

Financial Reporting Council

Minutes of a meeting of the Board of Directors of the Company held on 22 May 2014 at Aldwych House

PRESENT:	Sir Win Bischoff Gay Huey Evans Stephen Haddrill David Childs Mark Armour Sir Brian Bender Peter Chambers Elizabeth Corley Keith Skeoch John Stewart Nick Land Roger Marshall Paul George Melanie McLaren	Chairman Deputy Chairman Director & Chief Executive Chairman, Conduct Committee Non-executive Director Non-executive Director Non-executive Director Non-executive Director (By telephone) Non-executive Director Non-executive Director (By telephone) Chairman, Audit & Assurance Council Chairman, Accounting Council Executive Director, Conduct Executive Director, Codes & Standards
IN ATTENDANCE:	Anne McArthur Chris Hodge John Grewe Andrew Jones Mark Shennan Peter Timberlake Mei Ashelford David Andrews Jenny Carter	Secretary Executive Director, Strategy Director, Oversight (Item 4a) Director, Audit Quality Review (Item 4b) Team Leader, Audit Quality Review (Item 4b) Head of Communications (Item 4b) Project Director, Accounting & Reporting Policy Head of Organisational Development Director, UK Accounting Standards (Item 6b)

Apologies were received from Jim Sutcliffe and Olivia Dickson.

1 MINUTES

- 1.1 The Board approved the minutes of the meeting held on 9 April 2014 for publication subject to one minor amendment.

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:

- The new Regulator’s Code applied to some of the FRC’s activities. A paper would be tabled to the Board on current compliance with the Code and any further actions necessary to ensure compliance;
- On an audit firm failure, whilst the FRC would play its part in trying to prevent any such failure, no firm was too big to fail. Crisis management assimilation was being planned by the FRC: it would run through a potential audit firm failure and other authorities and audit firms would participate; and
- On the UK’s EU membership, the FRC position was neutral but it was appropriate for the FRC to provide guidance to companies on its reporting of the risks associated with withdrawal from the EU. It was also appropriate to consider the consequences of withdrawal on regulation and the FRC’s remit.

2.3 The Board noted the Chief Executive’s report.

3 COMMITTEE CHAIR REPORTS

Report from CSC meeting of 30 April 2014

3.1 Mr Land introduced the minutes of the meeting noting that a number of the matters covered at the meeting were included in the Board meeting agenda. He drew the Board’s attention to the appointment of Connall O’Halloran as a representative from Ireland, to the Audit & Assurance Council. The Committee had reviewed the Codes & Standards 2014/15 work plan: it was comfortable with the plan but noted that it was ambitious and any significant additional projects undertaken during the year might have resource implications. The Committee had approved Guidance on the Strategic Report.

Report from CC meeting of 29 April 2014

3.2 Mr Childs introduced the minutes of the meeting and drew the Board’s attention to the Committee’s review of the key conduct targets and the follow up to the Committee’s effectiveness review and the actions taken in response to the recommendations.

Report from Audit Committee meeting of 15 May 2014

3.3 Mr Land reported on the meeting, confirming that the Committee had reviewed an early draft of the annual report and accounts and that whilst there was much work to do, the audit was going well and the work to be done was achievable. The Committee would review a full draft at its next meeting and conduct a “fair, balanced and understandable” review. The Committee had reviewed IT security with which it was content but had requested a further paper to understand any specific data loss risks and the controls in place. The Committee had also considered the appropriate level of FRC reserves and further thought would be given to the requirement for reserves in view of the existence of reserve statutory levy power and a follow up paper would be tabled at a later meeting.

4 FOR BOARD APPROVAL AND ISSUE

a. Professional Oversight - ACCA

4.1 Mr George introduced the paper which reported on the measures taken by the ACCA since the Board’s consideration of the matter at its March meeting, the FRC’s review of those measures and the issue reported by the ACCA in relation to the incorrect award of exemptions to about 70 members. Mr George invited the Board to consider whether to issue a notice of proposed direction to the ACCA under section 1225A Companies Act 2006.

4.2 Discussion included the following points and observations:

- The fact that the ACCA had self-reported one of the issues was welcomed and should be encouraged in the future;
- Education and qualification were of great importance and a fundamental part of regulation and the failures by the ACCA were disappointing. On the other hand, it was now clear that the ACCA were working hard to work with the FRC and put right the issues.

4.3 The Board

- (i) decided not to issue a notice of proposed direction under the Companies Act 2006
- (ii) agreed that a letter to the ACCA from the Chairman should set out its expectations of the future steps to be taken by the ACCA to ensure that the arrangements for the award of the PCAQ were effective in the future i.e. the ACCA should:
 - commission an external review of its processes and practices for the award of the PCAQ including the processes for recording and checking that only permissible exemptions had been allowed for this purpose; the review should also include the resources, management and governance arrangements related to the award of the PCAQ. The external review should report to both the ACCA governing body and the FRC Board and recommend what, if any, further changes are needed to ensure a robust system. The terms of reference, the person carrying out the review and the timing should be agreed with the FRC and the costs met by the ACCA.
 - carry out a further specific review of PCAQ applications received since January 2013 to confirm applicants who are existing members of another recognised body hold not only the audit qualification and a Practising Certificate from that body but also either have 'Responsible Individual' status or can demonstrate recent audit experience. The ACCA should report the results to the FRC Oversight team in the following two months; and
 - provide quarterly reports over the next year on the award of the PCAQ to the FRC Oversight team. The format should be agreed with the staff.
- (iii) Directed that the Oversight team should follow up, over the next year the way in which the relevant processes were working in practice.

(b) AQR and TCA Annual Report

4.4 Mr George introduced the paper.

4.5 The Board discussed the Audit Quality Review and Third Country Auditor Annual Reports and the press notice and made various drafting suggestions. The Board also discussed the timing of publication.

4.6 On the TCA Report, the Board noted the difficulty that had been encountered in reviewing audits and requested that the extent of the FRC's quality reviews be made clear on the FRC's website and that the FRC risk in this area be reviewed.

4.7 The Board approved for publication, subject to its various suggested amendments:

- i. The AQR 2013/14 Annual Report; and
- ii. The Third Country Auditors 2013/14 Annual Report.

- 4.8 The Board agreed that the executive should revise the Press Notice and the timing of publication should be approved by the Chairman and Chief Executive.

(c) Approval of FRC Statement on the Charities SORPs

- 4.9 Mr Hadrill introduced the paper, noting that the responsibility of the FRC was to ensure that the two Charity SORPs had been prepared in accordance with the FRC's Policy and Code of Practice on SORPs and did not contain any requirements which conflicted with the requirements or principles of FRS 102 or the FRSSE respectively. The CSC had reviewed the SORPs and recommended them to the Board on that basis. The issue which had caused debate was the executive remuneration disclosure.
- 4.10 Mr Hadrill welcomed Sam Younger and Nigel Davies of the Charity Commission and the SORP-making body to the meeting. Mr Younger explained that the issue of remuneration was significant in the charity sector and that there were active discussions as to what was right: there was strong feeling about naming individuals. The Charity Commission approach had been to reflect the requirements but also the needs of stakeholders. This had led to the requirements in the draft SORPs going beyond the previous requirements albeit that the relevant text was not a requirement.
- 4.11 The Board discussed the two SORPs and considered the concerns of the CSC in relation to executive remuneration and the Charity Commission's response to these concerns. The Board noted the proposed amendments to the text of the FRS 102 SORP to direct trustees to consider the information needs of stakeholders and funders in making disclosures in relation to disclosure of the remuneration of the chief executive/highest paid employee – moving this from an optional ("may") consideration to a best practice level ("should").
- 4.12 The Board agreed to issue the FRC's Statements on the SORPs (including the amendment detailed above) and to keep the issue under review through the oversight mechanism laid down in the FRC SORP Policy.

5 FOR AGREEMENT TO PROCEED

a. Annual Report 2013/14

- 5.1 Mr Hadrill presented the paper.
- 5.2 The Board discussed and suggested various amendments to the draft Annual Report including the going concern statement. Mr Hadrill confirmed that the next iteration would be considered by the Audit Committee at its meeting in June and following any further necessary changes, would be tabled for approval at the Board's meeting in July.

6 FOR DISCUSSION:

a. Codes & Standards Themes: Quarterly Report

- 6.1 Ms McLaren presented the paper which provided an update on emerging themes and issues from the FRC's codes and standards work programme.
- 6.2 The Board noted that there would be a need to be clear on FRC thinking on key projects e.g. the Share-Holder Rights Directive and the Sharman guidance.

b. Accounting Directive Implementation

- 6.2 Ms Jenny Carter presented the FRC project, outlining the work to be done and the challenges and risks which would vary according to the BIS approach to implementation of the Directive. The Board noted the fast approaching implementation date of July 2015 and the potential challenges for smaller companies. The Board asked that the Chief Executive write to BIS setting out that the objective to develop high quality standards was paramount.

7 OUTLINE BOARD CALENDAR 2014

- 7.1 The Board noted the outline Board calendar.

8 ANY OTHER BUSINESS

- 8.1 The Board approved the appointments of the Chairman as a member of the Remuneration Committee and as Chairman of the Nominations Committee and of David Childs as a member of the Nominations Committee.
- 8.2 The Board resolved that the registered office of the Financial Reporting Council Limited be changed to 8th floor, 125 London Wall, London, EC2Y 5AS with effect from 16 June 2014 and that the Company Secretary be instructed to file form AD01 with the Registrar of Companies.

9 NEXT MEETING

- 9.1 Wednesday, 2 July 2014 at 8.30 am