

FINANCIAL REPORTING COUNCIL

**Minutes of a meeting of the Regulatory Standards & Codes Committee (the 'Committee')
held at 10am on 9 February 2022 at FRC, 125 London Wall,
London EC2Y 5AS**

PRESENT:	Hannah Nixon John Coomber	Chair Committee member
OBSERVERS:	Clare Cole Mark Holmes	FCA BEIS
SENIOR ADVISORS:	Rosemary Beaver Paul Cox Richard Lawrence	
IN ATTENDANCE:	Shazia Ahmed Mark Babington Anu Bhartiya Jason Bradley Jenny Carter Claudia Chapman Dawn Dickson Sarah-Jayne Dominic James Ferris Phil Fitz-Gerald Michael Hodges Josephine Jackson Alex Kuczynski Vanessa Leung Sir Jan du Plessis Deepa Raval David Styles Stuart Turner Laura Warren Simon Wasserman	Senior Project Manager, TCA & International (For Minute 6 only) Executive Director, Regulatory Standards Committee Secretary Project Director, Audit & Assurance Policy (For Minute 5 only) Accounting & Reporting Director (From Minute 1 to 3 and 7 only) Head of Stewardship (From Minute 1 to 4 only) Director of Professional Oversight (For Minute 6 only) Head of Policy Programmes and Strategy Director of UK Auditing Standards (For Minute 5 only) Director of financial Reporting Lab (For Minute 9 only) Project Director, Actuarial Policy (For Minute 8 only) Director of International Auditing & Assurance Standards (For Minute 5 only) Executive Director, Corporate Services and General Counsel Director of Actuarial Policy (For Minute 8 only) FRC Chairman (From Minute 1 to 8.3 only) Director of Narrative Reporting (For Minute 7 only) Director, Corporate Governance & Stewardship Project Director, Actuarial Policy (For Minute 8 only) Head of Competition Policy (From Minute 1 to 3 only) Project Director, Actuarial Policy (For Minute 8 only)

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APOLOGIES: None

1. WELCOME AND DECLARATION OF INTERESTS

1.1 The Chair welcomed everyone to the meeting and in particular Sir Jan du Plessis, who was attending to observe the meeting. The Chair noted the meeting was quorate.

1.2 There were no conflict of interests declared.

2. MINUTES OF MEETING HELD ON 17 NOVEMBER 2021 AND ROLLING ACTION POINTS

2.1 The minutes of the meeting held on 17 November 2021 were approved for publication.

2.2 The Committee noted the Rolling Action log.

3. REPORT OF THE EXECUTIVE DIRECTOR, REGULATORY STANDARDS

3.1 The Executive Director of Regulatory Standards provided an update on the report which included:

- The publication of the consultation on FRC's Plan and Budget 2022-25;
- The Regulatory Standard Division's Away Day planned in March 2022, the invitation of which would be extended to the Members and Senior Advisors of the Committee;
- The appointment process to fulfil the position of the Director of Local Audit, which was progressing;
- Audit Firm Governance Code, the draft feedback statement and updated Code revisions would be presented at the next meeting; and
- The first signs of colleagues departing to take up opportunities in other organisations leading to resourcing pressures.

3.2 At the request of the Committee, it was agreed that the work of the cross-FRC Climate Group and the newly setup cross-FRC Technology group would be presented to the Committee at a future meeting.

3.3 The Committee discussed the importance of FRC's role in influencing international standards and sharing best practices through membership of a range of global and regional bodies and how the role helps in incorporating appropriate standards into the UK regulatory framework.

3.4 Through discussion, the Committee noted the reluctance amongst some larger firms to bid for local authority audit work. It was noted that the responsibilities in respect of audit appointments for local public bodies rested with the PSAA. In order to help make the local public audit market more resilient, FRC was proposing a consultation on the revision of the FRC statutory guidance on Key Audit Partner to provide a greater number of routes to meet the requirements.

3.5 The Committee noted the IAASB highlights which included a summary of the decisions of the IAASB at the December 2021 meeting.

4. STEWARDSHIP CODE UPDATE

4.1 The Committee received a brief introduction to the work of the Corporate Governance & Stewardship Team and noted that the UK Corporate Governance Code would be reviewed as FRC transitions into ARGAs. The Committee also noted the FRC's role in respect of the Wates Corporate Governance Principles which are applicable to large private companies.

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- 4.2 The Committee considered the paper which set out a summary of stakeholder engagement on the use and impact of publishing the first signatory list to the UK Stewardship Code, and views on differentiating the quality of signatory reporting in 2022. Amongst other matters, the Committee noted that:
- Tiering could deter further Code take-up, particularly amongst smaller organisations, and effort should focus on encouraging more participants to meet the standard;
 - Most stakeholder supported considering a future mechanism to differentiate practice and reporting. There was limited support on private benchmarking / quartile ranking and it was suggested supporting applicants by showcasing more examples of good practice and reporting as part of the annual review;
 - The Team's proposal of activities and outputs in 2022 – 2023 included mechanisms to encourage new applicants and support signatories' to report well. The Team would be working with Lab to establish what stewardship reporting from asset managers is useful to asset owners and also work with FCA Asset Management Supervision team on stewardship focussed questions; and
 - The Team was assessing the second cohort of reports which were dominated by reapplications, and applications from investors with more unusual business models.
- 4.3 The Committee enquired about the awareness pensioners and savers have of the Stewardship Code. It was noted that some reporting could be repurposed for clients and beneficiaries, but they were not the main audience. It was suggested and agreed that a more in-depth session on the Stewardship Code would be included on the Committee's agenda for the Away Day in July 2022.
- 4.4 The Committee commended on the work of the Team and supported the methodologies and workplan for 2022-23.
- 5. ISA (UK) 600 – SPECIAL CONSIDERATIONS – AUDITS OF GROUP FINANCIAL STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS)**
- 5.1 The Committee considered the paper which set out a summary of proposed revisions to ISA (UK) 600 *Special Considerations – Audit of group financial statements (including the work of component auditors)* arising as a result of the IAASB substantially revising the international version of ISA 600. It was noted that the IAASB approved the final revised ISA 600 in December 2021, though due process for setting this standard is currently being reviewed by the Public Interest Oversight Board (PIOB), with the IAASB to publish once this review is complete. The Committee also noted that revised ISA 600 was completed with substantial input from the FRC throughout the process and represented a significantly improved standard, with only minimal additional UK pluses being proposed for inclusion in the UK version.
- 5.2 The Committee noted that much of the additional UK-specific material is existing UK pluses already included within the current version of ISA (UK) 600. These additions relate primarily to UK-specific legislation and competent authority access to working papers for the purposes of supervision and enforcement activities. Additional UK specific supplementary material has been included to:
- Aid in clarifying the relationship between engagement team, group auditor and component auditor terminology.
 - Clarify the group engagement partner, and their firms' responsibilities considering recent revisions to quality management standards; and
 - Clarify existing ethical requirements in relation to a group audit in the UK.
- 5.3 Through discussion it was clarified that no material was included in respect of any Managed Shared Audit (MSA) as government policy, and subsequent legislation, has not yet been finalised. Additionally, it was noted that under any MSA arrangements, ISA (UK) 600

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would apply in full to group and component auditors, though the FRC will consider additional guidance, if necessary, once the regulatory and legislative structure of any MSA arrangements have been agreed.

- 5.4 The Committee approved the issue of the Exposure Draft of ISA (UK) 600, the Invitation to Comment and the conforming and consequential amendments arising from ISA (UK) 600 *Special Considerations – Audit of group financial statements (including the work of component auditors)*.

6. REVISED KEY AUDIT PARTNER CONSULTATION

- 6.1 The Committee received an update on the proposed revisions to the FRC's *Guidance to Recognised Supervisory Bodies on the approval of Key Audit Partners for local audit* which included two new routes to full Key Audit Partner status and a third route which gives limited authority to sign audit reports of NHS entities only. The Committee noted that the proposals had been welcomed by audit firms; however, the proposal for limited authority had not been discussed with firms but had been welcomed by NHS Improvement as a way of enabling Responsible Individuals with experience of Foundation Trusts to use the skills and competence they already have to audit NHS trusts. The Committee acknowledged that this would free up existing Key Audit Partners to focus on those local audits which require specialist knowledge and skills. Through discussion, the Committee suggested including a wider question seeking any other ideas the respondents may have in mind.

- 6.2 Subject to the above, the Committee approved a 4-week consultation on the proposed changes to the FRC's *Guidance to Recognised Supervisory Bodies on the approval of Key Audit Partners for local audit*.

7. UPDATE ON SUSTAINABILITY STANDARD SETTING

- 7.1 The Committee received an update on the developments in international sustainability standard setting and noted how FRC intends to proactively influence the developments at the International Sustainability Standards Board (ISSB) through early engagement and input into published documents.

- 7.2 Since the UK had already been leading the way in non-financial reporting and had introduced TCFD reporting via FCA rules and Companies Act Strategic Report requirements, the Committee briefly discussed how ISSB standards can be adopted in the UK in an effective way. Through discussion the Committee acknowledged the challenges to ensuring international standards would fit within the existing Strategic Report framework whilst keeping it cohesive. The Committee acknowledged that one of the challenges would be around the different context of materiality for ESG, sustainability and financial reporting.

- 7.3 The Committee noted that Mr Holmes was a UK representative member on the OECD Corporate Governance Committee and their terms of reference could include broader themes such as climate, ESG, digitalisation and stewardship.

- 7.3 It was suggested and agreed that a more in-depth session on sustainability standards setting would be included on the Committee's agenda for the Away Day in July 2022.

8. CONSULTATION FOR REVISIONS TO AS TM1

- 8.1 The Committee received an update in respect of the proposed amendments to AS TM1, primarily as the result of Government's intention for the provision of Estimated Retirement Income (ERI) information on the pensions dashboards to follow the methods and assumptions specified in AS TM1.

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- 8.2 The Committee acknowledged the importance of standardising the methods and assumptions in AS TM1.
- 8.3 The Committee noted that as part of the Joint Forum on Actuarial Regulation's ERI Task Force, the FRC had engaged with members of the JFAR, Money and Pensions Service (MaPS), DWP, industry bodies representing insurers, pension funds and administrators, as well as specialist in consumer advocacy and academia. The Committee also noted the robustness of the technical analysis which included research on past data available on UK Pooled Pension Funds.
- 8.4 The Committee acknowledged the risk of illustrations being misunderstood by the public, and that the FRC does not control how illustrations are described on dashboards, or how risk is communicated to dashboard users. In discussing the proposed form of annuitisation, the Committee also acknowledged the implications on the gender pension gap.
- 8.6 Whilst the Committee acknowledged the risks in relation to these proposals, it noted that consulting the proposals transparently and extensively together with wider outreach, stakeholder discussion and additional research could manage some risks. It was agreed that questions in relation to the loss of judgement and the gender pension gap would be included in the consultation document. It was also agreed that during consultation period, the Committee would receive an update from the Actuarial Policy Team on the consultation responses and also discuss the importance of communication on dashboard and liaison with DWP and MaPS on this matter.
- 8.7 Subject to the above, the Committee approved the publication of the *Consultation Paper: Proposed revision to AS TM1: Statutory Money Purchase Illustrations*.

9. FRC LAB STRATEGY

- 9.1 The Committee received an update in respect of the approach of Lab which will be renamed to FRC Lab and more aligned with FRC's strategic objectives and priorities whilst maintaining a market-led view of reporting areas. The Committee noted that the re-positioning would help to support FRC's objective as an improvement regulator. With regards to its priority areas and core projects for 2022, a primary focus would be on developing ESG reporting requirements and the digitisation in reporting.
- 9.2 Whilst the Committee acknowledged the renaming to FRC Lab, it emphasised the need for sustaining the culture of openness and confidentiality and not making the companies feel they are communicating with a 'regulator'.
- 9.3 Through discussion, the Committee noted that introduction of FRC's Stakeholder Insight Group which would be a new cross-stakeholder panel that will represent preparers, investors, audit committee chairs and other key parts of our stakeholder universe including reporting framework owners and civil society groups.

10. REGULATORY STANDARDS & CODES COMMITTEE'S FORWARD PLANNER

- 10.1 The Committee noted the forward planner.

11. REVIEW OF THE MEETING

- 11.1 The Committee Members, Observers and Senior Advisors shared their views on the conduct of the meeting and a number of points were made, including:
- There were benefits in changing the meeting into a smaller room especially for those who joined the meeting virtually;

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- The contents in the meeting papers were well presented which led to good discussions; and
- Going forward, it was suggested arranging decision items at the top of the agenda followed by discussion and noting items.

12. DATE OF NEXT MEETING

12.1 9 March 2022

Chair

Date