

Financial Reporting Council

Minutes of a meeting of the Board of Directors of the Company held on
17 September 2015 at Brewers' Hall, Aldermanbury Square, London EC2V 7HR

PRESENT:	Sir Winfried Bischoff	Chairman
	Gay Huey Evans	Deputy Chairman
	Stephen Haddrill	Chief Executive
	Mark Armour	Non-executive Director
	Sir Brian Bender	Non-executive Director
	David Childs	Chairman, Conduct Committee and non-executive Director
	John Coomber	Non-executive Director
	Elizabeth Corley	Non-executive Director
	Olivia Dickson	Chairman, Actuarial Council and non-executive Director
	Paul George	Executive Director, Conduct
	Ray King	Non-executive Director
	Nick Land	Chairman, Codes & Standards Committee and Chairman, Audit & Assurance Council and non-executive Director
	Melanie McLaren	Executive Director, Codes & Standards
IN ATTENDANCE:	Anne McArthur	Secretary
	Chris Hodge	Executive Director, Strategy
	Rossella Pagano	Board Secretary
	Mark Babington	Deputy Director, Audit Policy
	David Styles	Director, Corporate Governance

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

1. FOR DISCUSSION:

a. Implementation of Audit Regulation and Directive (ARD): FRC Consultation on Ethical and Auditing Standards and Corporate Governance Code and update on implementation

Ethical Standards

- 1.1 Ms McLaren introduced firstly the main changes to the Ethical Standards for UK and Ireland, pointing out that a number of existing more stringent FRC requirements had been retained on the basis of the stakeholders' responses to the initial consultation carried out in 2014; these changes were pertinent to areas where – under the Directive - Members States had flexibility to exercise options or to derogate.
- 1.2 Ms McLaren explained that the revised Ethical Standard comprised overarching principles supported by provisions applicable to all audit and other public interest assurance engagements. It was explained that these represented a set of ethical

behaviours that must be followed with an overriding objective of outcomes that must be met. To facilitate the consultation, Ms McLaren informed the Board that following the issue of the Consultation Document, a series of initiatives were planned to engage with all relevant stakeholders. In the course of the discussion, it was suggested that over-arching principles be supported over time by guidance and case studies to enable the stakeholders to interpret and apply the new standards. Ms McLaren gave an update to the Board on issues raised at the Audit and Assurance Council, the Council's advice on certain matters and how each had been or would be addressed.

- 1.3 Ms McLaren reported that the intention was to issue the Consultation Document by 30 September 2015; therefore, the Board was asked to consider and comment on the documents under consideration and delegate the sign off and final approval for issue to the ARD Steering Group.
- 1.4 In the ensuing discussion, the following points were raised:
 - on group audits, the applicable requirements, threshold limits and tests to demonstrate the independence of any auditor used in the audit of a group; and
 - the applicability of group audits in smaller networks.

Ms McLaren explained that the proposals for group audits were based on the responses received from the earlier consultation; the Board asked that this be made clearer in the Consultation Document.

Auditing Standards

- 1.5 Ms McLaren explained that the changes to the Auditing Standards were due to the implementation of the ARD and to changes in the IAASB standards. Ms McLaren reported that the Audit and Assurance Council had identified two areas that needed clarification: (1) the application of ISA 250B to reporting of financial services and markets regulators; (2) a minimum retention period of 6 years of documents held by the auditors.
- 1.6 There followed a discussion on the proposed revised requirement for ISA 720 as issued by IAASB and the consequential requirement for an auditor to report on 'other information'. It was explained that the intention was to require auditors to review the reporting framework and report on any inconsistencies of the other information in the context of that framework. The Board felt that this should be better explained in the Consultation Document and that furthermore the changes arising from the implementation of the international standards as opposed to the ARD should be more clearly set out in the Consultation Document.

Corporate Governance Code

- 1.7 Ms McLaren reported on the recent interaction with the CMA regarding Remedy 4 and disclosure of AQR "grades". In particular, CMA had indicated that the case for an advisory vote should be stated more clearly in the Consultation Document; the Board agreed that the wording in the Consultation Document should be changed.
- 1.8 With regard to the disclosure of AQR grades, the Board agreed to retain its position on this issue.
- 1.9 There was a discussion on the rationale for, and misperception arising out of, deleting the requirement to have a tendering process every 10 years. Ms McLaren

agreed to review the document to ensure clarity as well as expressly stating that audit committees were responsible for overseeing the tendering process.

- 1.10 On the Impact Assessment, there was a discussion on the methodology used for calculating costs. It was clarified that the FRC impact assessment pertained only to the costs implications arising out of the FRC's activity; the Board asked that this be made clearer in the Impact Assessment.
- 1.11 The Board agreed to delegate to the ARD Steering Group the final approval of the Consultation Document, covering the Ethical and Auditing Standards, the Corporate Governance Code and the accompanying Guidance on Audit Committee, for issue by 30 September 2015.

2. ANY OTHER BUSINESS

a. Conduct – Quarterly Themes Report

2.1 The Conduct quarterly Themes Report was noted.

2.2 There was no other business.

3. NEXT MEETING

3.1 Tuesday, 20 October 2015 at 8.30 am.