

Financial Reporting Council

Minutes of a meeting of the Board of Directors of the Company held on 9 April 2014 at No 1 Aldwych, London, WC2B 4HN

PRESENT:	Baroness Hogg	Chairman
	Glen Moreno	Deputy Chairman
	Stephen Haddrill	Director & Chief Executive
	Richard Fleck	Chairman, Conduct Committee (By telephone)
	Jim Sutcliffe	Chairman, Codes & Standards Committee
	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)
	Keith Skeoch	Non-executive Director
	John Stewart	Non-executive Director (By telephone)
	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
	Marek Grabowski	Director, Audit & Assurance (Items 4a and 5c)
	Catherine Woods	Policy Advisor, Corporate Governance (Item 4a)
	Jenny Carter	Director, UK Accounting Standards (Item 4b)
	Graham Clark	Finance Director (Item 4c)
	Peter Timberlake	Head of Communications (Item 4c and 5c)
	Tulsee Rughoobur	Finance & Performance Officer (Items 4c, 5a and 5b)
	Anna Colban	Project Manager, Codes & Standards (Item 4c)
	Jon Hooper	Project Manager, Audit Policy (Item 5c)
	Deepa Raval	Project Director, Accounting & Reporting Policy (Item 6b)
	Sir Win Bischoff	
	David Childs	

The Board meeting followed a morning meeting attended by Board members, Sir Win Bischoff and David Childs, the Executive Committee and other members of the FRC executive to discuss the implementation of the FRC's Plan 2014/15 and some of the key projects identified in the plan.

The Chairman opened the meeting by noting that this was the last meeting to be attended by Mr Moreno, Mr Fleck and Mr Chambers. She thanked, on her own and the Board's behalf, each of the outgoing Board members for their contribution to the work of the FRC and for their support for the FRC reforms.

1 MINUTES

- 1.1 The Board approved the minutes of the meeting held on 5 March 2014 for publication subject to one amendment.

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 Stewardship Code, the FRC's efforts were focussed on the implementation of the Code. It was important to understand the complete picture including how investors and companies were engaging, the role of proxy agencies and what tensions had arisen over the AGM season and why; and
- On the lessons learnt from the recent FCA announcement, 20 members of staff were receiving training on media handling and price sensitive information.

- 2.3 The Board noted the Chief Executive's report.

3 COMMITTEE CHAIR REPORTS

Report from CSC meeting of 26 March 2014

- 3.1 Mr Sutcliffe introduced the minutes of the meeting and drew the Board's attention to the Committee's work on consistency of approach to its output. The Committee also noted that it was not clear that the FRC's statutory exemption extended to all its output and that would be considered further. Mr Sutcliffe reported that the CSC had not approved the FRC's statement on the IMA SORP and had requested further development of the appropriate treatment of investment charges for particular structures.

Report from CC meeting of 25 March 2014

- 3.2 Mr Fleck introduced the minutes of the meeting and drew the Board's attention to the Committee's work on proposed MoUs with the CCAB and CIMA, achieving consistency across the work of the Conduct Division, the consultation on the CRR Operating Procedures and its consideration of the effect of the statutory audit directive.

Report from Remuneration Committee meeting of 10 March 2014

- 3.3 Ms Corley introduced the minutes of the meeting and confirmed that the Remuneration Committee had approved the salary and bonus figures for staff and members of the Executive Committee. She noted that whilst the figures tabled had been over budget in relation to the bonus awards, the salary amounts had come in under budget. The Committee had appreciated the calibration exercise undertaken by the Executive Committee in relation to staff.

4 FOR BOARD APPROVAL AND ISSUE

a. Consultation on amendments to the UK Corporate Governance Code

- 4.1 Ms McLaren introduced the paper and confirmed that the wording for consultation had been approved by the CSC and had followed not only the Board's earlier discussion but further discussions with stakeholders.
- 4.2 The Board discussed the proposed revisions and agreed:
- To consult on the basis of the proposed revisions to the Code at Appendix A to the paper tabled. The revisions covered remuneration, risk and going concern but not the Competition Commission's recommendations on audit committees, which the Board had previously agreed to defer until the 2016 review of the Code.
 - To consult on draft extracts of the proposed integrated guidance on risk and going concern (Appendices C to E to the paper), in order that consultees can better understand the intended impact of the revisions to the Code;
 - That the final consultation document should be cleared by the Chair of the Codes and Standards Committee, CEO and Executive Director, Codes and Standards to be issued within the next two weeks;
 - To receive a paper on the consultation feedback received to date at its July meeting and to agree a process for responding to the consultation with a view to issuing the amended Code in September 2014 with an effective date of 1 October 2014.

b. Approval of amendments to the FRSSE – Micro-entities and Update on Proposed Changes to the Company Law Framework for Accounting.

- 4.3 Ms Carter introduced the papers confirming that the CSC and the Accounting Council recommended approval of the amendments to the FRSSE which would allow entities to continue to apply the recognition and measurement requirements of the FRSSE whilst taking advantage of reduced presentation and disclosure requirements.
- 4.4 The Board approved for issue the *Amendments to: the Financial Reporting Standard for Smaller Entities (effective April 2008); and the Financial Reporting Standard for Smaller Entities (effective January 2015) – Micro-entities.*
- 4.5 The Board noted the paper on Proposed Changes to the Company Law Framework for Accounting.

c. Approve final Plan & Budget 2014/15 and Levy 2014/15

- 4.6 Mr Haddrill introduced the paper and confirmed that he would amend the document in the light of the Board's discussion during the morning and would revise the press notice.
- 4.7 The Board discussed the wording of the budget section of the document and requested various amendments.
- 4.8 Subject to the amendments requested and final editing and formatting, the Board approved for publication the Plan & Budget and Levy 2014/15 and the Press Notice.
- 4.9 The Board noted the objectives of the Executive Committee and its members which would be referred to the Remuneration Committee for approval and the key projects and activities which would be reported to the Board on a quarterly basis.

d. Amendments to the Disciplinary Schemes

- 4.10 Ms McArthur introduced the paper and tabled further correspondence received from ICAS. The Board agreed to deal with the issue in correspondence in order to give them time to consider the ICAS correspondence.

5 FOR AGREEMENT TO PROCEED

a. FRC Risk Management

5.1 Mr Hadrill presented the paper.

5.2 The Board discussed and suggested amendment to the FRC Risk Register. It was agreed that the Register should be updated to reflect this discussion and the discussion on the FRC Plan 2014/5 during the morning.

b. Draft Extracts: 2013/14 Annual Report

5.3 Mr Hadrill presented the paper.

5.4 The Board discussed and approved the proposed structure of the Annual Report 2013/14.

5.5 On the risks to be included in the Statement of Principal Risks and Uncertainties, the Board approved the risks but requested that the risks be linked to the FRC's Risk Register and that the section be amended to include the mitigation undertaken and to specify the net risk.

c. Review of Audit Project: Announcement

5.6 Ms McLaren introduced the paper. The Board had approved the project scope at its last meeting and had asked to approve the communication of the project at this meeting. Since the Board's last meeting the project objectives had been developed as requested and the clarified objectives were being tabled together with a proposed press notice.

5.7 The Board agreed the clarified objectives as follows:

- Focussing on sound and meaningful implementation of recent changes to underpin the transparency of the audit process and of audit quality, including audit committee and auditor reporting, and UK and European audit market reform.
- While acknowledging publicly the significant range and potential impact of the above 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 with the objective of assisting effective implementation of increased expectations of audit committees
 - Reviewing and updating UK ethical standards with the objective of both implementing existing measures and reviewing where further measures may be needed, e.g. reviewing the provision of non-audit services to PIE audited entities
 - Reviewing audit firm governance, including the impact of audit becoming a less significant part of firms' business models, with the objective of ensuring that audit firms have management structures and governance that effectively promote audit quality, including improvements targeted by the range of existing measures; and ensuring sufficient audit market capacity to support UK business and its investors
 - Addressing specific areas where audit scope is questioned such as narrative reporting, non-GAAP measures, fraud and compliance with laws and regulations, with the objective of addressing the audit expectations gap by either amending the scope to meet expectations or confirming the appropriateness of the scope to manage expectations

- Assessing the results of thematic reviews by the AQR and whether there are implications for standard setting, with the objective of capturing the benefits of AQR findings to improve audit quality where issues are found
 - Research and thought leadership on the future skills needed of audit and the impact of standards and audit methodologies on audit quality, judgement and innovation, with the objective of maintaining FRC as a leader of the audit policy debate in the UK and internationally
- 5.8 The Board commented on the draft press notice and delegated authority to the Chairman and Chief Executive to approve the amended notice before issue.

6 FOR DISCUSSION:

a. Conduct Themes: Quarterly Report

- 6.1 Mr George presented the paper which provided an update on emerging findings from the FRC's audit inspection work, statutory oversight of the professional bodies and from corporate reporting review and on progress of disciplinary cases.
- 6.2 The Board noted that the AQR annual report was likely to highlight the need for audit committees to be both challenging and supportive of auditors and recommended guidance to audit committees in order to help them challenge auditors and noted that this was being considered.

b. Update on Integrated Reporting and Narrative Reporting

- 6.2 Ms McLaren introduced the paper. The Board agreed the position taken in the paper and that the FRC should continue to monitor developments in Integrated Reporting and exchange ideas with the International Integrated Reporting Council (IIRC) whilst continuing to promote the FRC's Guidance on the Strategic Report which was better suited to the needs of the FRC's stakeholders and reflected statutory requirements.

7 OUTLINE BOARD CALENDAR 2014

- 7.1 The Board noted the outline Board calendar.

8 ANY OTHER BUSINESS

- 8.1 The Board noted its decision reached in correspondence since its last meeting to reappoint the following members to the Conduct Committee: Lillian Boyle (2 years), Hilary Daniels (1 year), Mark Eames (2 years), Philip Taylor (1 year) and Joanna Osborne (3 years).
- 8.2 Mr Haddrill expressed his enormous gratitude for the way the Chairman had chaired the FRC and its Board. The Chairman expressed her thanks to Board members and to the Executive team and in particular, Mr Haddrill, Ms McLaren, Mr George, Mr Hodge and Ms McArthur.

9 NEXT MEETING

- 9.1 Thursday, 22 May 2014 at 8.30 am