



The Quoted  
Companies Alliance

## Minutes of the Financial Reporting Committee Meeting

held on Tuesday 19 April 2011 at 11:30am at  
Baker Tilly, 25 Farringdon Street, London EC4A 4BD

### Present:

(In the Chair)	Peter Chidgey	BDO LLP	PC
	Anthony Appleton	PKF LLP	AA
	Ian Davies	Victoria plc	ID
	Jonathan Ford	PwC LLP	JF
	David Gray	DHG Management	DG
	Paul Watts	Baker Tilly	PW
	Kern Roberts	Smith & Williamson	KR
	Matthew Stallabross	Crowe Clark Whitehill	MS
	Kate Jalbert (minutes)	QCA	KJ

<b>In Attendance:</b>	Edward Beale	City Group plc	EB
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### Action

#### 1. Apologies/Welcome to New Members

Apologies were received from Anthony Carey, Sarah Cox, Nick Winters, Ian Smith, Chris Smith, Colin Wright and Tim Ward.

#### 2. Minutes of the previous meeting (22 March 2011)

AA noted that in the last minutes it stated that AA was to review IFRS and IFRS for SMEs to determine what makes the FRSME/IFRS for SMEs not suitable for publicly accountable entities. KJ explained that this was in relation to answering question 23 of the ASB Future of Financial Reporting paper.

The minutes of the previous meeting were approved.

#### 3. QCA Position – IFRS Simplification/IFRS for SMEs

- **IFRS Complexity Survey:**

KJ explained that the QCA/EuropeanIssuers meeting with the IASB has now been moved from May to sometime in July, as the IASB will be then setting its agenda for the upcoming year. KJ noted that it would be useful to turn the results of this survey into a briefing paper to start the discussion with the IASB on potential standards that are too complex.

KR queried how the survey came about. KJ explained that it came out of feedback from the IASB that it would like concrete examples of standards that are overly complex and specific comments from corporates.

AA queried whether it would consider adding an agenda item for the IASB meeting on developing a framework for reduced disclosure for subsidiaries, given the ASB's project in the UK.

EB queried whether we should also consider the drivers of complexity – e.g. how the IASB approaches developing standards. EB noted that there are flaws with the framework that could be addressed. EB explained that it may be worth looking at deferred tax standard again. EB also brought up the issue of fair value.

AA noted that it may be worth bringing in materiality and how disclosures are presented in the standard, as discussed at the Materiality Roundtable. ID agreed with this point and the use of materiality to reduce materiality.

KJ noted that she will produce a first draft of the paper based on the complexity survey and then committee members can add sections to it.

**KJ/ALL**

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

PC thanked AA for producing the first draft. AA noted that there were a few areas that he left for discussion today. PC noted that it may be useful to go through each question and raise any areas to amend. The questions for which there was discussion and amendments are noted below:

#### **Question 1**

MS noted that the change for PLUS companies should be emphasised. Committee members also believed that the gold-plating point should be the focus of the response to this question.

#### **Question 2**

PC noted that he thought we agreed to not comment on the FRSSE. Committee members agreed and AA agreed that the answer to this question should just be that there are no further comments.

#### **Question of whether the committee wants to argue for change or delaying change**

PC noted that he had read many responses that want to delay the change for the mid-tier until 2015. It was agreed at the last meeting that we would discuss this aspect at this committee meeting. EB noted that it may be worth arguing for a delay in Question 2. Committee members agreed that we should argue that there is no need to rush the change and agreed that the key points should be highlighted.

EB explained that we could make the point that the ASB should be trying to influence the IASB with its review of the financial reporting framework, e.g. using the FRSME to influence change for full IFRS and new standards. AA noted that as a committee we should be for the FRSME as this aims to simplify, which is one of our main purposes.

#### **Question 3**

AA noted that he did not respond to this question in order to give it some more thought, as Appendix I is quite complex.

Terminology used in the FRSME may not be relevant because of the terminology required by Companies Act, which ultimately originates from the EU Accounting Directives. AA noted that it may be worth highlighting this aspect and the need to influence change in the EU Accounting Directives in order for the FRSME to be less complex and clearer. KJ noted that there would be a review of the 4th and 7th Accounting Directives in the next year or so, as it has been highlighted as a priority area in the Single Market Act. Committee members agreed that these points should be included in the response.

#### **Question 5**

AA noted that he would like to highlight that the definition captures all pension schemes and employee benefit trusts, and therefore is too wide. EB noted that this goes back to gold-plating and AA explained that it fits with the proportionate and decreasing complexity argument.

#### **Question 7**

EB noted that he would not agree with the guidelines b and c. KR noted that he would not agree with taking b fully away, but instead maybe changing the wording of b – he believes that the UK should be trying to drive consistency with EU-adopted IFRS in so far as it decreases complexity. Committee members agreed and noted that the response should not that we believe C should be removed from the objectives and B should be modified.

#### **Question 8**

It was agreed at the last committee meeting to discuss deferred tax. KR noted that we should say it is not the right answer to just use IAS 12. KR also explained that IFRS for SMEs will have a different standard for tax eventually, and IAS 12 would ultimately just be a bridging measure.

AA noted he will add this in, but queried whether we should be arguing for flow-through or amendments. EB noted that the ASB needs to consult with users about what they need for deferred tax. In general, committee members agreed that corporates' experiences are that this figure is not used a great deal.

PC explained that it may be worth looking to see what the QCA wrote in a response to the recent revision on IAS 12 (2008/2009).

It was agreed that the response should be that the current solution in the exposure draft is not useful. The ASB needs to go back and re-evaluate alternative methods, which should be the objective of a separate consultation.

AA noted that he queried whether to bring in share based options. EB noted that it may be worth saying that the users of the QCA accounts do not use share based options in their current form and that the outputs by private companies will be meaningless outputs.

EB also highlighted the difficulties with defined benefit pension schemes and the need for a more fundamental challenge on financial instruments. AA noted that he will bring these aspects into one sentence, including share-based options, as potential other areas the ASB should be reviewing in the FRSME to reduce complexity. MS noted that as an overview key point would be to emphasise that the ASB needs to do a proper consultation with users about what standards they use and how they should consider amending. AA agreed that this should be an overarching point.

#### **Question 11**

Committee members noted that the response should explain the reason for suggesting 10% (compulsory purchase number).

#### **Question 13**

AA noted that it would be useful to emphasise the need for the ASB to lobby for changes to EU-IFRS. Committee members agreed.

#### **Question 14**

AA noted that the ASB should strive to reduce disclosures as much as possible, and PC agreed that this fits into EB's comments and our comments concerning the ASB's need to discuss this with users. EB noted that it may be worth bringing in the materiality argument in terms of disclosures in the subsidiaries. Committee members agreed.

#### **Draft Impact Assessment Questions**

KR noted that in 11.25 the ASB does not explain where the figure of the total cost of transitioning comes from. KR also took issue with the statement in the impact assessment that cost of borrowing should be reduced as a result of the changes. Committee members agreed that this should be challenged in the current environment.

EB noted that it is unclear how the reduced cost of capital has been arrived at. PC noted that the effects are disproportionate to the cost. AA noted that any change will increase the cost of capital initially due to the need for education.

EB also noted that, in terms of the cost calculation, the ASB assumes the lowest qualified person will do the task, but in the case of smaller companies it usually a higher qualified person, which pushes up the costs. There are also many other people in businesses that the changes affect, e.g. HR and Sales departments.

KJ is to ensure that the wording of 20 matches what has been discussed earlier. KR noted that the point about fully listed companies being able to use IFRS for SMEs should be pulled out of Question 19 as it does not fit with the rest of the response.

#### **Question 24**

EB explained that the ASB should consider more complicated swaps. It was agreed to move the areas outlined in Question 8 to the response of this question.

#### **Next Steps**

KJ agreed to put SC's and AA's drafts into one document and make the appropriate changes discussed to the impact assessment section. AA agreed to then update the whole document based on the discussion. KJ will then circulate the final draft for comment to the committee.

**KJ/AA/ALL**

#### **4. Consultation Papers/Current Issues**

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

KJ asked if someone on the committee could review this paper and report back on it for the May meeting. MS agreed to do this. **MS**

- ASB/EFrag: Considering the Effects of Accounting Standards (RD: 21 August 2011): This was not discussed.
- Materiality Roundtable Follow-Up:

KJ noted that she had produced a draft note on the discussion at the roundtable and a document outlining next steps on the campaign. KJ will send this around to committee members for comment. **KJ**

- ASB: Cutting Clutter – Combating Clutter in Annual Reports (RD: 30 September 2011):

KJ explained that she and Chris Stapeley will attempt to get the project managers of this to an upcoming committee meeting to discuss the paper. **KJ/CS**

#### 5. **Communications/Future Meetings:**

- IASB Updates – March 2011: This was not discussed.
- Future Meetings/Guests: KJ noted that the project managers of the ICAS/NZICA project on disclosures will be attending the 24 May meeting to discuss the project commissioned by the IASB and how materiality may fit into this.

6. **AOB:** Nothing to report.

#### 7. **Date of next meeting(s)**

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

11/11:30 Tuesday 21 June 2011 (Host: Ernst & Young LLP)

#### 8. **Action Points**

<b>Action</b>	<b>Person</b>	<b>Timing</b>
Produce a first draft of complexity survey note to the IASB and circulate to committee members for comment.	KJ/ALL	Before May meeting
Put AA's and SC's drafts on Future of Financial Reporting into one document and update the impact assessment	KJ	ASAP
Update the draft of the response to the Future of Financial Reporting as a whole	AA	ASAP
Circulate the final draft for comment	KJ/ALL	ASAP (before 30 April 2011)
Review and report at the May committee meeting on the IAASB paper on the evolving nature of financial reporting.	MS	For May meeting
Circulate the note on the points discussed at the materiality round table and the next steps document; committee members to then comment	KJ	ASAP
Invite FRC to future meeting to discuss Cutting Clutter paper	KJ/Chris Stapeley	ASAP