

## Financial Reporting Council

Minutes of a meeting of the Board of Directors of the Company  
held on 5 March 2014 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 (By telephone)
	Mark Armour	Non-executive Director
	Sir Brian Bender	Non-executive Director
	Peter Chambers	Non-executive Director
	Elizabeth Corley	Non-executive Director
	Gay Huey Evans	Non-executive Director (By telephone – Items 1 and 2 only)
	Keith Skeoch	Non-executive Director
	John Stewart	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
	Chris Hodge	Executive Director, Strategy
	Marian Williams	Codes & Standards Director (Item 2)
	Jenny Carter	Project Director, ARPT (Item 4b)
	Marek Grabowski	Director of Audit Policy (Items 5a and 5b)
	Catherine Woods	Policy Advisor, Corporate Governance (Item 5a)
	Sir Win Bischoff	

The Chairman welcomed John Stewart and Sir Brian Bender to the Board and Sir Win Bischoff as an observer to the meeting.

### 1 MINUTES

- 1.1 The Board approved the minutes of the meeting held on 29 January 2014 for publication subject to minor amendments.

*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:

- It would be important to discuss with the PRA at a senior level its recent correspondence to the major banks and to be clear on the guidance it was giving the banks in relation to the disclosure of reliance on Bank of England facilities and the implications for the FRC's monitoring and enforcement;
- On the review of the Audit Firm Governance Code, it would be important to integrate the review into the wider audit review project and to look at the organisational models underneath the governance structure and to examine the accountability lines;
- On the Banking Standards Review led by Richard Lambert, the intentions of the review were laudable. Its success would depend on the support of the international banking community particularly in the absence of any link to enforcement of standards;
- The Non-Financial Reporting Directive had been agreed. A paper on integrated reporting would be tabled at the next Board meeting.

2.3 The Board noted the Chief Executive's report.

## **3 COMMITTEE CHAIR REPORTS**

### ***Reports from CC meetings of 18 December 2013 & 14 January 2014***

3.1 Mr Fleck introduced the minutes of the meetings and drew the Board's attention to recent press notices confirming that some entities had amended their accounting treatments in response to the activities and guidance of the CC and the FRRP. These issues would be reflected in the CRR annual report which would be sent out to audit committee chairs.

3.2 The Board noted the output targets agreed by the CC and that the Board would receive reports against those targets.

### ***Report from Audit Committee meeting of 5 December 2013***

3.3 Mr Land introduced the minutes of the meeting and confirmed that the Audit Committee would be reviewing the level of reserves and IT security with the Executive.

## **4 FOR BOARD APPROVAL AND ISSUE**

### ***a. Enforcement Action against the ACCA***

4.1 Mr George introduced the paper. The decision for the Board was whether to give a direction to the ACCA under Section 1225B Companies Act 2006.

4.2 The Board considered the correspondence from the ACCA in response to the notice of proposed direction given on 4 February 2014. Specifically, the Board considered letters from the ACCA dated 7, 11 and 17 February 2014 with enclosures.

4.3 The Board noted the measures proposed by the ACCA and set out in the letter of 11 February and resolved in the light of those measures not to give a direction.

- 4.4 The Board noted that this area had been a recurring area of concern over a number of years and expressed its disappointment at the ACCA's early responses to the findings of the Oversight team: if the earlier responses had been more constructive then it might not have been necessary to issue the notice of proposed direction. Against that background, it confirmed that it would take very seriously any repetition or failure in this or any other area.
- 4.5 The Board agreed that, on completion by the ACCA on or before 2 May 2014 of the measures proposed by it, the Oversight team should review the actions taken by ACCA and the results thereof, and report to the FRC Board at its meeting on 22 May 2014.
- 4.6 The Board agreed that the ACCA's failings and the remedial action taken would be included in the FRC Report to the Secretary of State.

***b. FRS 103: Insurance Contracts***

- 4.7 Ms Carter introduced the paper confirming that the CSC and the Accounting Council recommended approval of the standard which would be applicable to entities that issued insurance contracts and were applying FRS 102. The consultation exercise had elicited a high degree of support for the proposed standard.
- 4.8 The Board approved for issue FRS 103: Insurance Contracts and the accompanying Implementation Guidance.

**5 FOR DISCUSSION AND/OR AGREEMENT TO PROCEED**

***a. Proposed amendments to the UK Corporate Governance Code and Update on Sharman Guidance Feedback***

- 5.1 Mr Hodge presented the paper, inviting discussion on the proposed amendments and confirming that final proposed changes to the Code and the accompanying consultation document would be brought back to the Board for approval in April, having been reviewed by the CSC.
- 5.2 The Board discussed the proposed amendments in detail and agreed:
  - To consult on revisions to the Code in relation to remuneration subject to various suggested amendments;
  - The approach on risk management and going concern to form the basis for further discussion with stakeholders prior to the formal consultation;
  - To defer consultation on changes to the Code in respect of the Competition Commission's recommendations until it is reviewed in 2016, but consult on guidance to companies on what they should disclose when the AQR had reviewed their audits; and
  - To seek views on whether the corporate governance statement should be moved from the annual report to a website.

***b. Review of Audit Project Update (including project scope)***

- 5.3 Ms McLaren presented the paper. The Board welcomed the update and the refinement of the scope of the project as set out in the paper.
- 5.4 The Board agreed that the project should proceed on the basis of:

- Project objectives of quality of audit; consistency of quality of audit; confidence in audit; and sound audit firm governance;
- Focussing on sound and meaningful implementation of recent changes, including audit committee and auditor reporting, and UK and European audit market reform;
- While acknowledging the significant range and potential impact of the changes, seeking to identify and address a limited number of potential gaps not addressed, with a short, medium and longer term agenda including:
  - Developing guidance on how audit quality/effectiveness might best be assessed by audit committees,
  - Reviewing and updating UK ethical standards,
  - Reviewing audit firm governance, including the impact of audit becoming a less significant part of firm's business models,
  - Addressing specific areas where audit scope is questioned such as narrative reporting, non-GAAP measures, fraud and compliance with laws and regulations,
  - Assessing the results of thematic reviews by the AQR and whether there are implications for standard setting,
  - Research and thought leadership on the future skills needed of audit and the impact of standards on audit quality, judgement and innovation;
- The CSC and CC overseeing the project communication and project progress; and
- Publicising the project and its desired and assessed outcomes, including publishing the YouGov research as an initial benchmark of stakeholders' views of audit with the intention of following up on progress after a suitable period. The Board would approve the communication at its next meeting.

### **c. FRC Powers**

- 5.5 Mr Haddrill presented the paper and outlined various proposals to be put to BIS in the context of the legislation to implement the EU Audit Regulation and Directive and in the context of any other available legislation in the current session. The proposals had been developed on the basis of a continuing vision for the FRC, building on the 2012 reforms i.e. that the FRC should:
- Retain the current mission and core responsibilities and remain relatively small and outwardly-focussed;
  - Complete the journey to full independence (actual and perceived) from the professions while maintaining the necessary degree of independence from Government;
  - Be efficient and effective in our regulatory activity and internal processes;
  - Have clear objectives, but also retain the flexibility to provide thought leadership.
  - Be accountable and open in its culture and continue to meet the principles of better regulation.
- 5.6 The Board agreed that the proposals and the case for any changes should be put to BIS in the form of a letter from the Chairman to the Secretary of State by the middle of March.

## 6 FOR BOARD APPROVAL:

### *a. MoU with Swiss Federal Audit Oversight Authority including delegation for MoUs in connection with the Third Country Auditor regime*

- 6.1 Mr George presented the paper and invited the Board to approve the MoU which would enable the FRC and FAOA to share audit working papers and other audit related documentation in order to facilitate cooperation on audit inspections where there is a significant UK and Swiss interest and the sharing of information in the supervisory colleges of European audit regulators for EY and KPMG Europe that have established European structures. Mr George also proposed, on the basis that MoUs followed the approach agreed amongst EU regulators, that authority to approve the MoUs was delegated to the Executive Committee.
- 6.2 The Board:
- approved the MOU with the Swiss FAOA; and
  - agreed that any future proposals to agree MoUs with other non-member states for the purposes of sharing information with international audit regulators would be determined by the Board in principle but delegated authority to the Executive Committee to approve the detail of the MoUs.

## 7 OUTLINE BOARD CALENDAR 2014

- 7.1 The Board noted the outline Board calendar.

## 8 ANY OTHER BUSINESS

- 8.1 The Board agreed to reappoint Allistair Wilson to the CSC for a period of one year to end at the same time as his Audit & Assurance Council appointment and noted that further written proposals would be sent to the Board in relation to the CSC to replace Peter Elwin and in relation to the CC. Any decisions would be noted in the minutes of the next Board meeting.

## 9 NEXT MEETING

- 9.1 Wednesday, 9 April 2014 at 8.30 am