

Financial Reporting Council

Minutes of a meeting of the Board of Directors of the Company held on 4 March 2015 at 8th Floor, 125 London Wall

PRESENT:	Sir Winfried Bischoff	Chairman
	Gay Huey Evans	Deputy Chairman (By telephone - Items 1 and 2)
	Stephen Haddrill	Chief Executive
	Mark Armour	Non-executive Director
	Sir Brian Bender	Non-executive Director
	David Childs	Chairman, Conduct Committee
	Olivia Dickson	Chairman, Actuarial Council
	Paul George	Executive Director, Conduct
	Nick Land	Chairman, Codes & Standards Committee and Chairman, Audit & Assurance Council
	Roger Marshall	Chairman, Accounting Council
Melanie McLaren	Executive Director, Codes & Standards	
Keith Skeoch	Non-executive Director	
John Stewart	Non-executive Director	
IN ATTENDANCE:	Anne McArthur	Secretary
	Chris Hodge	Executive Director, Strategy
	Graham Clarke	Finance Director (Items 5d and 6b)
	David Andrews	Head of Organisational Development (Items 5d and 6b)
	Anthony Appleton	Director, Accounting and Reporting Policy (Items 5c, 7a and 7b)

Apologies were received from Elizabeth Corley. No conflicts of interest were declared in relation to any of the matters for discussion.

1 MINUTES

- 1.1 The Board approved the minutes of the meetings held on 10 December 2014 and 15 January 2015 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:

- the Board supported the proposal that the FRC discuss with the CMA its recommendation that the FRC adopt a secondary competition objective in the light of the provisions of the EU Audit Regulation and Directive;
- the FRC was liaising with the accountancy profession in the light of the MG Rover disciplinary Appeal Tribunal ruling regarding clarity in how accountants should interpret their public interest responsibilities and amendment to the ethical codes set by the accountancy bodies. This was also relevant to the actuarial profession and it was noted that the IFoA would be reviewing the Actuarial Code. The Board noted the importance of robust ethical codes written with definition and clarity and its role in promoting confidence in the integrity of the relevant professions;
- the FRC was discussing with the PRA their consultation in relation to sanctioning auditors and actuaries. The FRC's MoU with the PRA should be reviewed in the light of the new PRA powers;
- the PRA and FCA consultation on the Senior Managers' Regime begged the question of whether banks are different and whether their governance requirements should be different from the requirements in other sectors. This should be considered and a paper tabled to the Board.

2.3 The Board noted the Chief Executive's report.

3 COMMITTEE CHAIR REPORTS

Report from CSC meeting of 3 February 2015

3.1 Mr Land reported that the FRC's research on extended auditor reporting had been published earlier that week. The other matters considered by the Committee had since been referred to the Board.

Report from CC meetings of 16 December 2014 and 10 February 2015

3.2 Mr Childs reported that the Committee would continue to consider the impact of the EU Audit Regulation and Directive and would, going forward, focus on individual areas.

Report from Audit Committee meeting of 13 January 2015

3.3 Mr Land reported that the Committee had considered the FRC Risk Register and had considered IT data security and had asked for a further paper supporting key proposals.

3.4 The Board noted the reports above and the reports of the Nominations Committee meetings of 10 December 2014 and 15 January 2015 and the Remuneration Committee meeting of 10 December 2015.

Conduct Quarterly Report

3.5 Mr George reported on the work of the Conduct Division drawing attention to progress on cases proceeding under the Auditor Regulatory Sanctions Procedure.

3.6 The Board noted the above reports and the reports from Nominations Committee meetings of 10 December 2014 & 15 January 2015 and the Remuneration Committee meeting of 10 December.

4 CHAIRMAN'S AGENDA

a. Board and Committee Effectiveness Review Update

- 4.1 The Chairman reported that the review had been thorough consisting of surveys and interviews by the respective Chairs of each of their Board, Committee or Council members.
- 4.2 The Board noted that a more detailed analysis of the recommendations arising from the reviews would be tabled in April together with a draft summary of the review for inclusion in the Annual Report.
- 4.3 The Board discussed the proposed changes to the terms of reference of the Nominations Committee and a process for notifying the FRC of external appointments under consideration by Board and Committee members. Subject to suggested amendments to be approved by the Chairman, the Board agreed:
- to approve the amended Terms of Reference of the Nominations Committee including the amended composition of the Committee; and
 - to approve the process set out in the paper in relation to Director's and Committee member's external appointments and to delegate to the Nominations Committee approval of consequential changes to the FRC's Code of Conduct and letters of appointment.

b. Board and Committee Appointments

- 4.4 The Chairman introduced the item. The Board noted the update on various succession issues and approved:
- the reappointments of Mark Armour to the Board and to the Audit Committee, Keith Skeoch to the Board, the Codes & Standards Committee and the Audit Committee and Olivia Dickson to the Board, Codes & Standards Committee and as Chair of the Actuarial Council;
 - the reappointments of Keith Barton and Allister Wilson to the Codes & Standards Committee until the end of September 2015;
 - the reappointment of Malcolm Nicholson to the Conduct Committee and as Chair of the Case Management Committee for a further three year term.

5 FOR BOARD APPROVAL AND ISSUE

a. Audit Firm Governance Code

- 5.1 Mr Haddrill introduced the item noting that the draft tabled reflected previous discussions at the Board and the CSC and with stakeholders.
- 5.2 Discussion included the following points and observations:
- audit firms should have a governance structure in the UK not least so that the UK entity can be held to account;
 - the Board of an audit firm including its independent non-executives should be collectively accountable to the regulator;
 - consideration should be given to how to hold audit firms to account e.g. through changes to the regulatory framework in implementing the EU Statutory Audit Directive and/or based on reporting on a comply or explain basis.

- 5.3 The Board approved publication of the paper on the Audit Firm Governance Code: *A review of its implementation and operation* subject to amendments on accountability and the regulatory framework to be approved by the Chair of the CSC.

b. MoU with Crown Dependencies

- 5.4 Ms McArthur introduced the item reporting that the revisions to the MoU reflected the FRC reforms of 2012 (which had previously been dealt with by an exchange of letters) and the recently approved CD Recognised Auditor Sanctions Procedure.
- 5.5 The Board approved the revised MOU and agreed that the Chair of the Conduct Committee should sign it on behalf of the FRC.

c. FRS 104 Interim Reporting Standard

- 5.6 Mr Appleton presented the item, noting that the proposed FRS 104 provided UK GAAP preparers with a framework for interim statements based on FRS. The consultation had elicited broad support and the proposed FRS was supported by the Accounting Council and the CSC. It was also being proposed that the ASB guidance on preliminary announcements should be withdrawn on the basis that it was now so out of date as to be obsolete.
- 5.7 The Board discussed the proposed standard and approved the issue of FRS 104 *Interim Financial Reporting* to replace the ASB Reporting Statement *Half-yearly financial reports* subject to one minor amendment; and approved the withdrawal of the ASB Reporting Statement *Preliminary announcements* subject to confirming that the need to develop up to date guidance would be explored further.

d. Plan, Budget and Annual Levy 2015/16

- 5.8 Mr Hodge introduced the item explaining that it was intended that the Plan should be published the following week. There had been no significant comments on the Plan within the consultation responses but those responses had led to some clarificatory amendments. Mr Clark confirmed that the Budget had been reviewed in the light of the consultation responses and that this had led to some adjustments which impacted on the proposed levy.
- 5.9 The Board discussed the proposed document and suggested a number of amendments. Subject to those amendments to be agreed by the Chairman and CEO, the Board approved for publication the finalised Plan, Budget and Levies 2015/16.

6 FOR AGREEMENT TO PROCEED

a. Complaints Review

- 6.1 Ms McArthur introduced the item drawing attention to the findings of the review and the consequential recommendations.
- 6.2 The Board discussed the recommendations and agreed:
- on the implementation of the Audit Directive:
 - a. to appoint a complaints commissioner independent of the FRC to consider appeals.

- b. annual reporting by the executive and the independent complaints commissioner to the Board on the complaints received during the year and the outcomes;
 - c. to include in the FRC's annual report details of the complaints received and how they were handled;
- amendments to the FRC Complaints Procedure and the Procedure for complaints about the way in which the professional bodies have dealt with a matter;
- that more consideration should be given to the consequences of an upheld complaint about a professional body e.g. referral back to the body to rectify/explain/apologise to the complainant direct.
- that provision for the file review process and response to findings following a complaint about professional bodies should be included in the MoUs with those professional bodies; and
- a review of the Conduct Complaints filter system should be undertaken in early 2016.

b. FRC Revenue Strategy

- 6.3 Mr Hodge introduced the item seeking the Board's agreement to the exploration of various high level propositions aimed at a fair, proportionate and secure funding structure. Following the Board's input further work would be undertaken and the Board would discuss preferred options in more detail at its July meeting.
- 6.4 The Board discussed the various propositions and agreed to the further exploration proposed.

7 FOR DISCUSSION:

a. Progress on Future of Corporate Reporting Project

- 7.1 Mr Appleton presented an update on the project reminding the Board that whilst this was a project for 2016/19 initial steps had been taken. The Board discussed the project. The various observations included the importance of being clear on the need for and the objects of the project.

b. Influencing IFRS

- 7.2 Mr Appleton introduced the item and invited the Board to affirm its policy agreed in 2012.
- 7.3 The Board discussed the policy and agreed that the FRC should:
- continue to be a "critical friend" to the IASB and pursue the goals set by the Board in 2012 and developed in 2013 in respect of the conceptual framework;
 - work with others to reach a consensus on key issues and influence the IASB on a concerted basis;
 - continue formal and informal influencing activities with the IASB and with ESMA, IOSCO and the IIRC;
 - promote reform of the IASB's governance structure with the objective of focussing on relevance of standards rather than technical purity; and

- during 2016/19, develop investor outreach in the UK and internationally as well as considering how the influence of the Financial Reporting Lab model might be widened.

8 OUTLINE BOARD CALENDAR 2015

- 8.1 The Board noted the outline Board calendar and that details of the April meeting in Brussels would be provided the following week.

9 ANY OTHER BUSINESS

- 9.1 The Board noted its resolutions made in writing since its last meeting namely:

- approval of the publication of the annual report on the impact and implementation of the UK Corporate Governance and Stewardship Codes;
- approval of the consultation on the implementation of the EU Accounting Directive through the FRC's UK GAAP standards by correspondence;
- the approval of amendments to FRS 102 – Pension obligations to be effective for years commencing on or after 1 January 2015.

10 NEXT MEETING

- 10.1 Thursday, 23 April 2015 at 8.30 am.