

## Financial Reporting Council

Minutes of a meeting of the Board of Directors of the Company  
held on 19 May 2016 at 8<sup>th</sup> Floor, 125 London Wall

PRESENT:	Sir Winfried Bischoff Gay Huey Evans Stephen Hadrill Mark Armour Sir Brian Bender David Childs John Coomber Elizabeth Corley Olivia Dickson Paul George Ray King Nick Land Roger Marshall Melanie McLaren Keith Skeoch	Chairman Deputy Chairman Chief Executive Non-Executive Director Non-executive Director Non-executive Director Non-executive Director Non-executive Director Non-executive Director Executive Director, Conduct Non-executive Director Non-executive Director Non-executive Director Executive Director, Audit Non-executive Director
IN ATTENDANCE:	Anne McArthur Tracy Vegro Rossella Pagano Susan Currie  Anthony Appleton Jenny Carter  Ukuk Cengiz Gareth Rees Mark Shennan	General Counsel and Company Secretary Executive Director of Strategy & Resources Board Secretary Corporate Programme Manager (items 3 and 8d)  Director, ARPT (Items 7a and 7b) Director, UK Accounting Standards (Items 7a and 7b)  Economist (item 8a) Executive Director, Enforcement (Item 8b) AQR Policy and Planning Director (item 8c)

### 1 DECLARATION OF INTERESTS

There were none.

### 2 MINUTES

2.1 The Board approved the minutes of the meeting held on 14 April 2016 for publication.

*Matters arising*

2.2 The Board noted the matters arising.

#### **a. Report on breakfast meeting**

The Chairman updated the Board on the key points of discussion with members of staff at the breakfast meeting earlier that day which the Board noted. The Board discussed how culture and values could be better embedded to drive best performance; Mr Hadrill confirmed that a review of the FRC values would be carried out in Q3.

### 3 CHIEF EXECUTIVE'S REPORT

3.1 Mr Hadrill introduced his report.

3.2 Discussion included the following points and observations:

- On the ‘Wargames’, the Board received a briefing by Mr Haddrill on how the ‘Wargames’ had been developed and run, the identity of the participants, the approach adopted during the exercise, the feedback from the participants, the observations made during it and the points to follow up and address in future. The Board suggested other categories of participants, circumstances and features that could be part of future similar exercises.
- On budget, the Board was informed on the on-going discussions held with the professional bodies, with regard to funding and the FRC’s position under ARD in respect of the new disciplinary arrangements.
- On audit, the Board discussed the findings emerging from the Confidence in Audit survey, the areas of concern and issues arising from the survey in respect of particular sectors within the financial industry, in particular taking into account new statutory, accounting and regulatory requirements affecting these sectors.
- On pensions, the Board noted the progress on the work regarding the actuarial standards and discussed conducting a review of the accounting standards that could lead to better disclosure and to a more understandable valuation and reporting of the financial position of pension schemes.

**4 COMMITTEE CHAIR REPORTS**

***b. Report from CSC meeting of 3 May 2016***

4.1 The minutes of the CSC meeting were taken as read. Mr Land reported on the Committee’s discussions regarding the Audit Firm Governance Code that would be dealt with later in the meeting and new initiatives regarding the approach to horizon scanning.

***c. Report from CC meeting of 26 April 2016***

4.2 Mr Childs reported the significant issues discussed at the Conduct Committee meeting, giving an update on the progress of specific cases under investigation. There followed a discussion on the approach adopted by the Conduct Committee with regard to the AQR audit sampling thematic review and the presentation of the ensuing reports; this would be followed up by management.

***d. Report from Audit Committee meeting of 6 May 2016***

4.3 Mr Land reported that at its last meeting the Audit Committee: (i) considered the Finance Director’s report which covered the financial results and analysis for the year-end 31 March 2016; (ii) was provided with an analysis of the recharging of internal costs of the investigation work; (iii) received a preliminary draft of the report and accounts for the year ended 31 March 2016 and gave some high level comments and suggested amendments; (iv) discussed the internal audit reviews undertaken so far, the findings and follow up actions; (v) considered the internal audit plan for 2016-2017; (vi) received an update on progress of the IT plan; and (vii) considered the proposal for an assurance map based on the 3-lines of defence model. Mr Land also reported that the Committee had discussed the findings of the Board effectiveness review in so far as they related to the Committee.

**5 ED CORPORATE GOVERNANCE AND REPORTING – QUARTERLY UPDATE**

5.1 Mr George introduced the item. The Board noted the update on the Culture Project, noting that the engagement activity was coming to a close; a full report would be submitted at the end of June. Mr George ran through the issues emerging from the engagement with stakeholders and drew the Board’s attention to the FRC’s response and actions taken with regard to FSB’s initiative to promote more effective climate-related disclosures.

- 5.2 On the Culture Project, there followed a discussion on the aspects and key issues drawn out of the engagement activity with the participants to the project. Mr George outlined the steps planned before publication of the final report and the approach to provide practical guidance to non-executive directors and investors on what constituted good corporate governance and culture, on how investors could be guided in recognising factors or signs that fell short of best or recommended practices, and where appropriate, provide case studies as examples.
- 5.3 With regard to the forthcoming reporting season, the Board discussed how the FRC's Corporate Reporting Review (CRR) team would exercise its monitoring and oversight activity in the light of ESMA's Guidelines on Alternative Performance Measures that will apply to listed companies and how the team would take into account any inconsistencies with the Guidelines in their review of the strategic reports. In this regard, the Board was informed that a set of 'Frequently Asked Questions' would also be published. Furthermore, the Board discussed the approach to communicating with audit committees' chairs prior to the reporting season, in particular with regard to those areas of the reports in respect of which CRR's reviews would focus.

## 6 CHAIRMAN'S AGENDA

### *a. Board effectiveness review – Action plan*

- 6.1 The Chairman introduced this paper, drawing the Board's attention to the action plan based on Independent Review's recommendations; the Board was broadly in agreement with the actions to be taken forward and made observations to be taken into account in the final plan.
- 6.2 The Board was invited to comment on the Board effectiveness draft disclosure to be included in the report and accounts for the year ended 31 March 2016; it suggested a number of changes to the draft.

## 7 FOR BOARD APPROVAL AND ISSUE

### *a. Amendments to FRS 103 Insurance Contracts – Solvency II*

- 7.1 Ms Carter introduced this item, reminding the Board that the objective of the amendments was to update FRS 103 for changes in the regulatory framework, which was supported by respondents to the consultation on FRED 64 *Draft amendments to FRS 103 – Solvency II* issued last year. Following this consultation, a number of changes were made before submission to the Corporate Reporting Council. Ms Carter reported on the main points of discussion at the Council, which were now incorporated into FRS 103 submitted to the Board. The Board noted that the Corporate Reporting Council had advised that the standard should be issued and the Codes and Standards Committee had recommended it to the Board for approval. Accordingly, the FRC Board approved the *Amendments to FRS 103 – Solvency II* for issue.

### *a. Triennial review of UK accounting standards*

- 7.2 Mr Appleton introduced the item, explaining the rationale for revising the approach to the triennial review of UK accounting standards that would mainly focus on changes of FRS 102 to reflect recent significant changes in IFRS. In this regard, Mr Appleton reported on the discussions and the considerations made by the Corporate Reporting Council which had led to the proposal outlined in the paper. The Board considered the circumstances and issues presented and approved the proposed approach to the triennial review of FRS 102, with an initial consultation in the autumn of 2016 relating to significant changes in IFRS, followed by two FREDs containing detailed proposals, the first being issued in early 2017.

**8 FOR DISCUSSION**

***a. Consequences of Brexit for the UK and FRC***

- 8.1 The Board noted the paper that summarised a preliminary identification of the likely issues for the FRC under the two scenarios depending on the outcome of the EU Referendum.
- 8.2 The Board discussed a number of potential aspects and implications, the short- and long-term economic consequences, impact for the UK and the FRC, including how the financial markets, the corporate reporting and disclosures in the strategic reports and viability statements in the annual or half-yearly financial statements, interim valuations, the existing legislation and regulatory landscape could be affected by a Brexit, in the medium- and long-term. The Board asked management to seek external counsel's advice on the implications of Brexit for the FRC over the medium- and long-term and report to the Board.
- 8.3 With regard to employees, management agreed to take measures to enable staff to exercise their vote.

***b. Developments in Audit quality – Draft Report***

- 8.4 Ms McLaren introduced the report, commenting that the preliminary draft submitted to the Board for discussion remained work in progress, given the lack of some data at this stage, including the results of the second YouGov survey on confidence in audit. The Board noted that the report would be considered by the Conduct Committee at the end of May and by Codes and Standards Committee in June.
- 8.5 Ms McLaren explained the structure of the report that had been developed with the aim to give an account on how the FRC was doing in pursuit of its mission to promote audit quality in the UK as well as being an educational tool for stakeholders. The Board discussed the content outline, the objectives and key messages of the report on the assessment of audit quality in the UK and made a number of suggestions for enhancing the content by including for example indicators of success and other analytical/sector data or by providing a more balanced view in certain key areas; the Board also suggested a number of other amendments.

***c. HBoS***

- 8.6 The Board discussed the issues outlined in the paper, the approach and steps for communicating the Conduct Committee's decision regarding the preliminary enquiry initiated under the Accountancy Scheme into KPMG in respect of its work on HBOS for the year ended 31 December 2007, following its meeting in June. A number of observations were made for further consideration by management.

***d. Audit Firm Governance Code***

- 8.7 Mr Haddrill introduced the paper, which comprised the summary of consultation responses and the revised draft Audit Firm Governance Code.
- 8.8 The Board was given an update on the recent discussions with some of the firms. In addition, Mr Haddrill ran through the key points of discussion and suggested changes made by the Conduct and Codes & Standards; these changes were taken into account in the draft Code included in the paper.
- 8.9 The Board discussed the proposed changes, made a number of observations on how they could impact large and small firms differently, suggested some alternatives for further consideration by management and identified additional aspects that should be addressed in the Code, including firms' reporting on their culture and values, and how these are embedded into their governance framework. On the adoption of certain aspects of the

Corporate Governance Code by firms, a comparison between the two Codes was underway to assist the Committees in identifying the specific provisions that should be adopted by audit firms.

***e. Update on Audit Regulation and Directive implementation (including a presentation on delegations arrangements)***

8.10 This matter was deferred.

**9 FOR INFORMATION**

***a. Staff Annual Survey – Next steps***

9.1 This matter was included in the pack for information.

**10 OUTLINE BOARD CALENDAR 2016**

10.1 The Board noted the outline Board calendar.

**11 ANY OTHER BUSINESS**

11.1 There was none.

**12 NEXT MEETING**

12.1 Wednesday 8 June 2016 at 9am (ad hoc meeting) and Thursday 30 June 2016 at 9am.

---

Chairman