

Financial Reporting Council

Minutes of a meeting of the Board of Directors of the Company held on 10 December 2014 at 8th Floor, 125 London Wall

PRESENT:	Sir Winfried Bischoff	Chairman
	Stephen Haddrill	Director & Chief Executive
	David Childs	Chairman, Conduct Committee
	Jim Sutcliffe	Chairman, Codes & Standards Committee (By telephone for items 1 to 5b)
	Mark Armour	Non-executive Director
	Sir Brian Bender	Non-executive Director
	Elizabeth Corley	Non-executive Director
	Keith Skeoch	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
Chris Hodge		Executive Director, Strategy
Graham Clarke		Finance Director (Item 5a)
David Andrews		Head of Organisational Development (Items 5a)
Marek Grabowski		Director (Item 5b)
Keith Billing		Project Director, Audit & Assurance (Item 5b)
Jenny Carter		Director, UK Accounting Standards (Item 5c)
Mei Ashelford		Project Director, Accounting & Reporting Policy (Item 5c)
Faye Dyce		Project Manager, Actuarial Policy (Item 5d)
David Styles		Director, Corporate Governance (Item 6a)
Susan Currie		Conduct Project Director (Items 6b and 7a)

Apologies were received from Gay Huey Evans and John Stewart.

As a non-executive Director of Tesco plc, Mr Armour declared a conflict of interest in respect of any discussions about Tesco plc.

The Board meeting commenced with a discussion on developments relating to Tesco plc – Mr Armour, having declared an interest as set out above, was not present for this discussion.

Mr Haddrill reported that since the Board's last meeting, when the Board asked the Executive to consider the broader issues, the FRC had published advice on accounting for supplier payments which had been well received. Work was starting on looking at cultural issues and proposals would be put to the Board in due course.

Mr George reported that work continued on whether there were grounds for the Conduct Committee to decide that the matter should be investigated under the Accountancy Scheme and the Board would be kept informed.

1 MINUTES

1.1 The Board approved the minutes of the meeting held on 29 October 2014 for publication.

Matters arising

1.2 On the FRC reputation audit, Mr Haddrill confirmed that a draft of the letter to stakeholders with a summary of findings and proposed responses had been prepared and would be provided to Board members by email.

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:

- the Conduct Committee had commissioned a review of the reviewing and monitoring work undertaken by the CRR and AQR which was aimed at identifying possible enhancements;
- the FRC had prompted the PRA and the FCA to consider the lack of shareholder powers in relation to a ring fenced bank board;
- the Remuneration Committee would be discussing the outcome of the salary benchmarking exercise later that day and there would be a report to the next Board meeting;
- The Banking Standards Group proposals in relation to the approved persons regime, if taken up, might lead to a consideration of whether the Corporate Governance Code should continue to apply to banks and/or whether there should be a separate code.

2.3 The Board noted the Chief Executive's report.

3 COMMITTEE CHAIR REPORTS

Report from CSC meeting of 24 November 2014

3.1 Mr Sutcliffe reported on the Committee's meeting and the key decisions of the Committee. He noted that the Committee had discussed Council effectiveness which broadly, was good but there was still a desire for more focussed feedback from the Board and the CSC.

Report from CC meeting of 18 November 2014

3.2 Mr Childs introduced the minutes of the November meeting, reporting that the Monitoring Committee had been dealing with the first cases under the ARSP. The Executive Counsel had given a presentation on certain aspects of his work: these presentations would continue to give the CC an overview of the work of the PDT.

Report from Audit Committee meeting of 25 November 2014

- 3.3 Mr Land reported on the meeting, confirming that the Committee had considered the FRC Risk Register and had suggested changes aimed at clarity; had approved the annual report program; had considered financial performance to date, IT security issues and the final costs of the relocation. The Committee would be considering IT security further at its next meeting and would review the FRC's revenue strategy in due course.

4 CHAIRMAN'S AGENDA

a. Board and Committee Effectiveness Review Update

- 4.1 The Chairman reported that the first part of the review in relation to the Councils and the Case Management Committee and Monitoring Committee was complete and reports had gone to the CSC and CC. The recommendations arising from that first stage were being followed up. Surveys were now being completed by the members of the Board Committees and the next step would be for the Chairs of those Committees to follow up the survey responses with the respective members and report to the Board with a summary and any recommendations. The final stage would be for the process to be undertaken in relation to the Board.
- 4.2 Results from the first part of the review were positive and showed that things were working well but there was a call for improved communication up and down and across the governance structure which was being followed up.
- 4.3 The Chairman also noted that a succession review led by Ms Huey Evans had been completed and would be considered by the Nominations Committee at its meeting later that day.

b. Conduct Committee powers and responsibilities – Professional Discipline and ARSP

- 4.4 Mr Childs introduced the item which was aimed at informing the Board of the various roles under both the disciplinary schemes and the ARSP. The Board noted the slides.

5 FOR BOARD APPROVAL AND ISSUE

a. Draft Plan & Budget 2015/16 for consultation

- 5.1 Mr Haddrill introduced the papers. Discussion on the FRC's stewardship priority included a suggestion for more clarity on what the FRC wished to achieve in terms of the quality, quantity and timeliness of engagement and to avoid being prescriptive where engagement was happening, albeit informally, to the satisfaction of investors.
- 5.2 The Board
- Approved the draft Plan & Budget and Levy Proposals 2015/16 and the draft Press Notice for publication subject to the changes suggested during discussion and to recirculation of the drafts to Board members by email;
 - Agreed that the consultation document should be published in December and invite responses by 16 February 2015.

b. EU Audit Directive and Regulation – FRC Consultation on Member State options

- 5.3 Mr Haddrill introduced the item providing an update on the BIS Discussion Document and discussions with stakeholders. He confirmed that the Board Steering Group appointed by the Board at its last meeting had met to review progress and to review the draft consultation proposed for approval. The principal feedback of the Group had

been that the questions put in the proposed document should be more open than originally drafted. Mr Grabowski introduced the paper pointing out that much of the consultation paper was taken up with the various member state options. He also noted that in some instances the position in the UK standards went further than the Directive and Regulation and the FRC should test whether that continued to be appropriate.

5.4 The Board discussed the proposed consultation paper, made some drafting suggestions and agreed that the options should be posed neutrally.

5.5 Subject to the amendments suggested, the Board approved the consultation document for issue.

c. FRED 57: Amendments to FRS 101 (2014/15)

5.6 Ms Carter presented the paper, reminding the Board that the FRC had committed to reviewing FRS 101 annually to ensure that the standard remained aligned with IFRS. The draft FRED proposed a small number of changes.

5.7 The Board noted the advice of the Accounting Council, the recommendation of the CSC and approved FRED 57 for issue.

d. ASTM1

5.8 Ms McLaren introduced the paper, explaining that ASTM1 was reviewed annually to ensure that it remained fit for purpose. A full review would be carried out in the following year to reflect any necessary changes consequent to the DWP's consideration of the 2014 Chancellor's Budget. The proposed changes had been discussed with providers and were considered to be uncontroversial. On that basis and in order to give providers sufficient time to respond to the changes it was proposed that the revised standard be issued without consultation.

5.9 The Board noted the advice of the Actuarial Council and the recommendation of the CSC and agreed to issue version 4.1 of AS TM1 without consultation.

e. Annual Report to the Crown Dependencies and RASP

5.10 Mr George and Ms McArthur introduced the item.

5.11 The Board noted that the approvals sought were in accordance with the powers delegated to the FRC by the Crown Dependencies. The Annual Report set out the results of the FRC's monitoring and oversight work in relation to the Crown Dependencies for 2013/14. The Recognised Auditor Sanctions Procedure mirrored the FRC's ARSP but applied to the audits of companies incorporated in the Crown Dependencies that have securities admitted to trading on a regulated market in the EU and did not differ significantly from the ARSP.

5.12 The Board noted the recommendation of the CC and:

- approved the Annual Report and directed that it be sent to the relevant authorities in the Crown Dependencies; and
- approved the Crown Dependencies' Recognised Auditor Regulatory Sanctions Procedure.

6 FOR AGREEMENT TO PROCEED

a. Annual Corporate Governance and Stewardship Monitoring Report

- 6.1 Mr Styles introduced the paper and invited the Board to agree the tone and structure of the report, the extracts tabled and the timing of publication.
- 6.2 The Board made various drafting suggestions and referred to the discussion on stewardship under item 5(a) above.
- 6.3 The Board agreed:
- to publish a monitoring report which would include an introduction from the Chairman with an overview and key messages; the main findings; and the likely actions which the FRC will be taking next year subject to a full draft being sent to the Board for comment and approval;
 - to publish the report in early January 2015.

b. Audit Firm Governance Code

- 6.3 Mr Haddrill introduced the paper confirming that a draft consultation paper would be prepared for the Board's approval in January. He noted that it would be important to be clear on the purpose of the Code (good quality audit) and to recognise within the Code the non-audit work undertaken within audit firms.
- 6.4 Discussion included the following points and observations:
- It was crucial to have a deep understanding of the existing structures of audit firms to inform the consultation and to reach a view on the right governance model;
 - The role of the independent non-executives (INEs) was advisory but the Code should be clear on their role and responsibilities and whose interests they were representing;
 - Consideration should be given to a provision that INEs should report each year explaining their role and what they have done to fulfil that role.

7 FOR DISCUSSION:

a. Audit Market Failure

- 7.1 Mr Haddrill presented the paper, reporting that the "war game" organised by the FRC had been a major exercise from which much had been learnt in terms of strategy, engagement and clarity of roles. The international networks had not participated and a further exercise would be carried out with their engagement.
- 7.2 Discussion included the suggestion that HMT be invited to participate in the next exercise and that consideration should be given to the role of the CMA.

b. Codes and Standards Themes: Quarterly Report

- 7.3 The Board noted the Report and that an update on the actions arising from Project Capri would be presented at the next Board meeting.

8 OUTLINE BOARD CALENDAR 2015

- 8.1 The Board noted the outline Board calendar.

9 ANY OTHER BUSINESS

- 9.1 The Board approved the reappointment of Richard Fleck as a Member of the Conduct Committee and the Chair of the Monitoring Committee for a term commencing on 1 January 2015 and ending on 31 March 2015.

10 NEXT MEETING

- 10.1 Thursday, 29 January 2015 at 8.30 am.