pieces which could be addressed.
- 5.3 The Council highlighted that statement of cash flow as prescribed in IAS 7 does not achieve the objective of providing a succinct statement and identified two possible causes for this:
- a) a failure to address the concept of free cash flows, despite variations of the concept being applied in practice by users of the financial statements, and that
 - b) Insufficient disclosure requirements to explain the components and calculation of amounts presented in the statement.
- 5.4 The Council considered that statements of cash flows are important tools and that the IASB should be encouraged to take actions to improve the usefulness and reduce the diversity in statements of cash flow.

6. FRS 103 *Insurance Contracts*

- 6.1 Jenny Carter (JC) introduced the draft standard FRS 103 *Insurance Contracts* and accompanying implementation guidance for consideration. The Council noted that the standard had been subject to fatal flaw review and suggested three minor amendments to the draft in response to that review. The Council also noted that there had been no adverse feedback received in relation to the decision taken at the previous meeting regarding foreign exchange translation.
- 6.2 The Council requested that, in the Accounting Council's Advice to the FRC Board, the statement setting out the Codes & Standards procedure and the status of the Council's advice to the FRC Board be retained. MM highlighted that a project is in hand to develop a consistent approach to the publication of advice across the FRC.
- 6.3 Subject to the above the Council approved FRS 103 *Insurance Contracts* and its advice on that standard for recommendation to the FRC Board. The Council noted that, subject to the Board's approval, it would be issued in mid-March 2014.

7. Draft SORP: FEHE (Further and higher education institutions)

- 7.1 Mei Ashelford (MA) presented the draft FE/HE SORP to the Council for consideration. The Council noted that the draft SORP had been considered by the Committee on Accounting for Public-benefit entities (CAPE) at its meeting on 28

January and that CAPE had confirmed that due process had been followed and that the SORP was compliant with the FRC's SORP Policy and Code of Practice.

- 7.2 MA informed the Council that the Exposure Draft had initially proposed to restrict the policy choice on government grants to just the performance model to encourage consistency of treatment across income streams from both non-government and government sources but that following significant push back, predominantly from the FE sector, the SORP-making body had decided to lift the restriction and reintroduce the accrual model option.
- 7.3 The Council noted that CAPE had expressed disappointment that the SORP-making body was unable to promote consistency in the area, and that CAPE did not consider the reintroduction of choice to be the correct treatment for government grants. However, on the basis that the reintroduction does not conflict with the requirements of FRS 102, CAPE had been unable to oppose the decision. MA informed the Council that CAPE Members considered that the issue was caused by conceptual flaws which should be addressed in order to resolve the inconsistency within FRS 102. Following discussion of advice received from CAPE, the Council suggested that the Chairman and Executive should urge the IASB to reconsider the accounting of non-exchange transactions and for the Chairman and the Executive to highlight the issue with EFRAG, ASAF and other national standard setters.
- 7.4 The Council noted and were content with the drafting improvements that had been made to clarify the intention around performance-related conditions, the removal of any interpretation of the definition of key management personnel and the introduction of an option to present a multi-columnar I&E account. The Council agreed to recommend to the Codes & Standards Committee that it issue the FRC statement on the FE/HE SORP.

8. Disclosure of investment charges

- 8.1 Jennifer Guest (JG) introduced a paper which had been prepared in response to a request from the Council for a comparison of the charges that are disclosed in the IMA and AIC SORPs. The Council noted that historically the scope of the IMA and AIC SORPs had been different, with the scope of the IMA SORP much broader than that of the AIC SORP which relates to just the financial statements. A risk had been identified in relation to this inconsistency, but consideration also needed to be given to whether the FRC should require a SORP to recommend disclosure of information outside the remit of financial reporting standards.
- 8.2 The Council considered a table which compared the disclosure requirements of the IMA and AIC SORP and identified that there are two key differences:
- a) The IMA SORP requires disclosures for three years, whereas the AIC requires disclosures relating to the current and prior year.
 - b) There is a difference in the granularity of the 'per unit' disclosures: the IMA SORP requires charges to be disclosed 'per unit' whereas the AIC SORP requires charges to be disclosed 'per share', but the scope of the IMA SORP "per unit" disclosures is broader than that of the AIC SORP.

- 8.3 In discussing the comparative table the Council acknowledged that whilst there are a greater number of disclosures required in the IMA SORP, those disclosures would be simple for a user of the AIC accounts to calculate given that the weighted averages per share are provided, however, the Council queried whether it would be appropriate to require a user to make those calculations. It was also acknowledged that some of the differences may be a result of the fact that the IMA SORP is applicable to open ended investment funds whereas the AIC SORP is applicable to closed end funds.
- 8.4 The Council noted that, at its request, the AIC had included a statement highlighting the issue in the AIC SORP consultation draft and that the consultation had not yet closed. Accordingly, the Council agreed to defer further consideration of the issue until the consultation period had concluded and the SORP working party had considered any feedback received and determined what action to take in respect of disclosure requirements.

9. SORP: IMA

- 9.1 Jennifer Guest JG introduced the draft IMA SORP for Authorised Funds which had been updated to reflect FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. The Council approved the changes to the draft SORP that had been suggested by the UK GAAP Technical Advisory Group and considered that the draft did achieve the objective of providing high-quality understandable reporting proportionate to the size and complexity of the entity and users' information needs.
- 9.2 The Council noted the proposed FRC statement and were content with the wording. They confirmed that the statement did not need the addition of a paragraph on the revenue capital split. The Council agreed to recommend to the Codes & Standards Committee that it issue the FRC statement on the IMA SORP for Authorised Funds.

10. UK GAAP – implementation update

- 10.1 Jenny Carter (JC) introduced a paper that provided an update on ongoing activities in relation to UK GAAP. The Council noted the minutes of the meeting of the UK GAAP Technical Advisory Group (TAG) held on 23 January 2014 and the minutes of the meeting of the Committee on Accounting for Public-benefit Entities (CAPE) held on 28 January 2014.
- 10.2 The Council noted that the comment periods for FRED 51 *Draft Amendments to FRS 102 - Hedge Accounting* and FRED 52 *Draft Amendments to the FRSSE* were due to close on 14 February and 12 February respectively and that a discussion on both would be brought to the March meeting of the Council. The Council also noted that FRED 54 *Draft amendments to FRS 102 – Basic Financial instruments* had been issued that day (13 February) for consultation, with a comment period ending on 30 April 2014.
- 10.3 The Council noted that the TAG had discussed the potential implications for FRS 102 arising from IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their interaction* and had agreed that the issue required consideration to address the potential risk of diversity in practice, and in particular,

the possible need to recognise an additional obligation in relation to a schedule of payments relating to a deficit arising from past service. The Council noted that TAG had not reached yet a consensus on a number of options for clarifying the requirements of FRS 102. One option under consideration was whether, for entities applying FRS 102, a schedule of payments in relation to a defined benefit pension plan should not be considered an onerous contract to which Section 21 *Provisions and Contingencies* applies. The Council stated that further consideration on the issue was required but on the basis that FRS 102 was intended to be a less onerous and simpler standard to apply than full IFRS considered that this approach might be appropriate. The Council noted that TAG would consider the issue again at its next meeting and recommendations for the Council to consider would follow in due course.

- 10.4 Susanne Pust Shah (SPS) brought to the Council's attention a proposed editorial amendment to FRS 102 to clarify that paragraphs 11.38A and 12.25A (offset requirements) apply if an entity selects the option to apply the recognition and measurement requirements of IAS 39 or IFRS9/IAS 39. The Council had no objections.
- 10.5 The Council concurred with the proposal that the accounting requirements of IFRIC 21 *Levies* are not to be explicitly incorporated into UK GAAP since the accounting issue addressed in IFRIC 21 is confined to the financial sector and there is less risk of diversity in practice.
- 10.6 Mei Ashelford (MA) informed the Council about practical implementation issues in respect of accounting for goodwill on transition to FRS 102. The Council agreed that preparers should use common sense in determining the useful life of goodwill and other intangible assets on transition to FRS 102. Where an entity is unable to reliably estimate the useful life, FRS 102 requires an entity to use a useful life of up to 5 years. Where an entity has previously used an indefinite useful life under FRS 10 it seems illogical to revert to 5 years simply on the basis that the entity is unable to reliably estimate the useful life beyond 20 years. The Council agreed that no further action was required to clarify or amend FRS 102.

11. Guidance on the Strategic Report: Remaining issues

- 11.1 Jonathan Compton (JCo) provided the Council with an update on the status of the development of the Guidance on the Strategic Report. The Council noted that team had completed the initial consideration of the detailed comments received in response to the consultation, and that the draft guidance had been redrafted to reflect comments received, the advice of the Council and in light of discussions held with Civil Society groups, investor organisations, BIS and the Narrative Reporting Work Group (NRWG). JCo highlighted that the NRWG had taken a similar view to the Council in relation to the 'placement of information in the annual report' section and the use of 'core and supplementary' and that the team would redraft that section for consideration at the March Council meeting.
- 11.2 The Council broadly supported the draft section of the guidance on 'materiality' subject to some minor drafting amendments and the removal of section 12. The

Council agreed that a requirement for disclosure of the materiality determination process should not be required in the revised guidance as this may create greater confusion in the area.

- 11.3 The Council noted that the EESCH content element had been expanded in response to calls for such guidance in the consultation. The Council were supportive of the revised EESCH content element and the justifications for including the additional paragraphs. JCo highlighted that there been significant push back in relation to the definition of Senior Manager as set out in the draft, but that the definition was taken directly from the Act and could not be redefined, he added that BIS were aware of the concern.
- 11.4 The Council were content with the content element of the draft and noted that comments from respondents to the consultation had been broadly supportive of the section. The Council highlighted that the wording relating to principal risks and long term solvency (as set out at paragraphs 1.2.4 and 1.2.6 respectively) would have to be reviewed following conclusion of the Sharman project and subsequent changes to the UK Corporate Governance Code.
- 11.5 The Council noted that further sections of the guidance would be brought to the Council for consideration at its March meeting and that the final guidance would be brought to the Council for approval in April.

12. Leases – Outreach and simplification

- 12.1 Annette Davis (AD) introduced the paper and sought initial views on the position the FRC should take in relation to the suggested approaches to simplify the IASB's proposals on leases. The Council noted that the FRC had arranged a number of meetings with preparers to discuss possible simplifications and that the feedback from these outreach events would be reported back to the Council and to the IASB.
- 12.2 The Council discussed the three simplification approaches that had been suggested and whilst there was some support for approach 1 (whereby there would be only one type of lease) the Council concluded that this would not address the needs of those users who had called for such a distinction.
- 12.3 The Council highlighted that one of the issues with the leases proposals is that the scope of the project is very wide and captures arrangements that appear to be services rather than leases. The Council consider that type A accounting is appropriate for genuine leases, a distinction between property leases and all other leases is unnecessary and the distinction should be between leases and services. The Council suggested that the IASB should be encouraged to consider a distinction between arrangements that are leases and arrangements that are services.
- 12.4 The Council considered that the options set out in relation to lessee small-ticket leases and other possible simplifications do not address the major issue which is the definition of a lease.

13. Annual improvements 2010-2012 and 2011-2013 – Endorsement Advice

13.1 The Council had no reservations in respect of the FRC response to the invitation to comment on EFRAG's draft endorsement advice and effects study reports on Annual Improvements to IFRSs 2010–2012 and 2011–2013 cycles.

14. Annual improvements 2012-2014 – Exposure Draft

14.1 Susanne Pust Shah (SPS) introduced the IASB exposure draft *Annual Improvements to IFRSs 2012-2014 Cycle* and the FRC draft response letters to the IASB and EFRAG (in respect of the EFRAG draft response letter to the IASB).

14.2 The Council was content with the draft responses in relation to the narrow scope amendment in IFRS 5 *Non-current assets held for sale and discontinued operations* dealing with changes in methods of disposal. The Council, highlighted, however potential issues in relation to the following proposed amendments:

- IFRS 7 *Financial Instruments: Disclosures* – Servicing Contracts. The Council suggested that there is a potential for confusion between the requirements in IFRS 7 and IFRS 9 *Financial Instruments* as both make reference to continuing involvement and service contracts. The proposed disclosure in relation to service contracts may also be unnecessary. It was also suggested that some of the drafting is unclear.
- IAS 19 *Employee Benefits* – Discount rate: regional market issues. The Council noted possible problems with the proposed amendments; (i) in countries of high inflation where employee benefits are paid in a different, stable currency and (ii) in the Eurozone, as it is not clear from the proposal what discount rate entities using the Euro currency would need to apply.
- IAS 34 *Interim Financial Reporting* – Disclosure of information elsewhere in the interim financial report. The Council was supportive of the proposed response and noted that the proposed clarification was an improvement on the current situation. However, the Council highlighted problems where information is disclosed outside the interim financial statements, since such information may or may not be subject to external review. It was suggested that the IASB is working with the International Auditing and Assurance Standards Board to consider possible consequences of disclosing information in other parts of the interim report.

14.3 The Chairman would be consulted on amendments to the letters before they were finalised.

15. Any other business

15.1 There was no other business

16. Next meeting

16.1 The next meeting of the Accounting Council will be on 13 March 2014.