

# Financial Reporting Council

## Minutes of a meeting of the Board of Directors of the Company held on 10 July 2012 at 71 -91 Aldwych, London, WC2B 4HN

PRESENT:	Baroness Hogg	Chairman
	Glen Moreno	Deputy Chairman
	Stephen Haddrill	Director & Chief Executive
	Richard Fleck	Chair, Conduct Committee
	Jim Sutcliffe	Chair, 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	Chair, Actuarial Council
	Nick Land	Chair, Audit & Assurance Council
	Roger Marshall	Chair, Accounting Council
	Paul George	Executive Director, Conduct
	Melanie McLaren	Executive Director, Codes & Standards
IN ATTENDANCE:	Anne McArthur	Secretary
	David Andrews	Policy & Planning Manager (Items 6c & 7)
	Graham Clarke	Finance Director (Item 7)
	Chris Hodge	Director, Corporate Governance (Item 6d)
	Peter Montagnon	Senior Investment Adviser (Item 6d)
	Michelle Sansom	Director, Accounting (Items 6a & 6b)

The Chairman welcomed Mark Armour, Olivia Dickson, Paul George and Melanie McLaren to the Board. The Chairman also thanked, on behalf of the Board all those involved in the FRC reform programme but in particular, Mr Haddrill and Ms McArthur. She also noted her gratitude to the BIS Minister, Norman Lamb.

### **1 FRC CHAIRMAN PERFORMANCE EVALUATION**

- 1.1 In the absence of the Chairman, Mr Moreno reported that he had carried out the evaluation through interviews with Board members and that he was grateful for the structured and considered thoughts from each of the individuals. Mr Moreno would confirm his assessment in writing but in summary, the comments were generally very positive. The Chairman had provided effective leadership through the reform programme; she had a very good external reputation; and that her past experience was invaluable to the FRC. She had broadened her reach with other stakeholders including with investors and corporates. She was good at communicating internally but she should expand that role. Her relationship with the CEO was good and she led the Board effectively and courteously, eliciting views but moving matters along.
- 1.2 The issue of continuity had arisen. The Chairman's term ends in May 2013 but there was a clear view that it was important to secure continuity in the post reform period. Mr Moreno, noting that the Chairman is a Secretary of State appointment, confirmed that he would discuss this issue with BIS and that he would report to BIS on the outcome of the performance evaluation.
- 1.3 Mr Moreno summarised his oral report to the Board in the presence of the Chairman.

## **2 FRC BOARD PERFORMANCE EVALUATION**

- 2.1 Mr Moreno reported that he had also explored the perspectives of Board members in relation to the performance of the Board. The perspectives had been forward looking given that the conversations took place during a period of reform. In particular, Board members expressed the need to clarify the roles of the executive and the Board (including, specifically, the non-Executive Directors) and its committees and to understand how the new governance arrangements would work in practice. It would also be crucial to set priorities from which it would be clear which initiatives the FRC wanted to embrace and which it did not.
- 2.2 Mr Moreno proposed, and the Board agreed, that an independently led Board performance evaluation should be taken in May 2013 with the benefit of what had been learnt from the first year following the FRC reforms.

## **3 MINUTES**

- 3.1 The Board approved the minutes of the meetings held on 26 April 2012 for publication.

### *Matters arising*

- 3.2 There were no matters arising.

### *Action points*

- 3.3 On TM1, the Board noted that the DWP had confirmed that it would amend the legislation so that TM1 was captured by the FRC's statutory exemption and that it would be important to ensure that this was progressed. The Board agreed to tolerate the risk of any litigation prior to the date of the anticipated legislation.
- 3.4 The Board noted the action points.

## **4 MINUTES OF FRC REFORM STEERING GROUP MEETING ON 26 JUNE 2012**

- 4.1 The Board noted the minutes of the meeting. The outstanding issues were the AADB which would continue until the Schemes could be transferred to the FRC, the DWP legislation which would be amended with effect on 31 July 2012, the development of the Executive Committee and FRC cultural issues. The latter two issues were dealt with in the Chief Executive's report.
- 4.2 Ms McArthur reported that following the meeting, the terms of reference of the Audit Committee and the Remuneration Committee had been substantially redrafted and that the amended documents would be provided to the Chairs of the relevant Committees and either circulated to the Board if advised by the Chairs or approved by the Chairman in accordance with the delegated authority agreed at the meeting. The Board agreed this proposed process.
- 4.3 The Board requested a paper on the application of the Freedom of Information Act 2000 to specific functions of the FRC.

## **5 CHIEF EXECUTIVE'S REPORT**

- 5.1 Mr Haddrill introduced his report.
- 5.2 Discussion included the following reports, points and observations:
- On auditor rotation and sharing -
    - There was evidence of more support for mandatory rotation in some parts of Europe than had been apparent previously;
    - The FRC consultation had shown support for 10 year retendering on a comply or explain basis;

- The FRC should engage with audit committee chairs on the issue and establish what would be helpful to them generally and in terms of FRC guidance;
- There was a danger in that European Parliament had been trying to marry the two issues by suggesting extended rotation periods on the basis of the large firms sharing the audit. This would take control of the audit away from the audit committees;
- The Board agreed that an update on the key issues should be prepared and circulated to Board members;
- On IFRS and prudence -
  - The Board agreed that the FRC should offer its views on the issues for any inquiry established in response to the request made to Lord MacGregor by investors;
- On disclosure in relation to bank liquidity, the Board agreed that a paper should be tabled detailing the current requirements, the Sharman report findings and proposals in this regard and the Bank of England views. It was noted that the standards and the listing rules currently provided for disclosure of Bank of England support. If there was an argument for non-disclosure then it should not be achieved outside the rules and in an opaque way. The paper should discuss whether there was a case for treating banks differently but without compromising transparency;
- On the Competition Commission inquiry into audit market concentration, the Board noted that reports had been received that the quality of the questions asked in the research survey should be improved e.g. the issue of audit quality, as a reason for choosing an auditor, seemed to have been neglected. This should be taken up with the Commission;
- On the publication of reports of meetings of the Board Committees, the Councils and sub-committees the Board agreed that further thought should be given to what was published and when and proposals brought back to the Board;
- On restoring confidence in audit, the Board noted that the Audit & Assurance Council would be preparing a project plan to table to the Board in December;
- On accountancy and actuarial oversight, the Board noted that this was under consideration by the Conduct Committee and that a paper would be tabled following discussions with the professional bodies in September.

5.3 The Board noted the Chief Executive's report and the project plan.

## **6 FRC STRATEGIC PRIORITIES**

### ***a. UK GAAP: Update***

6.1 Ms Sansom introduced the paper and provided a summary of the responses to the consultation document. She confirmed that the FRC had engaged with stakeholders generally and specifically, had taken steps to secure the views of smaller entities but that those views had been secured through outreach rather than in writing. The Board noted the report and that it would be important to recall in the feedback statement why the FRC was making the changes and the process undertaken.

### ***b. Foreword to Accounting Standards***

6.2 Ms Sansom introduced the paper and Mr Marshall confirmed that the Accounting Council supported the proposal. The Board considered the proposal and agreed that as the draft amounted to an update; that the amendments, in the main, reflected the

reform changes which had already been consulted on; and other bodies mentioned in Foreword had been consulted informally, the document should be published without exposure. The Board also noted that the Scope and Authority in relation to technical actuarial standards would be amended to reflect the reforms and approved for publication by the Codes & Standards Committee.

### ***c. Avoiding Over-Regulation***

- 6.3 Mr Andrews introduced the paper. The Board noted that whilst there was an argument that the FRC should focus on the areas where it would come under most pressure if it missed something, i.e. the top of the market, there was a counter argument that the FRC should not lose sight of the bottom of the market where there may be more significant quality issues. The issue for the FRC was striking the right balance and being appropriately resourced. It was also noted that the FRC should be aiming at proportionate and good quality regulation in the achievement of its mission. The Board agreed that the paper should be amended with a view, in particular, to articulating the FRC view of good regulation and the costs and benefits of FRC regulation.

### ***d. Promoting Higher Standards of Stewardship***

- 6.4 Mr Hodge presented the paper and reported to the Board that it was now anticipated that the Kay report would be published in the near future. It was agreed that as soon as the report was published, a full analysis should be circulated to the Board.
- 6.5 The Board noted the papers.

## **7 APPROVAL OF THE ANNUAL REPORT 2011/12**

- 7.1 The Board discussed whether, in the future, its report to the Secretary of State on its delegated functions, its report on its regulatory activities and the Annual Report should be rolled into one report and it was agreed that this should be kept under review.
- 7.2 Mr Clark and Mr Land confirmed their views that the auditors had carried out a thorough audit. It was agreed that the auditors' report to the Audit Committee should be circulated to the Board.
- 7.3 The Board considered the letter of representation and requested further advice before approving the letter.
- 7.4 The Board made a number of drafting comments on the Annual Report and it was agreed that the draft would be circulated again to the Audit Committee and, subject to any further comments, to the Board.
- 7.5 The Board noted the related party transaction certificate which would be required to be signed by all Board members in the future.

## **8 COMPOSITION OF THE FRC BOARD**

- 8.1 The Board considered the paper tabled and determined that at least half the Board excluding the Chairman, comprised independent non-Executive Directors.

## **9 OUTLINE BOARD CALENDAR 2012**

- 9.1 The Board noted the Outline Board Calendar 2012 and 2013.

## **10 ANY OTHER BUSINESS**

- 10.1 There was no other business.

## **11 NEXT MEETING**

Tuesday, 25 September 2012