



## Financial Reporting Council

Minutes of a meeting of the Board of Directors of the Company  
held on 31 October 2013 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
	Jim Sutcliffe	Chairman, Codes & Standards Committee
	Mark Armour	Non-executive Director
	Peter Chambers	Non-executive Director
	Elizabeth Corley	Non-executive Director
	Gay Huey Evans	Non-executive Director
	Sir Steve Robson	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	Secretary
	Mridul Hegde	Executive Director, Strategy
	David Andrews	Head of Organisational Development (Item 5a)
	Marian Williams	Director, Codes & Standards (Item 5a)
	Graham Clarke	Director of Finance (Item 5a)
	Jenny Carter	Project Director, ARPT (Items 4a and 4b)
	Susan Pust-Shah	Project Director, ARPT (Items 4a and 4b)
	Annette Davis	Project Director, ARPT (Item 5b)
	Marek Grabowski	Director, A&AT (Item 5c)
	Jon Hooper	Project Manager, Audit Policy, A&AT (Item 5c)

### 1 MINUTES

- 1.1 The Board approved the minutes of the meetings held on 9 July and 26 September 2013 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 Competition Commission's final report on the audit market, the Board discussed the orders and recommendations contained in the report and

congratulated the Executive on its work in responding to the requests and preliminary reports of the Competition Commission. The Board noted that responses to the report should be submitted by 16 January 2014 and that a draft response would be tabled at its next meeting together with a paper setting out the FRC's desired outcomes resulting from the orders made by the Competition Commission;

- On audit reform, the Board noted that there would be a key European Commission vote in February 2014 and discussed the up to date policy positions adopted by member states;
- On the impact of the Competition Commission report and the European audit regulation, the Board discussed the impact on the FRC's resources and procedures;
- On external communications, the Board noted that the applicable statutory and procedural frameworks prevented the FRC from communicating the detail that many onlookers sought in relation to its Conduct activities. This was particularly so as regards any FRC Conduct activities concerning the banks. A paper on the FRC's current approach and any recommended changes would be tabled at the Board's next meeting. The paper would also include proposals in relation to those cases where it was clear that the work conducted was of poor quality but which did not amount to misconduct and which could not be dealt with under the new Auditor Regulatory Sanctions Procedure.

2.3 The Board noted the Chief Executive's report and progress on the FRC's top 15 projects.

### **3 COMMITTEE CHAIR REPORTS**

#### ***Report from CSC meetings of 8 July, 5 September & 30 October 2013***

3.1 Mr Sutcliffe introduced his written report and provided an oral report of the previous day's meeting of the CSC drawing the Board's attention to the CSC discussion on how it could assist the Board in relation to the approval of codes and standards. Mr Sutcliffe proposed and the Board agreed that authority be delegated to the CSC to recognise SORP making bodies.

3.2 Mr Sutcliffe reported that the CSC had considered how it could bring its strategic direction to bear on drafting prior to Board decisions on standards (as discussed in relation to the Board effectiveness review) and had proposed that

- the CSC would agree a paper to the Board at the beginning of an issue setting out proposed FRC positioning and how the matter would be dealt with up to issue of the code or standard and that this might involve the CSC approving exposure drafts in given cases;
- the CSC would consider any draft codes, standards or exposure drafts and agree a 2 page summary document which would be tabled with the code, standard or exposure draft and which would draw to the Board's attention any specific issue and/or drafting points;
- where the Board agrees the code or standard but subject to drafting points, the Board delegate to the CSC oversight of the consequential amendments before issue.

3.3 The Board agreed the proposals.

### ***Reports from CC meetings of 24 July, 4 September & 16 October 2013***

- 3.4 Mr Fleck introduced his written reports. He noted that at its last meeting the CC had discussed the report prepared by Mr Chambers on the CC's effectiveness and that there would be further discussion at the CC's away day which would be reported back to the Board. Mr Fleck also noted that the appeal lodged in relation to the Disciplinary Tribunal's decision on the Rover case was on the grounds that the judgment was inadequately reasoned rather than any criticism of the Executive's preparation and presentation of the case.
- 3.5 The Board noted the Committee Chair reports and the written reports of the Nominations Committee meeting on 9 July and the Audit Committee meeting on 2 September 2013.

## **4 FOR BOARD APPROVAL AND ISSUE**

### ***a. FRED 51 Amendments to FRS 102 – Hedge Accounting***

### ***b. FRED 52 Amendments to FRSSE – Micro-entities***

- 4.1 Ms Carter introduced the papers in relation to both items confirming supporting advice of the Accounting Council.
- 4.2 The Board discussed the draft Exposure Drafts and
- approved the issue of FRED 51 for publication;
  - approved the issue of FRED 52 for publication on the basis of consistency with the anticipated regulations giving rise to the amendments and delegated authority to the Executive Director, Codes & Standards to issue the consultation in the event of there being insubstantial changes to the relevant regulations; but
  - requested that the draft document be retabled in the event of there being substantial changes to the relevant regulations, to require that further consideration by and approval of the Board be obtained.

## **5 FOR AGREEMENT TO PROCEED**

### ***a. FRC Strategy and Plan & Budget 2014/15***

- 5.1 Mr Haddrill introduced the paper and invited comment on the early draft Plan & Budget and the FRC Risk Register which had been developed following the strategy discussion at the Board's September meeting.
- 5.2 The Board suggested various amendments to the risk register and agreed that it should be reviewed by the Audit Committee at its meeting in November following which it would be tabled for approval by the Board in December.
- 5.3 The Board commented on the draft Plan & Budget which included the FRC's supporting strategies and in particular the link to the FRC's view of key risks facing the FRC and agreed that any comments on the supporting paper on public interest would be provided by email.

### ***b. True and Fair – update and next steps***

- 5.4 Ms McLaren introduced the paper explaining that feedback had demonstrated that the "True and Fair" publication should be reviewed and updated and that in view of the recent debate on the issue, it would be helpful to reinforce the FRC position.

- 5.5 The Board discussed the proposal and agreed that consideration should be given to deferring the review until February 2014 in order to coincide changes afoot in Europe and that the 100Group should be consulted in this regard.

**c. Review of Audit**

- 5.6 Ms McLaren presented the paper emphasizing that in order to make progress on the project it would be necessary for the FRC to announce the project and confirm that it was prepared to consider the issues surrounding the expectation of audit. The CSC had considered the issue at its meeting the previous day and had advised that the announcement be deferred until Spring 2014 and following anticipated developments in Europe.
- 5.7 The Board agreed the approach proposed i.e. to proceed in Spring 2014 with a detailed announcement of the project subject to an update to the Board at its March meeting on the approach to be taken and the scope of the project. In the meantime, Board members would comment on proposed project scope in writing.

**6 FOR DISCUSSION WITH GREG JONAS, PCAOB**

**a. Major Audit Firm Failure – Implications for the FRC**

- 6.1 The Chairman welcomed Mr Jonas to the meeting.
- 6.2 Mr Haddrill introduced the paper noting that there was a view that if there was a failure then it would happen in the UK or the US and it would be significant. Whilst there was no support for a joined up plan between the relevant authorities on either side of the Atlantic it was recognised that it was vital to have a common understanding about what could and should be done if a firm started to fail.
- 6.3 Discussion included the following points and observations:
- It would be an exodus of people or clients that would be most likely to lead a firm to fail rather than litigation alone;
  - In the case of Andersens, the US Government lost the opportunity to reform by letting the firm fail rather than using the firm as a vehicle for change. In 2006 the US Government approached the KPMG case rather differently, opting for a deferred prosecution agreement and then using KPMG as a vehicle for change;
  - A reduction from 4 to 3 major firms was unacceptable, but no firm should be considered too big to fail and regulators should not shy away from taking appropriate regulatory action. The Japanese had demonstrated that it was possible to take robust action whilst ensuring the preservation of the firm;
  - If a firm started to fail then the authorities should move quickly; any attempts to save the firm should be made before a run started. The authorities should be prepared to take radical action without allowing the quality of the work remaining with the firm to be compromised. The SEC had assisted Andersens in this regard by e.g. allowing more time to file returns and assisting with the transfer of files to new auditors.
- 6.4 The Board
- noted the work done so far and agreed the analysis of the likelihood and possible causes of a major audit firm failure;

- commented on the general principles which might guide how such a crisis should be addressed across interested parties;
- confirmed its continued belief that it was important to make it clear to Government that, in the event of such a crisis, the FRC did not have the powers necessary to lead the UK response and primary responsibility would therefore rest with Government.

6.5 The Chairman thanked Mr Jonas for his contribution to the discussion.

## **7 FOR DISCUSSION**

### **a. Challenges to the Operation of the Disciplinary Scheme**

7.1 The Board deferred this item to its next meeting.

## **8 OUTLINE BOARD CALENDAR 2012-2013**

8.1 The Board noted the outline Board calendar.

## **9 ANY OTHER BUSINESS**

9.1 On the recommendation of the Nominations Committee, the Board agreed to re-appoint:

- Elizabeth Corley as a Director of the FRC and Chair of the Remuneration Committee for a 3 year term;
- Nick Land as Chair of the Audit & Assurance Council, Director of the FRC and a member of the Codes & Standards Committee and as Chair of the Audit Committee for a 3 year term; and
- Peter Chambers as a Director of the FRC and a member of the Conduct Committee for a 6 month term.

9.2 The Chairman noted that it was Sir Steve Robson's last Board meeting and thanked him for his insightful and independent challenge throughout his appointment and his contribution to the FRC and to the work of the CSC.

## **10 NEXT MEETING**

10.1 Thursday, 5 December 2013 at 8.30 am