



Minutes of the Financial Reporting Committee Meeting

held on Tuesday 22 March 2011 at 11:30am at
Mazars LLP, Tower Bridge House, St Katherine's Way, London, E1W 1DD

**The Quoted
Companies Alliance**

Present:

(In the Chair)	Anthony Carey	Mazars LLP	AC
	Anthony Appleton	PKF LLP	AA
	Peter Chidgey	BDO LLP	PC
	Sarah Cox	Ernst & Young LLP	SC
	David Gray	DHG Management	DG
	Paul Watts	Baker Tilly	PW
	Kern Roberts	Smith & Williamson	KR
	Chris Smith	Grant Thornton (UK) LLP	CS
	Matthew Stellabrass	Crowe Clark Whitehill	MS
	Colin Wright	UHY Hacker Young	CW
	Kate Jalbert (minutes)	QCA	KJ
	Tim Ward	QCA	TW

In Attendance:	Edward Beale	City Group plc	EB
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Action

1. Apologies/Welcome to New Members

Apologies were received from Ian Davies, Nick Winters, Simon Redfern, Ian Smith, and Jonathan Ford.

2. Minutes of the previous meeting (22 February 2011)

The minutes of the previous meeting were approved.

3. QCA Position – IFRS Simplification/IFRS for SMEs

• IFRS Complexity Survey:

KJ noted that it would be worth discussing some of the results that came out of the survey with the IASB at the upcoming meeting. KJ will look into this further. Committee members asked for the link to the survey results to be recirculated.

KJ

• IASB Paper – IFRS for SMEs Section 1, Issue 1 – Use of IFRS for SMEs in parent company's separate financial statements (RD: 4 April 2011):

It was agreed that no response was necessary.

• ASB: The Future of Financial Reporting (Future of UK GAAP) (RD: 30 April 2011):

AC noted that it would be helpful to go through each section of the questions in the consultation paper to help develop a position on the exposure draft.

The tier system:

EB noted that the committee should query in its response to these questions why FRSME/IFRS for SMEs is not accountable for publicly accountable entities. This statement appears to have been lifted from the original IFRS for SMEs standard and there has not been much explanation about what makes it unsuitable.

AC noted that the definition of publicly accountable entities that the ASB has proposed is actually wider than required under EU-IFRS and company law. MS noted that it may capture parent companies of those on AIM, requiring them to produce accounts in full IFRS. TW noted that this could be classed as UK goldplating, which the Government has been publicly against and so it may be worth capitalising on this in our response.

The committee agreed that the general response to Question 1 should be that we support a differential financial reporting framework, but not based on public accountability. The committee believes that it should be argued that companies on AIM and PLUS should not be required by the ASB to use full IFRS – as this extending their current remit and as they appears to be little reason supplied as to why FRSME would not appropriate for these companies to use, as the majority of companies on exchange regulated markets are small companies for which full IFRS is inappropriate and overly complex.

KR noted that in terms of Question 2 he felt that the change in the tier system must be proved to pass a cost/benefit for users and queried: Is it going to give a good cost/benefit for preparers and is moving closer to IFRS in all tiers going to be useful to preparers?

Entities without public accountability

In terms of Question 7, EB noted that the aim of evaluating and amending IFRS for SMEs for the UK should be to create the best possible standard for the UK.

In terms of Question 8, committee members provided a list of the standards that they believe should be amended in FRSME (originally from IFRS for SMEs) to make it more robust and less complex:

- Allow an option for revaluation
- Allow for capitalisation of interest, but make it optional
- Deferred tax – there was some debate about whether or not we should suggest using IAS 12 or rewriting the standard as a whole. This will be debated further at the next meeting.
- Re-examine fair value in financial instruments – MS pointed out that it may be possible to extend the exemption in IFRS for commodity use (own-use).
- Share Options – EB noted that there shouldn't be a requirement for these to be expensed.
- Financial Instruments – KR noted that the current definition in the FRSME is from IAS 39 and he believes that the hedging rules are too complicated and could be simplified.

Small Entities

It was agreed that no response was needed on this question.

Reduced disclosures for subsidiaries

Committee members agreed that all the requirements noted in Question 10 were appropriate.

In terms of Question 12, committee members noted that they are not persuaded to move from FRSA approach.

SORPs for profit-seeking entities

It was agreed that no response was needed on this question.

Draft Impact Assessment

EB commented that he felt that the ASB does not have a good enough grasp of who the users of accounts are. AC noted that the response should highlight that the costs to smaller quoted companies have not been adequately considered.

MS noted that the paper has a great deal of commentary on the lack of coherence of UK GAAP, but that there is a lack of evidence-base for this or an evaluation of the benefit of moving to this new framework. AC noted that this is connected to the question of whether committee members felt there was a need to change to a new system. EB noted that one system could be more useful for preparers and in terms of education. Committee members agreed to discuss this further once the first draft of the response was completed.

SC agreed to look at the questions of the draft impact assessment more closely and respond to the questions.

SC

Alternative view

Committee members noted that we had discussed in our response to the first questions on the tiers and public accountability definition. AA noted that he would look at Question 3 in this section more closely and

identify any differences between FRSME and full IFRS in terms of what might make it unsuitable for publicly accountability entities. **AA**

AA agreed to complete the first draft of the response based off of the conversation above for the next committee meeting (19 April 2011). **AA**

4. Consultation Papers/Current Issues

- IASB: Financial Instruments: Impairment Consultation (RD: 1 April 2011):

Committee members agreed that a response should go in expressing concern that the changes are being rushed and that the scope could still be too wide (e.g. the definition of open portfolios may catch others beside financial institutions). KJ will draft a response noting this and circulate it. **KJ**

- Financial Reporting Council: Effective Company Stewardship: Enhancing Corporate Reporting and Audit (RD:31 March 2011):

AC thanked EB for writing the first draft.

AA noted that is difficult to argue against the concept of including a statement on fair and balanced; however, it is putting the onus on the auditor rather and he is not sure how this could be enforced.

MS commented that the document lacks engagement with investors and lacks an evidence-base for the proposals. SC noted that EB raises a good point about on engagement with stakeholders and queried whether the complexity of financial statements has caused a lack of engagement.

AC noted that we should include something on how these proposals should be proportionate for smaller quoted companies.

PC noted that auditors already evaluate whether there is anything inconsistent in the annual report, however adding an evaluation of anything incorrect will be an extension of current work and this is where an extra cost for corporate will come in. AC noted that evaluating the front-end of a report is a very different process than looking at the financials and adding this new process would indeed add costs. AA noted that evaluating fair and balanced is a very qualitative judgement and so would be difficult even with standards/guidelines. KR noted that there is a question about expertise in evaluating narrative reporting by the auditors.

MS noted that there should be a comment in the response that the FRC needs to look at this consultation in the context of other work that is being completed, e.g. BIS narrative reporting consultation, European Commission green paper on audit and corporate governance, etc.

AC commented that some proposals seem more detailed and thought out than others. KR pointed out that the materiality issue is very much a general theme of the paper, in that people are not using financial statements.

KJ noted that she is going to draft a second response with help from Tim Goodman of the Corporate Governance Committee and will circulate it for comment. **KJ**

- ASB Financial Reporting Exposure Draft: Amendments to FRS29 (IFRS 7) – ‘Disclosures – Transfers of Financial Assets (RD: 30 April 2011):

Committee members agreed that there was no need to respond to this paper.

- IAASB: The Evolving Nature of Financial Reporting (RD: 1 June 2011):

KJ noted that this paper explores the issue of materiality and that it had been recommended for the QCA to respond to.

- ASB/EFRAG: Considering the Effects of Accounting Standards (RD: 21 August 2011):

KJ explained that this paper mainly looks at cost/benefit analysis and post-implementation reviews of accounting standards and how they can be improved.

5. Communications/Future Meetings:

- IASB Updates – March 2011: This was not discussed.
- Future Meetings/Guests: This was not discussed.
- IASB/QCA/EuropeanIssuers Meeting – 11 May 2011 – Points for agenda (needed by 1 April 2011): This was not discussed.

6. AOB:

- Materiality Roundtable Follow Up:

KJ is going to write up a summary of the debate to circulate to participants and QCA corporate members.

KJ

EB noted that the QCA should be asking the IASB to write a materiality statement in the disclosure section of standards. KJ will add this to the IASB meeting agenda.

TW suggested sending a consultation to the regulators on what could be done about materiality.

KJ and AC will draft up the next steps for the materiality project. AC also noted that it would be useful to have the new IASB chairman and vice-chairman attend a committee meeting in the future.

KJ/Chris Stapeley

7. Date of next meeting(s)

11/11:30 Tuesday 19 April 2011 (Host: Baker Tilly)

11/11:30 Tuesday 24 May 2011 (Host: BDO LLP)

8. Action Points

Action	Person	Timing
Further analysis of the IFRS survey for press and IASB meeting	KJ	ASAP
Review the draft impact assessment of the Future of Financial Reporting consultation	SC	ASAP (before the April meeting)
Review differences between FRSME and IFRS that may make the FRSME unsuitable for publicly accountable entities for the Future of Financial Reporting consultation	AA	ASAP (before the April meeting)
Draft a response to the Future of Financial Reporting consultation	AA	ASAP (before the April meeting)
Draft a response to the Impairment Consultation	KJ	ASAP (before 1 April 2011)
Produce a second draft of the Effective Company Stewardship Response	KJ/Tim Goodman	ASAP (before 31 March 2011)
Write up summary of the Materiality Roundtable	KJ	ASAP (before April meeting)
Draft a paper indicating next steps for the materiality project	KJ/AC	ASAP (before April meeting)
Invite the new Chairman and Vice-Chairman of the IASB to a committee meeting when they take up posts	KJ/Chris Stapeley	ASAP