

Financial Reporting Council

Minutes of a meeting of the Board of Directors of the Company held on 1 July 2015 at 8th Floor, 125 London Wall

PRESENT:	Sir Winfried Bischoff	Chairman
	Gay Huey Evans	Deputy Chairman
	Stephen Hadrill	Chief Executive
	Mark Armour	Non-executive Director
	Brian Bender	Non-executive Director
	David Childs	Chairman, Conduct Committee and non-executive Director
	Elizabeth Corley	Non-executive Director (Items 6 to 10)
	Olivia Dickson	Chairman, Actuarial Council and non-executive Director
	Paul George	Executive Director, Conduct
	Nick Land	Chairman, Codes & Standards Committee and Chairman, Audit & Assurance Council and non-executive Director
	Melanie McLaren	Executive Director, Codes & Standard
	Keith Skeoch	Non-executive Director
	John Stewart	Non-executive Director
IN ATTENDANCE:	Anne McArthur	Secretary
	Chris Hodge	Executive Director, Strategy
	Rossella Pagano	Board Secretary
	Marian Williams	Director, C&S (Item 4b)
	John Grewe	(Item 4b)
	Graham Clarke	Director of Finance (Item 5a)
	David Andrews	Head of Organisational Development (Item 5a)
	Anthony Appleton	Director, ARP (Item 5b)
	Jenny Carter	Director, UK Accounting Standards (Item 5b)
	Susanne Pust-Shah	Project Director, ARP (Item 5b)
	John Instance	Interim Director, AP (Item 5c)
	Robert Inglis	Project Director, AP (Item 5c)
	Dawn Bardwell	Director, Professional Oversight (Item 7a)
David Styles	Director, Corporate Governance (Item 7b)	
Gareth Rees	Executive Counsel (Item 7c)	
OBSERVERS	John Coomber	(Except Item 4a)
	Ray King	
	Clara Lane	FCA

Apologies were received from Roger Marshall. No conflicts of interest were declared in relation to any of the matters for discussion.

1 MINUTES

- 1.1 The Board approved the minutes of the meetings held on 20 May 2015 for publication.

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 Audit Regulation and Directive, good progress had been made towards reaching a common view on how the regulatory framework might look post implementation and the role of the FRC. If the FRC were to be appointed the single competent authority it would wish to address inconsistency of standards and approaches between the professional bodies to which tasks would be delegated and to be proportionate and mindful of the market;
- on developments in audit regulation internationally, deregulation was a current theme. It would be important to consider what the FRC could stop doing against the backdrop of the ARD implementation, the review of the 2012 reforms and in the context of the next 3 year strategy. This would be part of the Board's strategy away day in September;
- on the accountability to share-holders of ring fenced banks, the FRC and PRA were working on a joint letter to the Treasury Select Committee on the issue and the Board would be kept informed;
- on actuarial regulation, the FRC had written to the Pensions Minister advocating that a single pensions regulator should also take on the responsibility for the communications around pensions particularly in the light of the pension reforms and that this should include responsibility for setting standards in relation to the statutory money purchase illustrations;
- on the ASAF it was noted that the FRC had not retained its seat. The IFRS Trustees had indicated that they hoped Mr Marshall would still be able to input through EFRAG.

2.3 The Board noted the Chief Executive's report.

3 COMMITTEE CHAIR REPORTS

Report from CSC meeting on 5 June 2015

3.1 Mr Land reported on the key items discussed and agreed at the CSC meeting. The CSC had discussed stewardship and corporate succession and had suggested an ad hoc working group of the Board so that the Executive could draw on the experience of Board members. The Board welcomed this suggestion and noted that the group would also be able to assist with how to take forward any initiatives from the work being undertaken in order to avoid adding to the regulatory burden.

Report from CC meeting on 16 June 2015

3.2 Mr Childs reported that good progress continued to be made on disciplinary cases and that the judgment of the judicial review in the Tanfield case had been helpful but might still be subject to appeal.

Report from Remuneration Committee meeting on 15 June 2015

- 3.3 The Chairman, on behalf of Ms Corley, reported on the key items discussed at the meeting and in particular that 360 reviews would now be extended to all managers and there had been some discussion on how the reviews would be run and used. The Executive would give further thought to the issues.

Report from Audit Committee meeting on 18 June 2015

- 3.4 Mr Land reported that the main focus of the meeting had been the FRC Annual Report. The Committee had been concluded that the report was fair, balanced and understandable following its review which it had conducted with the assistance of Ian Wright. There was still some work to do on the Financial Review (see below) but this was a drafting improvement issue. The auditors had given a clean opinion and had reported on good co-operation from the Executive. Data security was now a regular item on the Committee's agenda and had been considered together with disciplinary case costs, internal audit, bank deposits and funding of the implementation of the recommendations arising from the AQR/CRR effectiveness review. The Committee had also reviewed an earlier draft of the Revenue Strategy paper.
- 3.5 The Board noted the reports.

4 CHAIRMAN'S AGENDA

a. FRC Appointments

- 4.1 The Chairman introduced the item.
- 4.2 The Board approved the appointment of John Coomber to the Board and to the Codes & Standards Committee for a three year term from 23 July 2015.

b. AR&D – Governance Review and Update

- 4.3 Ms McArthur introduced the item which set out the requirements of the requirements of the Audit Regulation and Directive in relation to the governance of any competent authority.
- 4.4 The Board noted that the requirements were unlikely to lead to any radical change in the FRC's governance structure and that the requirements that audit practitioners should not participate in an authority's decision making were already being reflected in the FRC's succession arrangements and anticipated appointments.
- 4.5 The Board noted the progress being made on wider aspects of ARD implementation.

5 FOR BOARD APPROVAL AND ISSUE

a. FRC Annual Report 2014/15

- 5.1 Ms McArthur introduced the item and informed the Board that following discussion with the members of the Audit Committee, further attention was being given to the Financial Review section to improve the drafting and that the redraft would be circulated to the Committee and to the auditors before being sent to the Board.
- 5.2 Board members made various drafting suggestions to the remainder of the Report.

5.3 The Board

- agreed that the Financial Review should be recirculated for approval as proposed above;
- subject to the step above, approved the Annual Report 2014/15 for publication and submission to Parliament;
- delegated authority to the Chairman and Chief Executive to approve any final editing of the Report necessary to reflect the Board's drafting suggestions;
- approved the draft Press Notice announcing the Report subject to suggested amendments;
- approved the Letter of Representation to the auditors and authorized the Chairman to sign the Letter on behalf of the Board; and
- agreed to recommend to the Company the reappointment of the auditors and authorization to the Directors to determine their remuneration.

b. FRS 105 and amendments to FRSs 100,101 and 102

5.4 Ms Carter introduced the item and confirmed that the proposed new standard and amendments followed two consultations issued in response to the requirements of the Accounting Directive. There had been strong support generally for the proposals but some feedback that the requirements could be made easier to follow and this had had been addressed. Ms Carter explained that whilst the requirements of the Directive appeared deregulatory in that they required fewer disclosures, the requirement to give a true and fair view remained and so there was more emphasis on entities making individual judgments.

5.5 On the accounts of Residents Management Companies, the Board noted that the issue was too narrow to warrant inclusion in FRS102 and welcomed the advice of the Accounting Council that it was unlikely to be in the public interest to regulate any further on the matter and that the burden on such small entities in revising their financial statements would exceed the benefits.

5.6 The Board noted the recommendation of the Codes & Standards Committee and the advice of the Accounting Council and considered and approved the FRS 105 and the amendments to FRSs 100,101 and 102 for issue.

c. TAS Development including update on Actuarial Risk Perspective

5.7 Mr Instance introduced the item confirming that the proposals tabled followed consultation on revisions to the TAS framework. There had been a large response and an overwhelming call to defer implementation of the framework in view of the risk of two simultaneous regimes covering the same piece of work. The present regime did not apply to all actuarial work but the proposed new framework extended the remit. The Actuarial Risk Perspective had been developed since the FRC had gone out to consultation and no substantial risk had been identified which was not covered by the present regime.

5.8 The Board discussed and noted the advice of the Actuarial Council and the recommendation of the Codes and Standards Committee and:

- agreed to defer the implementation of TAS 100 to coincide with the revised Specific TASs;

- approved the issue of *Update on the consultation: A new framework for Technical Actuarial Standards*; and
- noted the publication of the *Analysis of Responses* to the discussion paper *JFAR: A Risk Perspective* and JFAR's next steps.

6 FOR AGREEMENT TO PROCEED

a. Outline Strategy 2016/19 (including Revenue Strategy)

- 6.1 The Chairman introduced the item by setting out what would be covered during the Board's strategy day in September which would include what the FRC was required to do, what it might be able to stop doing, the implications of developments in Europe, the Audit Regulation and Directive and the assessment of the FRC reforms.
- 6.2 Mr Hodge introduced the Revenue Strategy item noting that there was likely to be an increase in the resources required within the FRC pursuant to the Audit Regulation and Directive and a need to build up the FRC's reserves. A view would have to be reached, taking into account consultation with stakeholders, on how the additional funds would be raised.
- 6.3 The Board discussed the development of the Revenue Strategy and confirmed their support of the principles underlying the development noting in particular, the importance of fairness and ability to pay. It was also imperative to address the risks in the current funding model and identify and address any gaps. If there was to be any change to the current funding model then the timing of any new model should be carefully addressed.
- 6.4 Mr Hodge introduced a paper on Horizon Scanning which set out, following consultation with the Board, its Committees and Councils, the issues identified as impacting on or likely to impact on the work of the FRC and set out proposals for gathering further evidence on specific issues. The Board discussed the areas identified and agreed that the evidence gathering should focus on pensions and energy and climate change issues.

b. CRR/AQR Effectiveness Review - Update

- 6.5 Mr George introduced the item noting that most of the recommendations were not controversial but there were costs implications and the proposals in terms of transparency gave rise to some interesting issues.
- 6.6 Board discussion included the following points and observations:
- On the costs implications, it was important to get the implementation of the recommendations right and to do so with some pace. The Executive should consider buying in some overall project management expertise to assist with the implementation;
 - On transparency, an issue was whether to inform the entities whose accounts the FRC intended to review and the auditors of those entities whose audits the FRC intended to review of the intention to review. It was important to retain random sampling to deal with emerging issues and it would not be appropriate to announce all reviews in advance in view of the ESMA guidance which states that all companies should assume that they are going to be reviewed. If only a proportion of companies were to be notified in advance then that proportion should be selected on a random basis and the policy would have to be explained clearly to the market;

- A proposal to announce the names of the entities and audits reviewed once the reviews had been completed as part of the FRC's annual reporting was welcome but it would be important to communicate clearly to the market the extent and limitations of the FRC reviews.

6.7 The Board agreed:

- the key propositions for taking forward the recommendations;
- the estimated cost implications were not prohibitive;
- the outline implementation timetable;
- project teams should be established to work up further the propositions under each heading subject to the points made above; and
- Mr Hodge and Ms McLaren should be added to the Project Steering Committee.

7 FOR DISCUSSION:

a. Professional Oversight – Update

7.1 Ms Bardwell introduced the item. The Board noted the work undertaken by the Professional Oversight team over the past year, the work programme for next year and the possible impact of the AR&D.

b. Corporate Governance for Banks

7.2 Ms McLaren introduced the item noting that this was an issue where the FRC had an opportunity to influence other regulators rather than to regulate.

7.3 The Board discussed the proposals and agreed that the FRC should propose the establishment of a coordinated forum for governance of financial institutions in which the FRC could play a leading role discharging its objective of fostering investment and providing a more recognised and visible balance to the actions of other regulators.

7.4 The Board also agreed that the FRC should monitor the impact of the Senior Managers' regime and engage with the PRA.

c. MG Rover – Lessons Learned Update

7.5 Mr Rees introduced the item. The Board noted the actions taken in response to lessons learned from the MG Rover case and other cases and agreed that they were appropriate. The Board also noted that quality of the Tribunal Panel had significantly improved.

8 OUTLINE BOARD CALENDAR 2015 and 2016

8.1 The Board noted the outline Board calendar.

9 ANY OTHER BUSINESS

9.1 The Board noted that it had been proposed that the FRC be the prescribed accounting standard setter for the Republic of Ireland. This would be in place of less formal arrangements operated currently to recognize and promulgate the accounting standards set by the FRC for Ireland. The Executive was exploring the proposal and would bring the issue back to the Board at the appropriate time.

9.2 The Chairman concluded the meeting by noting that it was John Stewart's last Board meeting. He thanked Mr Stewart for his contribution to the work of the FRC and said that he would be missed by all his colleagues.

10 NEXT MEETING

10.1 Thursday, 17 September 2015 at 8.30 am.