



## Minutes of the QCA Financial Reporting Expert Group

**Held on:** Tuesday 9 April 2019

**Venue:** Smith and Williamson LLP, 25 Moorgate, London, EC2R 6AY

### **Present:**

Rochelle Duffy (Deputy Chair)	PKF Littlejohn	RD
Anthony Appleton	Financial Reporting Council	AA
Anna Hicks	Saffery Champness LLP	AH
Clive Lovett	Bilby PLC	CL
Claire Needham	KPMG LLP	CN
Elisa Noble	BDO LLP	EN
Peter Westaway	Deloitte LLP	PW
Tim Ward	Quoted Companies Alliance	TW
Anthony Robinson	Quoted Companies Alliance	AR
Jack Marshall	Quoted Companies Alliance	JM

### **In attendance:**

Seema Jamil O'Neill	BEIS	SO
Abigayle Briggs	BEIS	AB

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- 1. Welcome to Seema Jamil O'Neill, Head of Accounting and Reporting Policy, and Abigayle Briggs, Policy Officer, at the Department for Business, Energy and Industrial Strategy (BEIS), as guest speakers to give an update on the department's approach to the UK's Brexit negotiating position on accounting and reporting policy.**

RD welcomed SO and AB to the Financial Reporting Expert Group meeting.

#### Overview of the Accounting and Reporting Policy team

SO mentioned that the Accounting and Reporting Policy team cover accounting and corporate reporting only as other teams within BEIS were responsible for covering the likes of auditing and other reporting matters.

#### Equivalence and current negotiations with the EU

SO explained that BEIS are no longer working in a 'no-deal' Brexit scenario, and that her team are currently engaging with the EU and working out how best to take forward equivalence. Last July, the Government's White Paper on 'The future relationship between the United Kingdom and the European Union' was published, declaring its desire to maintain equivalence. Despite this, equivalence appears to be one of the major stumbling blocks of the current political declaration.

The UK wants to reach an agreement whereby bilateral equivalence with the EU is achieved. It is important to install the institutional architecture to ensure that there is equivalence for financial services, accounting and

auditing, but the extent and scope of equivalence must be established first. However, the EU has made it clear that formal discussions on equivalence will not proceed until the UK becomes a third country (i.e. the day the UK exits the European Union). The current deadline for achieving equivalence remains as June 2020, but it is not yet known as to whether an extension to exit day may alter this date.

SO expects the engagement between the UK and the European Commission on equivalence to commence in the Autumn and the implementation period will be used to ensure a smoother transition in order to agree the terms for equivalence. SO noted that EU IFRS will continue to be used until the UK's exit from the EU.

SO announced that the Treasury are currently considering approaches to equivalence for financial services and another team are considering the situation for audit. SO's team are responsible for equivalence for accounting. Historically, the EU granting equivalence has been a highly political process. The European Commission has published a paper that outlines the key areas of every equivalence position. The paper includes information on the technical assessment, implementation and enforcement approaches of equivalence, as well as the wider legal context.

Where the UK needs accounting equivalence:

- Transparency Directive – which is mainly applicable to UK listed companies
- Accounting Directive – which is applicable to all UK companies

SO stated that the two key issues on equivalence currently in contention are risks to the EU financial system by allowing UK equivalence technical aspect in regards to the legislation in place and how that it implemented and enforced including supervision. SO explained that BEIS believed the latter was not an issue despite ESMA raising concerns regarding the FRC and CRR. However, BEIS expect the former issue (i.e. the EU financial system) to be the biggest to overcome when obtaining equivalence.

A situation could arise whereby the EU does not recognise UK-endorsed IFRS because it does not grant equivalence. Under such circumstances, a UK company that is admitted to trading within the EU markets may be required to produce multiple sets of accounts – one to submit to the listing authority in the EEA and one in the UK. As such, this could create considerable cost/resource implications for many companies.

If there is a lack of equivalence between the UK and the EU, it is unclear as to whether this would make the UK a more or less attractive place for a company to list equity. If a lack of equivalence continues for a considerable period, companies will begin to question how long it is sustainable before they begin to make changes to their listing decisions. Recent estimations indicate that there are around 300 EEA companies listed in the UK, although it is not known as to whether these companies are listed in debt or equity. On the other hand, there are approximately 700 UK companies listed in an EU regulated market, most of which have a debt focus.

#### BEIS's approach

SO mentioned that BEIS is looking to refine its approach as it needs to understand the extent of impact for companies and determine the need for equivalence. To do so, BEIS are seeking input from companies in order to produce real-life case studies to help their engagement with the EU. Real-life case studies will help BEIS to demonstrate how a lack of equivalence might result in negative impacts for both the UK and the EU.

SO explained that BEIS want to look more into SME's, stating that a lot of SME's could be affected and take the brunt of the impact. Small and medium sized companies are likely to face considerable costs implications as a result of the additional regulatory requirements. A lack of equivalence in the UK could potentially impede trading across the borders in EEA countries.

BEIS are seeking to gain an understanding of what the implications would be if UK endorsed IFRS moved away from EU endorsed IFRS. The issues highlighted that BEIS needed to get to terms with were as follows:

- The cost implications to companies
- The additional resourcing that would be needed to support the new reporting requirements
- The time committed to addressing the additional requirements

SO invited the Financial Reporting Expert Group members to submit examples that clearly demonstrate the implications of a lack of equivalence to her team.

SO mentioned that both BEIS and the FRC had sent out information and guidance to help companies with potential accounting and reporting requirements should the UK leave the EU under a 'no-deal' Brexit scenario.

RD thanked SO and AB for their time. SO and AB left the meeting.

## 2. APOLOGIES

Apologies for absence were received from Edward Beale, Ben Courts, Mark Hodgkins, Matthew Howells (Chair), Laura Mott, Matthew Stallabrass and Jon Wallis.

## 3. MINUTES OF LAST MEETING

The minutes of the last meeting held on 29 January 2019 were tabled and approved without amendment.

## 4. ISSUES FOR DISCUSSION

	ITEM	ACTION
a)	<p><b>Topics to discuss with the IASB</b></p> <p>RD outlined the following initial topic areas that were proposed for discussion with the IASB:</p> <ul style="list-style-type: none"> <li>• Disclosures that are particularly voluminous, complex and of little use to the users of SME listed financial statements, such as accounting policies, fair values and financial instruments;</li> <li>• An update on the primary financial statements projects;</li> <li>• What models of goodwill were being looked at for the discussion paper; and</li> <li>• Business combinations under common control – what possible different models are being looked at for the discussion paper.</li> </ul>	<p><b>ALL</b> to send any further suggestions on potential topics to <b>JM</b>.</p> <p><b>JM</b> to liaise with IASB on the topics the group wishes to cover.</p>

	<p>On disclosures, the group expressed an interest in discussing the IASB's appetite to consider an equivalence to FRS 101 by granting certain types of disclosure exemptions for qualifying entities not just those relevant to SME's (i.e. under the IFRS for SMEs).</p> <p>Further to this, the group then discussed other topic areas they wished to raise, including:</p> <ul style="list-style-type: none"> <li>• Experience from the introduction of the new standards (e.g. IFRS 9, 15 and 16);</li> <li>• Recent and future Post-Implementation Reviews; and</li> <li>• General commentary on whether they foresee a period of stability in accounting standards.</li> </ul>	
<p><b>b)</b></p>	<p><b>Update of the Financial Reporting Expert Group <i>Terms of Reference (ToR)</i></b></p> <p>RD led a short discussion on the ToR under which the group operates and explained some of the changes that had been made to them. These included:</p> <ul style="list-style-type: none"> <li>• Adding an action to each point in order to clarify the groups responsibilities;</li> <li>• The addition of a section stating that the group will consider and evaluate the audit impact; and</li> <li>• The removal of the stewardship section.</li> </ul> <p>Following this, the group raised several additional points about the ToR. These were as follows:</p> <ul style="list-style-type: none"> <li>• Additional clarity over the groups remit needs to be incorporated into the ToR, as questions were raised over the relevance of certain consultations to the group and how broad the remit of the group should be. <ul style="list-style-type: none"> <li>○ It was highlighted that consultations were considered by the Chairs on a case-by-case basis.</li> </ul> </li> <li>• Amendments to the first paragraph to make the overarching remit of the group clearer.</li> <li>• Adjustments to the "narrative reporting" section to make it less specific to the strategic report requirements. The group observed that this should cover all narrative reporting included in the annual report. As such, references to KPI's and strategic report content should be removed.</li> <li>• Clarification over references to shareholders and stakeholders.</li> </ul>	<p><b>RD to meet with MH and discuss potential changes to the ToR.</b></p>
<p><b>c)</b></p>	<p><b>Future meeting and speaker priorities for 2019</b></p> <p>This was not discussed.</p>	<p>None.</p>
<p><b>d)</b></p>	<p><b>Outstanding consultations:</b></p> <ul style="list-style-type: none"> <li>i. <b>FRC – Business Reporting of Intangibles: Deadline to respond - 22 April 2019</b></li> <li>ii. <b>ICAEW – Guidance for preparers of prospective financial information: Deadline to respond – 22 April 2019</b></li> </ul>	

	<p>iii. <b>FRC - International Standards on Auditing - Going Concern: Deadline to respond - 7 June 2019</b></p> <p>RD reminded the group of the three outstanding consultations that the group is responsible for.</p>	<p><b>ALL</b> to send comments on the consultations to <b>JM</b>.</p>
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## 5. COMMUNICATIONS AND FUTURE MEETINGS

	ITEM	ACTION
a)	<p><b>The QCA submitted an initial response to the Treasury Committee’s consultation on the future of financial services in the UK.</b></p> <p>This was tabled for information only and not discussed.</p>	None.
b)	<p><b>The QCA/Peel Hunt Mid and Small-Cap Investor Survey was published in February 2019. Some of the key findings include:</b></p> <ul style="list-style-type: none"> <li>i. <b>62% of investors report that there is less research being produced on small and mid-caps since MiFID II came into effect.</b></li> <li>ii. <b>86% of investors expect there to be fewer broking houses in the next 12 months as a result of MiFID II.</b></li> <li>iii. <b>Companies are taking action – 90% say they either have, or plan to, develop their corporate website to improve visibility to investors. Investors say that holding a capital markets day is the best way to improve visibility.</b></li> </ul> <p>This was tabled for information only and not discussed.</p>	None.
c)	<p><b>The project for updating the QCA Audit Committee Audit Guide is progressing and is on course for release in the first half of this year. We are also surveying companies that adopted the QCA Corporate Governance Code to identify any ways in which we might be able to improve the Code and see if we can find evidence that following the QCA Code has helped companies.</b></p> <p>This was tabled for information only and not discussed.</p>	None.
d)	<p><b>Henley Business School have been commissioned by the QCA and Downing LLP to undertake a research project to understand the role that NEDs play in smaller growth companies. They are currently in the process of collating the findings from the interviews and focus groups they conducted and will be released in the first half of this year.</b></p> <p>This was tabled for information only and not discussed.</p>	None.

## 6. ANY OTHER BUSINESS

None.

**7. NEXT MEETING**

Tuesday 18 June 2019, 4.30pm – 6.00pm (Venue: Deloitte LLP, Hill House, 1 Little New Street, London, EC4A 3TR)