

## Financial Reporting Council

Minutes of a meeting of the Board of Directors of the Company  
held on 29 January 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                         |
|                 | Mark Armour                           | Non-executive Director                              |
|                 | Peter Chambers                        | Non-executive Director                              |
|                 | Elizabeth Corley                      | Non-executive Director                              |
|                 | Gay Huey Evans                        | Non-executive Director                              |
|                 | Keith Skeoch                          | Non-executive Director                              |
|                 | Olivia Dickson                        | Chairman, Actuarial Council                         |
|                 | Nick Land                             | Chairman, Audit & Assurance Council                 |
|                 | Paul George                           | Executive Director, Conduct                         |
| Melanie McLaren | Executive Director, Codes & Standards |                                                     |
| IN ATTENDANCE:  | Anne McArthur                         | Secretary                                           |
|                 | Chris Hodge                           | Executive Director, Strategy                        |
|                 | John Grewe                            | Director, POT (Item 4a)                             |
|                 | Anthony Appleton                      | Director, Accounting & Reporting<br>Policy(Item 4b) |
|                 | Jenny Carter                          | Project Director, ARPT (Item 4b)                    |
|                 | Paul Kennedy                          | Director, Actuarial Policy (Item 4c)                |
|                 | Faye Dyce                             | Project Manager, Actuarial Policy (Item<br>4c)      |
|                 | Ufuk Cengiz                           | Economist (Item 5a)                                 |
|                 | Graham Clarke                         | Director of Finance (Item 6d)                       |

Apologies were received from Jim Sutcliffe and Roger Marshall.

### 1 MINUTES

- 1.1 The Board approved the minutes of the meeting held on 5 December 2013 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:

- On the Sharman guidance, the wording of the guidance should be further considered in the light of the feedback received;

- Many of the recent investigations commenced by the Conduct Committee were centred on ethical issues. There was merit in proposing a joint review with the professional bodies of their ethical standards;
- On a possible companies bill, consideration should be given to any potential implications for the FRC;
- A recent round table discussion with NGOs had been very useful and there had been a lot of common ground i.e. annual reports reflecting that boards had considered the key issues and risks but not including immaterial matters;
- A short paper should be provided to the Board on the proposed future changes to the FRC's IT infrastructure including an assessment of security risk.

2.3 The Board noted the Chief Executive's report.

### **3 COMMITTEE CHAIR REPORTS**

#### ***Report from CSC meeting of 15 January 2014***

3.1 Mr Land introduced the minutes of the meeting and drew to the Board's attention the CSC's request for a review of the SORPs process and the inconsistency of treatment of industry specific risk across the accountancy and audit areas. The CSC had reviewed the timetable for the further UK GAAP changes and had been reassured: whilst there would be more changes during 2014 it was not anticipated that the current program would extend into 2015. There would be a public consultation on whether to abandon the FRSSE following the UK GAAP update or whether it should be retained and updated.

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

3.2 Mr Fleck introduced the minutes of the meetings and drew attention to the findings on the third county audits reviewed to date. Whilst the findings were positive, the FRC's reviews were limited and this would be made clear in the report to be issued.

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

3.3 The Chairman introduced the minutes of the meeting on which the Board had received an oral report at its last meeting and the Board noted its decision made in correspondence since that meeting to appoint Sir Brian Bender as a non-executive director and as a member of the Conduct Committee and John Stewart as a non-executive director and as a member of the Codes & Standards Committee from 1 March 2014. The Chairman drew to the Board's attention that a report on Executive succession planning would be provided to the Committee by the end of March.

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

3.4 Ms Corley introduced the minutes of the meeting and drew to the Board's attention the Committee's approval of proposals in relation to the staff salary review and bonus pots. She also confirmed the support of the Committee for the payment to staff of a companywide bonus of 3%. The Board approved the company wide bonus proposed.

3.5 The Board noted the Committee Chair reports.

#### 4 FOR BOARD APPROVAL AND ISSUE

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

- 4.1 Mr Fleck introduced the paper and drew to the Board's attention the findings of the Professional Oversight Team, the responses of the ACCA to those findings, the possible action which could be taken under the Companies Act 2006 and the Conduct Committee's recommendation.
- 4.2 The Board agreed that
- it appeared that the ACCA had not met its obligation to have in place adequate arrangements for the effective monitoring and enforcement of compliance with its rules for ensuring that each individual responsible for statutory audit work on behalf of a firm is eligible for appointment as a statutory auditor, as required by paragraphs 6(1)(b) and 12(1A) of Schedule 10 to the Companies Act 2006; and
  - to issue a 'notice of proposed direction' to the ACCA in accordance with section 1225B Companies Act 2006;
  - the time for responding to the notice should be 14 days in order that the matter could be considered at its next meeting.

##### **b. Approval of FRED 54: Classification of financial instruments (Amendments to FRS 102)**

- 4.3 Ms McLaren introduced the paper confirming that the CSC and the Accounting Council recommended the Exposure Draft.
- 4.4 The Board noted that proposed amendments were required to address implementation issues and to ensure that UK GAAP reporters were not subject to more onerous requirements than IFRS reporters and:
- Approved for issue FRED 54 for issue;
  - Agreed a comment period ending on 30 April 2014; and
  - Agreed that the press notice should be clear that the amendments responded to FRS 102 implementation issues.

##### **c. Approval of amendments to AS TM1**

- 4.5 Ms McLaren introduced the paper, confirming Actuarial Council support for the proposals and explaining that the amendments arose as a result of amendments to legislation which provided more flexibility to providers in the preparation of illustrations. The responses to the consultation had been supportive and had provided some suggestions which had led to some amendments.
- 4.6 The Board discussed the merits of provision for using either the FRC recommended or FCA interest rate for the annuity rate for non-increasing pensions or whether one specific rate should be prescribed. The Board agreed that the FRC recommended rate should be retained rather than prescribing the FCA rate on the basis that the intellectual rationale for that rate was clear to the Board as the issuing body but that, for the sake of pragmatism, the standard should allow providers to select which rate to apply.

- 4.7 The Board approved issue of the revised version (4.0) of AS TM1 effective for statements issued from 6 April 2014 subject to the circulation of a note to the Board clarifying the meaning of “recognised practice”.

## **5 FOR BOARD APPROVAL**

### ***a. FRC Risk Register and Management Policy***

- 5.1 Mr Haddrill presented the paper and confirmed that the drafts had been reviewed by the CC and the CSC as well as by the Audit Committee who endorsed both documents.
- 5.2 The Board
- approved the Risk Management Policy subject to amendment to make it clear that risks should be reviewed in combination as well as individually; and
  - approved the Risk Register.

### ***b. Guidelines on the use of codes, standards and guidance***

- 5.3 Ms McLaren presented the paper confirming that the guidelines, which were recommended by the Codes & Standards Committee, had been developed in order to provide a framework for the development of codes, standards and guidance which would foster restraint. The guidelines were already being used to inform the FRC’s Codes & Standards work and were proving useful in ensuring that the FRC acted with clarity.
- 5.4 The Board approved the guidelines subject to minor amendments and commended their development.

### ***c. Change in Accounting Policy***

- 5.5 Mr Land confirmed the recommendation of the Audit Committee that the FRC’s accounts for the year ending 31 March 2014 should be prepared using UK GAAP. It was anticipated that the change of policy would not lead to any significant changes to the accounts but that particular attention would be paid to whether the change would result in any reduced disclosures which might be of concern to the FRC’s stakeholders.
- 5.6 The Board approved the change in accounting policy.

## **6 FOR DISCUSSION:**

### ***a. Conduct themes quarterly report***

- 6.1 Mr George presented the paper and drew the Board’s attention to the good progress made since reform both in different parts of the Conduct Division and holistically and the impact on resources of e.g. the Competition Commission recommendations, and anticipated changes to the Statutory Audit Directive.
- 6.2 Discussion included the following points and observations:

- It would be important to ensure that the FRC could recruit the right number of the right calibre to the Conduct Division to meet the anticipated changes in the UK and Europe. Any risks to achieving this should be kept under review;
- Where firm wide reviews demonstrated a poor audit methodology, a strong line should be taken with the firm and consideration should be given accelerating the firm wide review cycle; and
- The Audit Firm Governance Code was being reviewed and an update would be provided to the Board.

***b. Remuneration aspects of Corporate Governance Code***

- 6.3 Mr Hodge presented the paper and, in the light of responses to the consultation which ended in December 2013 and the advice of the CSC, sought the Board's views on possible remuneration related amendments to the UK Corporate Governance Code.
- 6.4 The Board considered the consultation responses and agreed that a draft consultation document should be tabled at the next Board meeting which would propose amendments to the Code including:
- The introduction of a 'comply or explain' provision on clawback, strengthening the Code to be consistent with developing market practice;
  - Alignment of the wording on clawback to match that used in the Regulations; and
  - Inclusion of wording to address the handling of votes on all AGM resolutions, rather than only remuneration.
- 6.5 The Board noted the lack of support for restricting executives on remuneration committees and agreed that the feedback statement should be used to emphasise the need for greater diversity in remuneration committee membership and for independent judgement to be exercised.

***c. Board effectiveness review follow up***

- 6.6 Ms McArthur presented the paper.
- 6.7 The Board
- noted the actions taken since the Board's discussion of the effectiveness review findings on 8 July, the findings and recommendations of the pursuant Committee and Council reviews and the common themes identified;
  - confirmed that the work undertaken by the CSC pursuant to the reviews was assisting in the preparation of codes, standards and guidance;
  - approved, for planning purposes, proposals for 2014 effectiveness reviews;
  - noted the proposed induction program for new non-executive Directors; and
  - commented on the draft wording for the 2013/14 Annual Report which would be reviewed and updated at the end of the financial year.

***d. FRC Remuneration Policy***

- 6.8 Mr Clarke presented the paper and Ms Corley confirmed that the Remuneration Committee strongly supported the principles set out in the paper.

6.9 Discussion included the following points and observations:

- It was important to link remuneration to the FRC mission. This was done through the setting of objectives;
- If the level of pay became an issue in terms of retention and/or recruitment then the Remuneration Committee would revisit the structure;
- There was some risk associated with the flat structure at the FRC but where possible, promotions were made from within.

## **6 OUTLINE BOARD CALENDAR 2014**

7.1 The Board noted the outline Board calendar.

## **7 ANY OTHER BUSINESS**

8.1 The Board noted its decision made in correspondence since its last meeting: to delegate authority for approval of the design and build contract in relation to the FRC's proposed new premises and oversight of the anticipated spend to a sub-committee comprising the Audit Committee Chair, the Chief Executive and the Executive Director, Codes & Standards.

## **9 NEXT MEETING**

9.1 Wednesday, 5 March 2014 at 8.30 am