

# Financial Reporting Council

## Minutes of a meeting of the Board of Directors of the Company held on 14 July 2011 at 71 -91 Aldwych, London, WC2B 4HN

PRESENT:	Baroness Hogg	Chair
	Glen Moreno	Deputy Chair
	Stephen Haddrill	Director & Chief Executive
	Peter Chambers	Non-executive Director
	Elizabeth Corley	Non-executive Director
	Nick Land	Non-executive Director
	Rudy Markham	Non-executive Director
	Sir Mike Rake	Non-executive Director (Items 1 to 8)
	Sir Steve Robson	Non-executive Director
	Lindsay Tomlinson	Non-executive Director
	Richard Fleck	Chair APB
	John Kellas	Interim Chair POB (Items 1 to 8)
	Bill Knight	Chair FRRP
	Roger Marshall	Interim Chair ASB
	Timothy Walker	Chair AADB
IN ATTENDANCE:	Anne McArthur	Secretary
	Paul George	Director of Audit (Items 2 to 3)
	Marek Grabowski	Executive Director APB (Items 2 to 3)
	Paul Kennedy	Acting Director BAS (Item 2)
	David Andrews	Policy & Planning Manager (Item 3)
	Chris Hodge	Head of Corporate Governance

The Chairman welcomed Mr Kellas to the Board and noted apologies for absence from Mr Sutcliffe.

### 1 MINUTES

- 1.1 The Board approved the minutes of the meeting held on 24 May 2011 for publication subject to minor amendments.

#### *Matters arising*

- 1.2 It was confirmed that a paper on non-audit services and the FRC's policy position would be tabled at the Board's October meeting.

#### *Action points*

- 1.3 On Audit and how audit committees might gauge its effectiveness, the Board noted that the AIU had been surveying audit committee reports on this issue and had been discussing their findings with the big 6.
- 1.4 On the AIU's power to inspect the audits of failed entities outside its routine monitoring visits, the Board noted that this would be kept under review and that the AIU would request access to files outside the routine monitoring visits where necessary.

## 2 CHIEF EXECUTIVE'S REPORT

2.1 Mr Haddrill introduced his report.

2.2 Discussion included the following reports, points and observations:

### *On Codes and Standards*

#### *Europe and International*

- Mr Haddrill reported on a meeting with Commissioner Barnier from which it was clear that he was still in support of joint audits despite strong opposition in Europe. In particular, he viewed joint audits as having a positive effect on concentration and quality. It would be important to keep a keen eye on the big picture when steering through this issue. Meetings would be held in the Autumn to try and ensure that those who opposed the proposals act together;
- On sovereign debt there had been much debate at ESMA on how that debt should be treated but no definitive views had been reached thus far. The issue could be discussed at a meeting with the auditors and audit committee chairs of the major banks;
- On TM1 the Board
  - noted that discussions with HMT on regarding any FRC exposure to liability and confirmed its lack of appetite for continuing with this responsibility unless the position could be resolved satisfactorily. If necessary the FRC's position should be confirmed to HMT in writing;
  - considered the maximum accumulation rate of 7% and the risk that providers would tend to migrate to this rate and required the BAS to consider removal of the maximum rate when it next considered the issue.

#### *On Conduct*

- The Board supported the POB's assessment of risk and approach to meet its responsibilities in relation to the regulation of Third Country auditors. It was noted that there were limitations to the FRC's remit in this regard. In particular, foreign companies could be listed in the UK and be audited by firms which were not monitored or regulated by the FRC. This was a feature of the listing regime and the solution lay in the hands of the shareholders who could vote against the appointment of such auditors but it was for the FRC to focus the debate on protecting investors;
- The Board noted the contents of the POB Report to the Secretary of State and the AIU Annual Report and considered and made drafting suggestions on the proposed Press Notices heralding the publication of those reports.
- On the Accountancy Scheme the Board delegated authority to the Chief Executive to approve amendments enabling CIMA to remain in the Scheme whilst withdrawing from the CCAB.

- On the Actuarial Scheme the Board delegated authority to the Chief Executive to approve amendments to make the Actuarial Scheme more consistent with provisions of the Accountancy Scheme which had been previously approved by the Board.

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

### **3 FRC REFORM**

3.1 Mr Haddrill introduced the papers and reported on his meeting with Mr Davey earlier that week at which Mr Davey had expressed broad support.

3.2 The Board considered the papers and:

- supported names of advisory groups which were not linked to the names of the standards boards;
- supported the progress made to date and the direction of travel as rehearsed in the papers
- made drafting suggestions on the draft consultation document;
- noted that resourcing the new FRC should be discussed in more detail and this would be covered at the Board's away day in October;
- noted that an implementation plan (which would be subject to the outcome of the consultation) would be put to the Board in October.

### **4 FRSME/UK GAAP**

4.1 Mr Marshall provided the Board with an update on the responses to the ASB's consultation on UK GAAP, the decisions the ASB now needed to make and its likely approach.

4.2 The Board confirmed that it was content with the ASB's approach noting in particular that the ASB was likely to issue a standard which would be, for the most part, consistent with IFRS and that the ASB would consider a title for the standard which reflected that.

### **5 DRAFT PROPOSAL: A NEW REPORTING REGIME FOR MICRO-ENTITIES**

5.1 Mr Fleck introduced the draft discussion paper noting that the proposals set out were deregulatory and could result in savings to micro-entities of £400m.

5.2 Discussion included the following points and observations:

- The proposals were not of particular concern to the banks lending to these entities given that they were more interested in cash flow management than year end accounts;
- Accountants and auditors might object to the proposals on the basis of a disappearing work stream but there could be a market in financial management;

5.3 The Board

- confirmed its support of the project and the FRC taking the lead in the discussion paper; and

- approved publication subject to further discussions with BIS and to the passage of EC proposals to exempt micro-entities from the financial reporting obligations in the 4<sup>th</sup> and 7<sup>th</sup> Directives.

## **6 RESPONSE TO EFFECTIVE COMPANY STEWARDSHIP CONSULTATION**

- 6.1 The Board considered the draft paper: Effective Company Stewardship – Next Steps and approved publication subject to a number of drafting points.

## **7 CORPORATE GOVERNANCE**

- 7.1 The Board noted the minutes of the Corporate Governance Committee meeting of 21 June 2011.

- 7.2 The Board considered a draft response to the EC Green Paper on Corporate Governance and made various drafting suggestions. The Board also suggested a joint letter with counterparts in other countries to be sent after the close of the consultation and setting out the various principles agreed by those countries.

## **8 FRC RISK MANAGEMENT**

- 8.1 The Board noted the up to date Risk Register and agreed to send any drafting comments or other observations to the Company Secretary.

## **9 OB PRESENTATIONS - ASB AND FRRP**

- 9.1 Mr Marshall and Mr Knight gave presentations on the work of the ASB and the FRRP. Discussions following each presentation focused on the opportunities and challenges of reform.

- 9.2 The Board noted the presentations given by Mr Marshall and Mr Knight.

## **10 OUTLINE BOARD CALENDAR 2011/12**

- 10.1 The Board noted the Outline Board Calendar 2011/12.

## **11 ANY OTHER BUSINESS**

- 11.1 The Board delegated authority to the Chairman to approve the accounts of AADB Ltd.

- 11.2 The Board took note of a proposal to discuss at a later date pay structures within accountancy firms and the potential emphasis on short term profits and network risk particularly in view of the collapse of a number of Chinese companies listed on US and Canadian exchanges and the possible consequential litigation.

## **12 NEXT MEETING**

Tuesday, 4 October 2011 at 2.00 p.m.