

Financial Reporting Council

Minutes of a meeting of the Board of Directors of the Company held on 29 October 2014 at 125 London Wall, London EC2Y 5AS

PRESENT:	Sir Winfried Bischoff	Chairman
	Gay Huey Evans	Deputy Chairman
	Stephen Haddrill	Director and Chief Executive
	David Childs	Chairman, Conduct Committee
	Jim Sutcliffe	Chairman, Codes & Standards Committee
	Mark Armour	Non-executive Director (from item 1)
	Sir Brian Bender	Non-executive Director
	Elizabeth Corley	Non-executive Director
	Keith Skeoch	Non-executive Director (from item 4)
	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:	David Andrews	Head of Organisational Development (item 4)
	Dawn Bardwell	Director of Professional Oversight (item 6b)
	Jenny Carter	Director of UK Accounting Standards, Accounting Policy (item 5b)
	Robert Inglis	Project Director, Actuarial Policy (item 5f)
	John Instance	Project Director, Actuarial Policy (item 5f)
	Kate Cobill	Lawyer, Governance & Legal
	Julie Glass	Committee Secretary
APOLOGIES:	John Stewart	Non-executive Director

The Board meeting commenced with a discussion on developments relating to [Tesco plc](#) – Mark Armour was not present for this discussion having declared a conflict in view of his non-executive directorship of Tesco plc.

Mr Childs provided an update on consideration of this matter by the Conduct Committee. A press statement was now on the FRC website stating that the FRC was giving careful consideration to Tesco's announcement of 23 October 2014 and would continue to gather information to determine whether it should take regulatory action.

The Board agreed that it was appropriate for the FRC to give consideration to whether the issues at Tesco were generic or systemic, in order to assess whether there might be similar issues elsewhere in the sector or in other sectors. The Executive would carry out and publish work on the broader issues raised by Tesco, to the extent that this could be done without compromising any investigation.

1 MINUTES

- 1.1 The Board approved the minutes of the meeting held on 2 July 2014 subject to a typographical amendment.

Matters arising

- 1.2 There were no matters arising.

Action points

- 1.3 The Board noted the action points and agreed one amendment.

2 CHIEF EXECUTIVE'S REPORT

- 2.1 Mr Haddrill introduced his report.

- 2.2 Discussion included the following points and observations:

- A Board dinner had been held the previous evening with Chuka Umunna (Shadow Business Secretary).
- Roger Marshall was due to be appointed as Acting President of the EFRAG Board with effect from 31 October 2014.
- The Executive were developing a long-term revenue strategy for the FRC to be presented to the Audit Committee and the Board. The FRC Plan & Budget 2015/16 would also be covered at the Board's next meeting.
- Initial feedback on the recent wargame on audit firm failure was noted. This would be considered more fully at the Board's next meeting.

- 2.3 The Board noted the Chief Executive's report, including progress on the FRC's priority projects and the FRC Risk Register.

3. COMMITTEE CHAIR REPORTS

Report from CSC meetings on 8 September 2014 and 16 October 2014

- 3.1 Mr Sutcliffe introduced the minutes of the meetings and reported that the CSC had considered a paper on guidance on the determination of distributable profits and had agreed to provide recommendations to the Board when the Financial Reporting Lab project on this subject was completed (in early 2015). The Board agreed that a short Board briefing paper on the interaction of law and standards in this area would be helpful.

Report from CC meetings on 22 July 2014, 9 September 2014 and 7 October 2014

- 3.2 Mr Childs introduced the minutes of the meetings and reported that the CC had considered progress on a number of disciplinary cases and that a review of how the FRC identified experts was being carried out, in light of the difficulties which had arisen in finding unconflicted experts for some cases. He provided an update on the discussions with ICAS on the reimbursement of the costs associated with a judicial review and a copy of a recent letter from ICAS was tabled and discussed.

Report from Nominations Committee meeting on 2 July 2014

- 3.3 The Chairman introduced the minutes of the meeting. A paper on the composition of committees and succession planning would be presented to the Committee in due course.

Report from Remuneration Committee meeting on 2 July 2014

- 3.4 Ms Corley introduced the minutes of the Remuneration Committee meeting held on 2 July 2014.

4. CHAIRMAN'S AGENDA

a. FRC Reputation Audit

- 4.1 Mr Hodge introduced the paper and confirmed that the final report from Peter Wilson-Smith of Meritus was in keeping with the early findings presented at the Board's Strategy Day in September. A summary of the findings and the FRC's proposed responses would be sent to all those who participated in the survey.
- 4.2 The Board welcomed the overall positive feedback from the Audit and reviewed the actions being taken to address the areas for improvement identified. Possible initiatives to strengthen the FRC's relationship with investor stakeholder groups (including the Investor Forum and CRAG) were discussed. It was suggested that the risk of the UK Corporate Governance Code becoming too prescriptive could be mitigated by a longer period between Code reviews, i.e. moving from two to three years. Materiality and proportionality would continue to be taken into account in proposed changes to the Code, and any implications for the Code following on from a change in government in May 2015 would need to be addressed.
- 4.3 The Board noted that the Audit was also intended to be an input to the Review of the 2012 Reforms to be carried out in the first half of 2015 and to the three year strategy for 2016-19.

5. FOR BOARD APPROVAL AND ISSUE

a. FRC Statement to the Pension Scheme SORP

- 5.1 Ms McLaren introduced the paper and confirmed that the draft Pensions Research Accountants Group Statement of Recommended Practice (PRAG SORP) was recommended by the CSC on the advice of the Accounting Council. It was noted that under current legislation, the FRC Statement was required to be approved by the FRC Board.
- 5.2 The Board considered the proposed FRC Statement and the PRAG SORP and noted that the outstanding point identified by the Accounting Council on accounting for auto-enrolment had been resolved.
- 5.3 The Board noted the statement in the SORP that the actuarial report should be published alongside the financial statements and expressed concern that this might give the impression that the actuarial report was of lesser importance. It was suggested that the SORP should expand on the FRS 102 statement by explaining that the trustees in their report and in the presentation and placement of the actuarial report should give it due emphasis and prominence.
- 5.5 Subject to the points raised in discussion the Board approved for issue the FRC Statement to the Pension Scheme SORP.

b. FRED 56: FRS 104 Interim Financial Reports

- 5.6 Ms Carter introduced the paper and confirmed that FRED 56 Draft FRS 104 Interim Financial Reporting was recommended by the CSC on the advice of the Accounting Council.
- 5.7 The Board noted that a short consultation period was being proposed to allow for more time for implementation by preparers and approved for issue FRED 56 Draft FRS 104 Interim Financial Reporting with a comment period ending on 12 January 2015.

c. Consultation on reporting of AQR findings by Audit Committees

- 5.9 Mr Haddrill introduced the paper which considered how to proceed on the CMA proposal for companies to publish AQR findings and proposed that the FRC should issue a Statement covering the following points:
- AQR findings would continue to be sent to Audit Committee Chairs in the current format.
 - Irrespective of the AQR's overall grade, the FRC would expect Audit Committees to give full consideration to any adverse findings of material significance to the quality of audit in accordance with the current provisions of the UK Corporate Governance Code (subject to comply or explain).
 - In accordance with the recent Code changes in respect of Audit Committee reporting any such significant discussion in respect of AQR findings should be disclosed in a company's annual report. How this was done would be a matter for the company and its directors. To facilitate this, the FRC would release companies from confidentiality requirements and expect auditors to do likewise in relation to the substance of findings but not the grades, the publication of which needed further consideration as part of the full Code consultation in 2016 and in the light of experience.
 - Auditing Standards require auditors to report by exception in their report where disclosures made by an audit committee are not consistent with their knowledge of an AQR letter.
 - The FRC would undertake a general review of how the reporting was operating, including whether such reports fairly reflected the underlying inspection findings, as an input to possible changes to the Code in 2015/16.
- 5.10 The Board considered and approved the draft Statement subject to a number of drafting amendments and requested that the Statement was circulated to the Board before issue.

d. Consultation on RSB/RQB Sanctions Guidance

- 5.11 Ms Cobill introduced the paper and confirmed that the Draft Guidelines on Enforcement Measures against RSBs and RQBs had been approved by the Conduct Committee for recommendation to the Board. The guidelines were intended to assist the Board in exercising its enforcement powers in relation to the recognised bodies, and publication of the guidelines was intended to promote transparency and clarity for those regulated by the FRC.
- 5.12 The Board considered the Draft Guidelines on Enforcement Measures and the Draft Consultation Document. It was noted that the Guidelines were drafted on a principles rather than a tariff basis and referred to 'Enforcement Measures' to reflect the language of the legislation and to capture that the Guidelines related to non-financial measures (such as imposing a direction) as well as to financial penalties.
- 5.13 The Board noted that changes to the Guidelines might be required if there were to be a reversal in the current audit regulatory structure following implementation of the EU Audit Regulation and Directive but that in the meantime, there was a need to put in place appropriate guidance.
- 5.14 The Board approved for issue the consultation on the draft Guidelines with a twelve week consultation period.

e. Amendments to Accountancy and Actuarial Schemes

- 5.15 Ms Cobill introduced the paper and confirmed that further proposed amendments to the disciplinary schemes relating to Joint Tribunals had been approved by the Conduct Committee for recommendation to the Board following the responses to the consultation.
- 5.16 The Board noted that the proposed further amendments to the Schemes covered:
- Expansion of the test for convening a Joint Tribunal;
 - Granting the Joint Tribunal the power to de-couple a Joint Tribunal, on its own initiative or on the application of the parties; and
 - Clarification of the lay majority constitution of the five person Joint Tribunal.
- 5.17 The Board approved for publication in November 2014 the proposed amendments to the Accountancy and Actuarial Schemes and the feedback statement.

f. Consultation on Actuarial Standards Framework

- 5.18 Mr Inglis introduced the paper and confirmed that the consultation on the Actuarial Standards Framework was recommended to the Board by the CSC on the advice of the Actuarial Council.
- 5.19 The Board considered the consultation document which contained exposure drafts of Technical Actuarial Standard 100: Principles for Actuarial Work and a new Framework for FRC Actuarial Standards. The proposed TAS 100 included high-level principles applicable to all actuarial work and would in time replace the FRC's three Generic TASs. The new Framework would replace the existing Scope & Authority for Technical Actuarial Standards.
- 5.20 The Board noted that the proposed changes were intended to ensure that users of actuarial information could rely on the quality of actuarial work, including in developing areas of actuarial work where risks to the public interest might not yet have been identified or manifested.
- 5.21 The Board discussed enforcement of the actuarial standards framework (in light of the fact that the FRC had no statutory basis for the oversight of actuaries), and it was noted that the Joint Forum on Actuarial Regulation (JFAR) had been set up to bring together the sectoral actuarial regulators and had published its Actuarial Risk Perspective. The Board agreed that the fact that the FRC did not monitor actuarial standards should be clearly brought out in the consultation on the Actuarial Standards Framework, so that the context for the document was clarified.
- 5.22 Subject to the points raised in discussion the Board approved for issue the consultation document "A new framework for Technical Actuarial Standards" with a consultation period of three to four months.

6. FOR AGREEMENT TO PROCEED:

a. FRC Powers Review

- 6.1 Mr Haddrill introduced the paper which set out some of the practical consequences of implementing the EU Statutory Audit Regulation and Directive and also suggested various

follow up actions in relation to each of the proposals on FRC powers set out in the (then) FRC Chairman's letter to the Secretary of State dated 27 March 2014.

- 6.2 The Board noted that the Audit Regulation and Directive were due to be implemented in April 2016 following public consultation. The FRC's preferred option was for the FRC to be the single Competent Authority for audit regulation and to delegate tasks to the RSBs. The Board considered and noted the wide ranging practical consequences for the FRC of this change.
- 6.3 The Board considered the governance arrangements for progressing the implementation of the Audit Regulation and Directive and appointed a Board Steering Group to consider and advise on developments and to make recommendations to the Board comprising Sir Win Bischoff, Gay Huey Evans, Stephen Haddrill, David Childs, Jim Sutcliffe, Melanie McLaren and Paul George.
- 6.4 The Board considered and agreed the various proposed actions including to seek FRC's designation as the single Competent Authority:

b. Banking Thematic – publication of key themes (Loan Loss Provisions and IT)

- 6.5 Ms Bardwell introduced the paper and gave a presentation on the results of the bank audit thematic review reporting on the high level results and proposed key messages to both audit firms and Audit Committees. She confirmed that remedial work had been requested in cases where significant shortcomings had been identified and the grades would be referenced in the annual AQR reports for the audit firms concerned.
- 6.6 The Board considered the approach to be taken to communicating the results of the bank audit thematic review and made various drafting suggestions.
- 6.7 Subject to the points raised in discussion, the Board supported the proposed tone, structure and overall content of the report on the bank audit thematic review. The draft Report for publication would be circulated to FRC Board members ahead of the Conduct Committee meeting on 18 November, with a view to the report being finalised for publication as soon as possible.

7. FOR DISCUSSION:

a. Conduct Themes Quarterly Report

- 7.1 The Board noted the paper.

8. OUTLINE BOARD CALENDAR 2014/2015

- 8.1 The Board noted the outline Board calendar 2014/15.

9. ANY OTHER BUSINESS

- 9.1 The Board noted its resolutions made in writing since its last meeting:

9.2 *In relation to CIPFA's Public Audit Qualification:*

- The Board resolved to make a recognition order in respect of CIPFA's Public Audit Qualification on the basis that, having regard to the information provided by CIPFA and the other information obtained by the FRC, it appeared to the Board that the requirements of Chapter 2 of the Local Audit (Professional Qualifications and Major

Audit) Regulations 2014 were satisfied. The recognition order would take effect on 1 October 2014;

9.3 *In relation to the FRC's banking arrangements:*

- The Directors considered the *Barclays Customer Agreement* and any other documents which the Bank has provided and resolved that:
 - the Company
 - a) appoint Barclays Bank PLC (the Bank) as the Company's bankers; and/or
 - b) cancel the Company's existing mandates to the Bank (except in relation to cheques and other instructions given before the Bank receives this resolution)
 - the Company accept the terms of the *Barclays Customer Agreement* and confirm such acceptance to the Bank by completing the Bank's form of Mandate;
 - the Company authorise any individual named in Section 2 (an 'authorised person') either individually or, if relevant with other authorised person(s) in accordance with Section 3 to:
 - a) enter into any transactions or agreements with the Bank whatsoever, subject to the Bank's right to request separate evidence of due authorisation in respect of any specific transactions or agreements as determined by the Bank; and
 - b) give instructions concerning the operation of the Company's bank accounts and otherwise communicate with the Bank in each case in writing or verbally, in accordance with the *Barclays Customer Agreement*; and
 - c) register the Company for the Bank's online and telephone banking services.
- The Directors noted that if the Company has registered for the Bank's online and telephone banking services, any of the authorised person(s) acting in accordance with the current approval process for the services would be responsible for amending the Company's 'customer profile' which (among other things) determines:
 - the accounts that can be accessed by computer or telephone
 - security procedures and the number of individuals required to approve each instruction issued to the Bank (approval processes);
 - the individuals ('Users') allowed to use the service for making payments and other purposes (within any specified limits).
- The Directors also noted that the Bank is entitled to act on all instructions given by a User in accordance with the correct security procedures until the Company notifies the appropriate online or telephone banking service that the User is no longer authorised to act for it.

10. NEXT MEETING

10.1 Wednesday, 10 December 2014 at 8.30am.