

Financial Reporting Council

Minutes of a meeting of the Board of Directors of the Company held on 24 May 2011 at 71 -91 Aldwych, London, WC2B 4HN

PRESENT:	Baroness Hogg	Chair
	Glen Moreno	Deputy Chair
	Stephen Haddrill	Director & Chief Executive
	Eric Anstee	Non-executive Director
	Peter Chambers	Non-executive Director
	Elizabeth Corley	Non-executive Director
	Nick Land	Non-executive Director
	Rudy Markham	Non-executive Director
	Sir Mike Rake	Non-executive Director
	Sir Steve Robson	Non-executive Director
	Sir John Sunderland	Non-executive Director
	Lindsay Tomlinson	Non-executive Director
	Richard Fleck	Chair APB
	Bill Knight	Chair FRRP
	Roger Marshall	Interim Chair ASB
	Jim Sutcliffe	Chair BAS
	Timothy Walker	Chair AADB
IN ATTENDANCE:	Anne McArthur	Secretary
	Paul George	Director of Audit (Items 1 to 5)
	David Andrews	Policy & Planning Manager (Items 4 and 7 to 9)
	Matthew Chatterton	Ipsos MORI (Item 3)

The Chairman noted that Dame Barbara Mills was absent for reasons of ill health and confirmed that she had extended best wishes to her family on behalf of the FRC.

1 MINUTES

1.1 The Board approved the minutes of the meeting held on 12 April 2011 and approved the summary minutes for publication.

1.2 The Board

- discussed transparency and the merit of producing one set of minutes for publication rather than full and summary minutes; and
- noted that an alternative form of minutes would be tabled at the next meeting.

Matters arising

1.3 It was confirmed that the POB report to the Secretary of State and the AIU annual report would be provided to the Board before submission.

Action points

1.4 The Board noted the action points and requested closer review of the action points both in relation to dates and progress.

2 CHIEF EXECUTIVE'S REPORT

2.1 The Board noted the project plan and requested timelines in order to evaluate the rhythm of the various FRC projects. They also requested that the plan distinguish between FRC initiatives and initiatives by others to which the FRC was responding.

2.2 Discussion included the following reports, points and observations:

On International Matters

- Arrangements had been made for a conference in Brussels on 29 June, to be hosted by Sharon Bowles, for the FRC to present its effective company stewardship proposals and its views on the Green Paper. In addition, Mr Haddrill would be speaking at a FEE conference on 30 June on audit matters;
- The European Commission were still pressing for joint audits and whilst they were not attracting significant support, complacency should be avoided given the risk of such proposals being pushed through as part of a package;
- The European Commission were also in favour of a complete ban on non-audit services. The FRC had already advocated a 1:1 limit and where the limit had been exceeded, an inclusion in the annual report of an explanation. It was important to educate on the difference between non-audit services and audit related services: the latter were permitted. The definitions of non-audit services and audit-related services needed to be clearly understood. A brief would be prepared in advance of the meeting arranged with Commissioner Barnier on 28 June;
- The terms of appointment of some of the trustees of the IFRS Foundation, including the UK trustee, Sir Bryan Nicholson, would soon be coming to an end. The process to appoint successors would provide the FRC with an opportunity to put forward suggestions;
- On the European Accounting Standard for SMEs, the European Commission were pushing for micro entities to be exempt from the requirements of the standard but were meeting opposition and new proposals were awaited. The FRC's paper on this issue had been provided to the European Commission and would be amended following any further proposals.

On UK Policy Issues

- The number of responses to the ASB's UK GAAP consultation now totalled 285. The two main concerns voiced in those responses were from registered social landlords and from other entities objecting to being moved into full IFRS. Careful consideration would be given to the objections and to the possible alternatives to the original proposals. The issue would be brought back to the Board's next meeting together with an update on the European Accounting Standard for SMEs;

- On audit market concentration, the OFT work was a significant step forward and the European Commission was now interested. The FRC had outlined to the House of Lords a list of steps that it would like to see taken but there were certain steps on which a view had not yet been reached e.g. market share caps in relation to specified market sectors.
- On TM1 the Board noted the uncertain position on exposure and agreed that:
 - Clarity should be sought on HMG intentions in relation to the statutory exemption and an indemnity should be pursued;
 - Discussions on whether the BAS should continue with this responsibility should be pursued;
 - The BAS should continue to review the TM1 with a view to mitigating exposure;
 - A report should be brought to the next Board meeting.

On Surveys

- The CEO confirmed that he recognised the points of concern demonstrated by the results of the staff survey. Mixed team discussions were being arranged and the suggestions made in those discussions would be vigorously pursued. Key actions would be brought back to the Board;
- Responses on the Board's role were noted and it was agreed that staff would be invited to attend informal lunches with Board members after each Board meeting;
- The next survey would be undertaken in 12 months and in the meantime, consideration would be given to regular "one minute soundings" invited by email.

2.3 The Board noted the reports from the Chief Executive and operating body Chairs.

3 STAKEHOLDER STUDY

3.1 The Board welcomed Mr Chatterton and noted that Ipsos MORI had received a list of 25 suggested respondents from the FRC. Each of them had been approached and 17 had actually responded. Board members took the view that the respondents group should be enlarged to include a wider range of voices and this should be addressed for future studies.

3.2 Discussion included the following points and observations:

- The study illustrated different views between different groups on engagement. The most difficult group to engage with was, inevitably, the investor community with its wide range of members; was being done with respect to the Stewardship Code but much more thought could be given to road shows, one to one meetings and the use of Board members;
- More should be done to engage with the audit committee community – they were the groups who put into effect many of the outputs of the FRC;

- The study demonstrated support for the reform project but coupled with a message that the FRC should demonstrate a clear rationale for reform. The study also provided a helpful warning not to dilute the FRC's strengths in any reforms;
- The issue raised in relation to the FRC's low profile, particularly in Whitehall, should be addressed. Greater clarity provided by reform should help. Work to update the FRC website had now been authorised and would assist generally.

3.3 The Board noted the Stakeholder Study responses.

4 FRC REFORM

4.1 Mr Haddrill introduced the papers and invited Board members to confirm that they remained content with the direction of travel and that they approved the specific recommendations on powers.

4.2 Discussion confirmed broad agreement to the direction of travel as rehearsed in the papers.

4.3 Discussion on structure included the following points and observations:

- The proposed structure read well but the issue of attracting the right committee members and staff should continue to be addressed;
- The two main Committees should be committees of the Board and could include Board members and non Board members. The two Committees should be seen by the Board as part of itself otherwise existing issues would be carried over. A higher proportion of Board members on the Committees should be considered;
- The Chairs of the two main Committees should be members of the Board and the Committees should report to the Board through the Chairs;
- More work below Committee level would be done by an enhanced staff and overseen by an executive;
- It would be helpful to map out the spine of the organisation, the interaction of the various committees, the accountability and reporting lines and decision activity. This would be provided to the Board;
- It was important to retain the high quality external input to the FRC's work within the new advisory groups. This could be done by ensuring that any committees etc were chaired by individuals of the calibre to act as ambassadors for the FRC and who would also be on one of the two Board Committees;
- The question as to which titles should be retained within the new structure needed to be fully considered;
- A more onerous time commitment may be required of Board members than presently and this may have to be addressed in time.

4.4 Discussion on powers included the following points and observations:

- The originally proposed reserve actuarial monitoring powers should be pursued particularly in view of the ongoing discussions with the Actuarial

Profession. It was also illogical not to have equivalence in relation to the professions and the powers falling within the FRC's remit;

- The proposal to change the current AADB Scheme was attractive for many reasons but the AADB's existing cases should be concluded and it should be remembered that it would be easier to agree charges if the FRC had recourse to a full hearing;
- The proposal on preliminary enquiries should be carefully considered and explained. The real issue was the output of the inquiries. If what was being proposed was that preliminary inquiries would lead to a decision about what to do next - with publicity as appropriate - then this power could be achievable, would more easily be exercisable and less susceptible to challenge. If what was being proposed went beyond that then it was much more questionable.

4.5 Discussion on the consultation included the following points and observations:

- The consultation should clearly set out the benefits of the proposals;
- There would be only one chance to communicate the new structure - it should be done properly and by the right people;
- The risk of misinterpretation of the likely scope of the FRC post reform should be addressed in the consultation;

4.6 The Board

- confirmed its agreement of the proposals and recommendations on structure, powers and consultation subject to the comments above at 4.3, 4.4 and 4.5;
- approved the recruitment of an Executive Director of Codes and Standards subject to clarification of the role in the light of the "map" requested at 4.3.

5 RESPONSE TO HOUSE OF LORDS INQUIRY REPORT AND EFFECTIVE COMPANY STEWARDSHIP CONSULTATION

5.1 The Board considered matters to be included in the responses.

5.2 Discussion included the following points and observations:

- There was a concern that the Commission would require mandatory retendering every 5 years which would impose an excessive regulatory burden;
- The impact of mandatory tendering in any other countries should be checked;
- The FRC's position on the retendering issue should be stated clearly to the Commission. The FRC supported retendering every 8 to 10 years and on a comply or explain basis;
- The FRC's position on non-audit services should be included in the response documents.

5.3 It was agreed that draft responses would be prepared and tabled at the Board's July meeting.

6 REPORT BY AUDIT COMMITTEE CHAIR

- 6.1 Mr Markham reported that the FRC audit had been completed and that an unqualified audit report was anticipated. The Audit Committee had considered the audited accounts and had noted no particular areas of concern save that the amount of levies unpaid had grown over the previous 2 or 3 years and this would be reviewed in the current year. The Committee had specifically considered the issue of going concern and now commended the accounts to the Board.
- 6.2 The Board noted the minutes of the Committee meeting on 10 May 2011.

7 APPROVAL OF ANNUAL REPORT 2010/11

- 7.1 The Board considered the draft Annual Report noting that the Chairman's statement required updating to articulate the current state of reform proposals and the updated draft would be circulated.
- 7.2 The Board approved the Annual Report subject to final editing and delegated to the Chairman and Chief Executive the authority to approve final editing changes.

8 APPROVAL OF FINAL LEVY 2011/12

- 8.1 The Board noted that the levy rates had not changed from those proposed in the Draft Plan & Budget and approved the 2011/12 levies for publication.

9 APPOINTMENT OF AUDITORS

- 9.1 The Board noted that the shortlisting and interview process undertaken, the specific considerations of the Audit Committee including whether it was the right time to appoint new auditors and that the Audit Committee now recommended the appointment of PKF.
- 9.2 The Board noted the advice of the Committee and agreed to recommend to the Company at its AGM on 14 July the appointment of PKF as the FRC's external auditor from 2012.

10 OB PRESENTATIONS - ASB AND FRRP

- 10.1 The presentations of Mr Marshall and Mr Knight were deferred to the next meeting.

11 OUTLINE BOARD CALENDAR 2011

- 11.1 The Board noted the Outline Board Calendar 2011.

12 ANY OTHER BUSINESS

- 12.1 The Chairman noted that the terms of appointment of Sir John Sunderland and Eric Anstee ended on 31 May 2011. She warmly thanked them both on the Board's and her own behalf for their contribution to the work of the FRC.

13 NEXT MEETING

Thursday, 14 July 2011 at 2.00 p.m.