

Financial Reporting Council

Minutes of a meeting of the Board of Directors of the Company
held on 9 July 2013 at Aldwych House, 71 -91 Aldwych, London, WC2B 4HN

PRESENT:	Baroness Hogg	Chairman
	Glen Moreno	Deputy Chairman
	Stephen Haddrill	Director & Chief Executive
	Richard Fleck	Chairman, Conduct Committee
	Jim Sutcliffe	Chairman, Codes & Standards Committee
	Mark Armour	Non-executive Director
	Elizabeth Corley	Non-executive Director
	Sir Steve Robson	Non-executive Director
	Keith Skeoch	Non-executive Director
	Olivia Dickson	Chairman, Actuarial Council
	Nick Land	Chairman, Audit & Assurance Council
	Roger Marshall	Chairman, Accounting Council
	Paul George	Executive Director, Conduct
	Melanie McLaren	Executive Director, Codes & Standards
IN ATTENDANCE:	Anne McArthur	Secretary
	David Andrews	Head of Organisational Development (Item 4a)
	Graham Clarke	Director of Finance (Item 2, 4a & 6)
	Chris Hodge	Director, Corporate Governance (Item 5)
	Michelle Sansom	Director, Accounting (Item 4d & 5a)
	Peter Timberlake	Head of Communications (Item 2)

Apologies were received from Peter Chambers and Gay Huey Evans

1 MINUTES

1.1 The Board approved the minutes of the meeting held on 21 May 2013 for publication.

Matters arising

1.2 There were no matters arising.

Action points

1.3 The Board noted the action points.

2 CHIEF EXECUTIVE'S REPORT

2.1 Mr Haddrill introduced his report.

2.2 Discussion included the following points and observations:

- On the Maystadt review, it was anticipated that the review would recommend radical reform of EFRAG leading to an overarching board national standard setter representation in order for it to be and to be seen as a credible European voice;
- On audit reform, it was noted that the presidency of the EU had been taken over by the Lithuanians who had already indicated that they saw audit reform as a primary objective;

- There had been more meetings with the UKLA which had been encouraging in terms of working together;
 - The Board's strategy day was a good opportunity to discuss a range of issues including the capital markets and their continuing evolution, the FRC's approach to international influencing, the continuing pressure to require the inclusion of additional information in the annual report not all of which was of interest to shareholders, the diminishing role of audit in the accountancy firms.
- 2.3 The Board noted the Chief Executive's report and progress on the FRC's top 15 projects.

3 COMMITTEE CHAIR REPORTS

Report from CSC meeting of 8 July 2013

- 3.1 Mr Sutcliffe provided an oral report of the previous day's meeting of the CSC.

Reports from CC meetings of 22 May and 20 June 2013

- 3.2 Mr Fleck introduced his written reports. Discussion included the prevailing culture at audit firms particularly in light of the Accountancy Scheme Tribunal consideration of misconduct in the MG Rover case and other investigations underway. The Board requested a report on themes identified through the FRC disciplinary function.
- 3.3 The Board noted that the CC had discussed communications and the difficulties posed by the various statutory and procedural provisions which either prohibited or limited disclosures in relation to on-going investigations, reviews etc.

Report from Remuneration Committee meeting of 13 June 2013

- 3.4 In the absence of Mr Chambers, the Chairman summarised the report of the Committee's last meeting and invited Board members to give their views on what the report on FRC Remuneration Policy scheduled for later in the year should cover in addition to the points set out in the report.

Report from Audit Committee meeting of 13 June and 1 July 2013

- 3.5 Mr Land reported on the two meetings noting that this had been the first audit by haysmacintyre who had carried out a good, robust audit. His report included drawing the Board's attention to the review of income collection and the disclosure in relation to monies received from BIS.
- 3.6 Mr Land confirmed that the Audit Committee had thoroughly reviewed the draft Annual Report, having requested that it be subjected to a fair, balanced and understandable test. Ian Wright had worked with the Executive Committee on this review and had been very helpful and challenging.
- 3.7 The Board noted the Committee Chair reports.

4 FOR BOARD APPROVAL AND ISSUE

a. 2012/13 Annual Report

- 4.1 Mr Haddrill introduced the paper noting the intention to lay the Report before Parliament before rising for the summer and to publish thereafter.

- 4.2 Discussion included the following points and observations:
- The fair, balanced and understandable test had been applied in relation to each statement in the report. It had been a worthwhile challenge;
 - In view of the timetabling of the audit and preparation of the Report it had not been considered appropriate to change from IFRS to the new UK GAAP for the 2012/13 Report. The issue would be revisited in time for the next annual report;
 - As set out in the paper, the Audit Committee recommended approval of the Annual Report and the Letter of Representation.
- 4.3 The Board approved:
- the Annual Report and delegated authority to the Chairman and CEO to approve any final editing of the Report to reflect the Board discussion.
 - the Press Notice announcing the Annual Report 2012/13.
 - the Letter of Representation and authorised the Chairman or CEO to sign the letter on behalf of the Board
 - a recommendation to the Company to reappoint the auditors.
- b. FRS 103 Exposure Draft – Insurance Standard**
- 4.4 Ms McLaren introduced the paper noting the need for a new UK GAAP standard for recognising and measuring of insurance liabilities to complete the UK GAAP suite and to issue the FRED as proposed in order to give preparers time to implement the new standard before mandatory application on 1 January 2015. The proposals were tabled with the supportive advice of the Accounting Council following outreach and consultation which had shown support for modernising the insurance standard.
- 4.5 The Board considered the proposals and approved the exposure draft of the proposed new UK GAAP insurance standard and accompanying implementation guidance, with a comment period of three months.
- c. Independent Supervisor Report**
- 4.7 Mr George introduced the paper.
- 4.8 The Board noted the report on the AQR team's monitoring of Companies Act audit work undertaken by the Comptroller and Auditor General for England (C&G). The Board discussed the secondment of staff between the NAO and entities that the NAO audit (and vice versa) and noted that whilst this was not relevant to the FRC in its role as Independent Supervisor, it would become relevant when the FRC undertakes the monitoring of local authority audit. The Board further noted that the NAO had asked the FRC to consider whether ethical standards should be modified for public sector audits and expressed the firm view that the standards should not be modified.
- 4.9 The Board approved the statutory Report of the Independent Supervisor to the Secretary of State to be included in the FRC Annual Report.
- d. Abstract on RMCs and amendment to FRSSE**
- 4.10 Ms Sansom introduced the paper noting that the issue in relation to Residential Management Companies had been referred to the FRC by the ICAEW. This had led to a draft Abstract issued by the former Accounting Standards Board's Urgent Issues Task Force, the responses to which had been considered by the Accounting Council. The draft Abstract tabled proposed, in effect, that all RMCs would be required to record residential management transactions in their statutory accounts, and so will no longer be dormant. These RMCs would therefore incur costs as a result of the change: e.g. in the preparation and filing of accounts and communication with HMRC.

- 4.11 The Board noted that the abstract and FRSSE amendment were recommended by the Accounting Council and that it recommended the changes on the basis that the requirement to prepare true and fair accounts should override the disadvantage of the additional costs.
- 4.12 The Board requested that the executive discuss with the ICAEW and consider whether it would be more appropriate for the ICAEW to issue guidance to its members on this issue and in the event that it was concluded that the FRC should proceed as recommended by the Accounting Council, approved for consultation an exposure draft (FRED 50) containing: draft FRC Abstract 1 *Residential Management Companies' Financial Statements*; and related, consequential changes to the FRSSE.

5 FOR AGREEMENT TO PROCEED

a. Revision of SORP Policy

- 5.1 Ms Sansom introduced the paper. The Board noted the SORP policy required updating generally and to take account of the FRC reforms.
- 5.2 The Board approved updated Policy Statement *SORPs: Policy and Code of Practice* on the basis that the Board would decide whether or not to recognise individual bodies for the purpose of making SORPs with the benefit of advice from the Accounting Council and that the Codes & Standards Committee, again with the benefit of advice from the Accounting Council, would decide whether or not to issue a Statement on a SORP unless the FRC Board had specific responsibility set out in legislation for issuing a Statement on the SORP.

b. Consultation on Remuneration Aspects of the UK Corporate Governance Code

- 5.3 Mr Sutcliffe presented the paper.
- 5.4 Following discussion, the Board
- approved the approach proposed i.e. to proceed with an “in principle” consultation and, in the event that changes to the Code are justified, a consultation on draft wording would be issued early in 2014 with changes applying from October 2014;
 - agreed that the consultation should begin in mid to late September, in order to co-ordinate with the separate consultation on risk and going concern and to see how the GC100 guidance developed in order to establish what was required of the Code;
 - agreed that the consultation should not be limited to the three issues set out in the paper (i.e. in relation to claw-back arrangements, membership of remuneration committees and consultation with shareholders following a significant minority vote against a remuneration report) but should be extended to the wider issue of whether everything currently in the Code on this issue needed to be retained (e.g. the detailed Schedule and the disclosure requirements not replicated in the Regulations) and whether any other matters should be included.

6 REQUEST FOR DELEGATIONS – FRC ACCOMMODATION AND XBRL

- 6.1 The Board considered a proposal in relation to the FRC’s office accommodation and XBRL taxonomies to support the new UK accounting standards and agreed to delegate to a sub-committee, comprising the Chair of the Audit Committee (or

alternate member of the Audit Committee), the Chief Executive and the Executive Director, Codes & Standards, approval of the following decisions and expenditure:

- not to exercise the FRC's option to extend the Aldwych house lease;
- to secure a lease of alternative accommodation and to incur related expenditure; and
- to incur expenditure on the XBRL development system.

7 RECOMMENDATIONS FROM EFFECTIVENESS REVIEW OF FRC BOARD AND ITS COMMITTEES

7.1 The Board noted the main points from a discussion of the Review at its dinner the previous evening:

- The Board is a strong, senior and experienced group. However, in the light of forthcoming departures its skill needs and composition should be reviewed;
- The size of the Board was an issue. It was large but there were committee slots to fill. This issue should be considered by a new chair in 2014;
- The Board's grasp of strategic issues was strong but it should spend more time on strategy. The Board meeting in September would be extended to a full day meeting to discuss strategy;
- the Board generally felt less informed on conduct issues which reflected the membership of the Conduct Committee but which could be discussed at the strategy day;
- The Board was occasionally drawn into the fine detail of standards. Whilst it was right that the Board should spend time on the drafting detail, better preparation was key. The Board should be consulted early on project objectives and give a clear steer to which it should try to hold to unless there was a major change in circumstances. The Codes & Standards Committee should bring its strategic vision to bear on the preparatory work on objectives and drafting prior to Board decisions on standards, not leave this to the Councils. The Codes & Standards Committee's agenda would need to be reviewed to allow for this. The executive's priority should be to work to support the Board in its decision making, securing the Councils' advice as a stage on the journey not the goal.

8 OUTLINE BOARD CALENDAR 2012-2013

8.1 The Board noted the outline Board calendar.

9 ANY OTHER BUSINESS

9.1 The Board members noted that the Statement of Protocol with the PCAOB would be coming to an end in July and delegated to Mr George the authority to approve and sign the renewed agreement on behalf of the FRC.

10 NEXT MEETING

10.1 Thursday, 26 September 2013 at 8.30 am