QUOTED COMPANIES ALLIANCE

Minutes of the QCA Financial Reporting Expert Group

Held on: Tuesday 18 June 2019
Venue: IFRS Foundation, Columbus Building, Canary Wharf, E14 4HD

Present:

Matthew Howells (Chair)	Smith & Williamson LLP	MH
Rochelle Duffy (Deputy Chair)	PKF Littlejohn	RD
Anna Hicks	Saffery Champness LLP	AH
Elisa Noble	BDO LLP	EN
Matthew Stallabrass	Crowe UK LLP	MS
Peter Westaway	Deloitte LLP	PW
Anthony Robinson	Quoted Companies Alliance	AR
Jack Marshall	Quoted Companies Alliance	JM

In attendance:

Campbell Dawson	Beowulf Mining PLC	CD
Mark Hughes	Westminster Group PLC	MH
Christopher Yates	Gordon Dadds	CY
Nili Shah	IFRS Foundation	NS
Darrell Scott	IFRS Foundation	DS
April Pitman	IFRS Foundation	AP
Kathryn Donkersley	IFRS Foundation	KD
Riana Wiesner	IFRS Foundation	RW
Uni Choi	IFRS Foundation	UC
Angie Ah Kun	IFRS Foundation	AAK

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1. **Welcome to Nili Shah, Executive Technical Director at the IASB, and colleagues, to give an update on the IASB's priorities and discuss the following topics:**
    a. **Goodwill;**
    b. **Primary financial statements**
    c. **Disclosure Initiative's Standards-level review of disclosures project; and**
    d. **Financial Instruments with Characteristics of Equity.**

MH welcomed NS and colleagues to the Financial Reporting Expert Group.

<u>Primary Financial Statements</u>
The meeting began with an update on primary financial statements (PFS). Having initially began in 2015, the IASB's PFS project is due to publish its exposure draft for public comment in Q4 of 2019. The objective of the PFS project has been to make targeted improvements to the primary financial statements with a focus on the statements of financial performance.

There were two main issues identified with PFS in their current format, these related to comparability and transparency. In order to address issues of comparability – whereby the statements of financial performance are not comparable between different companies – the IASB were looking to introduce additional required and defined subtotals in the statements of financial performance. To address issues of transparency, the IASB were looking to restrict disclosure of Management Performance Measures (MPMs, as alternative performance measures are now referred to) to the notes. The level of disaggregation was also cited as an issue, with more emphasis to be placed on "unusual items", which are broadly defined as those that are genuinely non-recurring.

A question was asked on whether the IASB has a view on the appropriateness of MPMs. It was mentioned that there was lots of interaction between IFRS and regulators and that the agenda consultation of the IASB was coming up, which will outline its 5 year work plan.

<u>Goodwill</u>

In regards to goodwill, the IASB are in the process of conducting a post-implementation review of IFRS 3 in order to identify the problems associated with it. The issues identified thus far are as follows:

- The cost of impairment tests;
- The timeliness of impairment tests; and
- Users' need for information to assess subsequent performance of acquisitions.

The IASB explained that they were looking to simplify the impairment test process to allow for consistency in internal budgets, as well as improve disclosures to counter the above issues.

<u>Disclosure Initiative's Standards-level Review of Disclosures Project</u>

The IASB mentioned that the Board had identified three main concerns about disclosures in financial statements, including:

- A lack of relevant information;
- Too much irrelevant information; and
- Ineffective communication.

There have already been certain measures introduced to address some of these issues, including:

- The removal of barriers to the application of judgement;
- The provision of tools to help companies make more effective materiality judgements;
- Examples of how companies have improved the communication of their financial statements; and
- The development of materials to help companies provide better information about financing liabilities.

The board are also exploring other ways in which they can address the above issues. For instance, they are currently seeking feedback from both users and preparers and an exposure draft is expected to be released in August on accounting policies and materiality.

<u>Targeted Standards-level Review of Disclosures</u>

The IASB are currently developing guidance for the Board to use when drafting disclosure guidance and will test the guidance against one or two standards and finally prepare an exposure draft of amendments to the disclosure requirements of the test standards. Two of the test standards that the IASB are considering are IAS 19 (Employee Benefits) and IFRS 13 (Fair Value Measurement).

In regards to IAS 19, the feedback they have received from users said that they primarily focus on disclosures relating to defined benefit plans and that the pension disclosures based on IAS 19 are not effective in meeting objectives. It was mentioned that there should be reductions to existing disclosures and the removal of irrelevant information. It was also mentioned that there should be some form of cost-benefit analysis undertaken.

Most users that have analysed IFRS 13 have been satisfied with the information that they have received. However, the feedback from preparers said that the required disclosures are particularly onerous to prepare, despite users not often asking about their IFRS disclosures.

An exposure draft is expected next year.

Financial Instruments with Characteristics of Equity (FICE)

The current issues associated with FICE is that IAS 32 is no longer fit for purpose and somewhat outdated. As a result of financial innovation, challenges with applying it to a growing number of complex financial instruments have become more prominent. This has meant that there are some inconsistent outcomes for economically similar instruments and limited information provided for equity instruments.

The IASB are making proposals for a discussion paper that will take a multi-faceted approach. The approach will cover the classification, presentation and disclosure of financial instruments issued by an entity. The discussion paper proposes a classification principle that applies to all financial instruments issued by an entity. In terms of the presentation of financial liabilities, the IASB are proposing a new attribution which would show further information about returns on each class of equity instruments. In regards to disclosures, the IASB are proposing a priority on liquidation, a maximum dilution of ordinary shares and setting out terms and conditions.

MH thanked NS and colleagues for their time.

2. APOLOGIES

Apologies for absence were received from Anthony Appleton, Edward Beale, Matthew Brazier, Mark Hodgkins, Clive Lovett, Laura Mott, Claire Needham and Jon Wallis.

3. MINUTES OF LAST MEETING

The minutes of the last meeting held on 9 April 2019 were tabled and approved without amendment.

4. ISSUES FOR DISCUSSION

	ITEM	ACTION
a)	**Future meeting and speaker priorities for 2019**	

	This was not discussed.	None.

5. **COMMUNICATIONS (information only)**

	ITEM	ACTION
a)	**The QCA, together with Thomson Reuters Practical Law, surveyed QCA members to find out how small and mid-size companies, as well as their advisers, have found the Market Abuse Regulation (MAR) in practice. They key findings are as follows:** **i. 57% have delayed disclosure of inside information.** **ii. 14% have been asked by the FCA for a copy of their insider list.** **iii. 79% have adopted a code that is largely based on or is similar to the ICSA/GC100/QCA code or have adopted such code pretty much wholesale, with minimal amendments, and 21% have adopted a completely bespoke code.** This was tabled for information only and not discussed.	None.
b)	**A new report that analyses the contribution of small and mid-size quoted companies was publicised by Hardman & Co. and the QCA at the beginning of May. The report analyses the contribution that these companies make to the market, employment and tax. The key findings are as follows:** **i. Small and mid-size companies account for 93% of all companies on UK public equity markets, but just 20% of market capitalisation;** **ii. They employ over 3 million people - an estimated 11% of total UK private sector employment; and** **iii. Contribute over £26bn in taxes - about 5% of total UK tax take.** This was tabled for information only and not discussed.	None.
c)	**The project for updating the QCA Audit Committee Audit Guide is progressing and is on course for release over the summer.** This was tabled for information only and not discussed.	None.
d)	**YouGov are 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. This will be published over the summer.** This was tabled for information only and not discussed.	None.

e)	**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. The results are planned to be released in September.** This was tabled for information only and not discussed.	None.

6. ANY OTHER BUSINESS

None.

7. NEXT MEETING

Tuesday 24 September 2019, 4.30pm – 6.00pm (Venue: BDO LLP, 55 Baker Street, Marylebone, London, W1U 7EU)