

**Minutes of a meeting of the Board of Directors of the Company  
held on 13 December 2012 at Aldwych House, 71 -91 Aldwych, London, WC2B 4HN**

PRESENT:	Baroness Hogg Glen Moreno Stephen Hadrill Richard Fleck Jim Sutcliffe  Mark Armour Peter Chambers Elizabeth Corley Gay Huey Evans Sir Steve Robson Keith Skeoch Olivia Dickson Nick Land Roger Marshall Paul George Melanie McLaren	Chairman Deputy Chairman Director & Chief Executive Chairman, Conduct Committee Chairman, Codes & Standards Committee (by telephone) Non-executive Director Non-executive Director Non-executive Director Non-executive Director Non-executive Director Non-executive Director Chairman, Actuarial Council Chairman, Audit & Assurance Council Chairman, Accounting Council Executive Director, Conduct Executive Director, Codes & Standards
IN ATTENDANCE:	Anne McArthur Mridul Hegde Graham Clarke Chris Hodge  Marek Grabowski	Secretary Executive Director of Strategy Director of Finance (Item 4) Director, Corporate Governance (Items 5a and 5b) Director, Audit Policy (Items 5a and 5b)

**1 MINUTES**

1.1 The Board approved the minutes of the meetings held on 1 November 2012 for publication.

*Matters arising*

1.2 There were no matters arising.

*Action points*

1.3 The Board noted the action points and that following discussion on zombie companies at a previous meeting the executive had met with audit firms and emphasised that auditors should be tough and prudent in their audits of those companies.

**2 CHIEF EXECUTIVE'S REPORT**

2.1 Mr Hadrill introduced his report.

2.2 Discussion included the following reports, points and observations:

- The Conduct Committee would be considering, under the Accountancy Scheme, whether to investigate the matters complained of by HP in relation Autonomy and specifically, the conduct of the directors of Autonomy and its auditors;
- The Autonomy case brought into focus a number of issues for the FRC on which the Board requested papers i.e. the FRC's approach to communications in relation to specific cases; the FRC's monitoring and reviewing philosophy and the

consistency of any such philosophy; and whether the FRC's powers post reform were sufficient;

- On proposed draft MoUs with the PRA and FPC, drafting suggestions were made and it was agreed that the draft documents should be discussed again with the FRC;
- On the disciplinary case in the matter of Equitable Life, the Board noted that concern had been expressed by ICAS about the decision not to proceed to prosecution, that the case had been investigated with the agreement of ICAS and that the costs of the investigation were proportionate.

2.3 The Board noted the Chief Executive's report.

### 3 COMMITTEE CHAIR REPORTS

- ***Report from CSC meeting of 30 November 2012***

3.1 Mr Sutcliffe reported on the CSC meeting. Discussion included observations on the objective of making accounts shorter. Whilst achieving this objective seemed remote in the light of demands for additional information, the FRC should continue in its endeavours and in particular, try and find an entity which would be prepared to work with the Financial Reporting Lab on making its accounts shorter.

- ***Report from CC meeting of 21 November 2012***

3.2 Mr Fleck reported on the CC meeting.

- ***Report from Audit Committee meeting of 7 December 2012***

3.3 Mr Land reported that the Committee had considered the financial controls in place in relation to professional discipline work and had concluded that the controls were appropriate and greatly improved.

3.4 The Committee had noted that the FRC's auditors had agreed to merge with BDO and the Board accepted the Committee's recommendation, made in the light of the FRC's policy on non-audit services, that the auditors should be invited to resign. The Board noted that the Committee would undertake a selection process for new auditors in January 2013 and make recommendations to the Board.

3.5 Mr Land also reported that the Committee had reviewed the FRC Risk Register and had advised the executive on strengthening the mitigation actions and integrating the register into the business.

- ***Report from Remuneration Committee meeting of 1 November 2012***

3.6 Mr Chambers reported that work was underway in relation to the 2012/13 bonus awards and 2013/14 salary review. The Committee had given consideration to amending the timetable for staff appraisals, its decisions and the timing of bonus payments. Board members commented on the latter point and Mr Chambers confirmed that the Committee would resume its consideration at the meeting following the Board meeting.

3.7 The Board noted the Committee Chair reports.

### 4. FRC PLAN & BUDGET 2013/14 FOR CONSULTATION

4.1 Ms Hedge introduced the paper and Ms Hegde and Mr Haddrill gave short presentations on the plan and the budget respectively. Discussion by the Board included a number of drafting comments and a request that the current voluntary levy system should be reviewed and other revenue sources considered.

- 4.2 The Board agreed to the proposed increase in the budget and to issuing the draft plan and budget in January for consultation following further comments from each of the Board members on the draft document.

## 5. FOR BOARD APPROVAL AND ISSUE

### ***a. Guidance for Directors on Risk Management and Internal Controls (Turnbull)***

- 5.1 Ms McLaren introduced the paper. The Board discussed the proposed draft amended guidance for consultation and, accepting the advice of the Codes & Standards Committee, agreed that whilst the amended guidance was a relevant and well drafted document, there was still some drafting work to do. The Board agreed that the amended guidance should be tabled again at its May meeting with a view to consultation thereafter and an October 2013 effective date.

### ***b. Implementing the Sharman Recommendations***

- 5.2 Ms McLaren introduced the paper requesting approval for the issue in December of consultation papers setting out proposed revisions to the guidance issued in 2009 for directors on 'going concern and liquidity risks' including an appendix on specific banking matters and proposed revisions to the auditing standards to implement the Panel's recommendations for an enhanced role for auditors in relation to going concern.
- 5.3 The Board discussed both documents and on the proposed draft guidance document, made a number of drafting suggestions in relation to both the structure of the paper and the content.
- 5.4 The Board agreed that the proposed guidance should be amended and recirculated and that the documents should be issued for consultation early in the New Year with a view to giving effect to the guidance and revised auditing standards for financial years commencing on or after 1 April 2012. The Board also agreed that the accompanying press notice should be circulated and should refer to the forthcoming Turnbull guidance consultation.

### ***c. Auditor Regulatory Sanctions Procedure***

- 5.5 Ms McArthur introduced the paper. The Board approved publication of the tabled consultation document and draft Procedure.

### ***d. Corporate Governance Monitoring Report***

- 5.6 Mr Hodge introduced the paper. The Board approved publication of the tabled report subject to drafting comments.

### ***e. AS TM1 – Consultation Feedback and Approval***

- 5.7 Ms McLaren introduced the paper. The Board noted that 12 responses to the consultation had been received and that these were supportive but that there was an issue on the timetable for implementation. It was originally proposed that the new version of AS TM1 would be effective for SMPs from 6 April 2013. Responses illustrated that this was considered an aggressive timetable. The Board agreed to an effective date of 6 April 2014 which would provide a one year transition period and would mirror the timetable set out by the FSA.

## 6. FOR DISCUSSION

### *a. Monitoring the work of Third Country Auditors*

6.1 Mr George introduced the paper. The Board noted that at its previous meeting it had approved the recommendations which were made following consultation for monitoring third country auditors of issuers from countries that were neither “equivalent” nor “transitional”, so that the UK (and the FRC as the competent authority) could meet its obligations under the Statutory Audit Directive.

6.2 The Board discussed the risks of a regime which placed reliance on equivalence and transitioning jurisdictions and noted that whilst the risks could not be treated they should be brought to the attention of the UKLA. It was also noted that investors could get false comfort from the regime and that the FRC should engage with the ABI on the issue.

### *b. Actuarial Oversight – Update and Forward Steps*

6.3 The Board deferred the item to its next meeting.

### *c. Banks and their Standards*

6.4 Ms McLaren introduced the paper. The Board noted the key messages from the discussions of the working group and endorsed its conclusions which would inform the FRC’s evidence to the Banking Commission i.e.

- Improvements have been made in accounting, auditing and corporate governance since the financial crisis and various initiatives are still being developed.
- Banks should be subject to the same codes and standards as other entities.
- However in some areas there is sufficient differentiation giving rise to additional requirements.
- Such additional requirements need to be focussed on making banks more investible
- In the case of governance and auditing such additional requirements exist, largely implemented though the FSA handbook.
- In the case of accounting standards, timely improvements are needed to the relevant (generic) IFRS.
- It is in the area of disclosures by banks that more work needs to be done, particularly to ensure that the needs of financial regulators do not overload the report and accounts; recognising that there will be some significant overlap between the needs of investors and regulators. Such disclosures are best developed through liaison with stakeholders and to be market-led rather than mandatory.

## 7. FRC GOVERNANCE – TERMS OF REFERENCE OF COMMITTEES AND COUNCILS

7.1 The Board approved amendments to Terms of Reference of the FRC’s various committees and councils subject to some minor amendments.

## 8. OUTLINE BOARD CALENDAR 2012-2013

8.1 The Board noted the outline Board calendar.

**9. ANY OTHER BUSINESS**

- 7.1 The Board approved the appointment of Gay Huey Evans to the Conduct Committee from 1 January 2013.

**10. NEXT MEETING**

- 8.1 Wednesday, 30 January 2013 at 8.30apm