

**Minutes of a meeting of the Board of Directors of the Company
held on 2 July 2014 at 8th Floor, 125 London Wall**

PRESENT:	Sir Winfried Bischoff Gay Huey Evans Stephen Haddrill David Childs Jim Sutcliffe Mark Armour Sir Brian Bender Elizabeth Corley Keith Skeoch John Stewart Olivia Dickson Nick Land Roger Marshall Paul George Melanie McLaren	Chairman Deputy Chairman Director & Chief Executive Chairman, Conduct Committee Chairman, Codes & Standards Committee Non-executive Director Non-executive Director Non-executive Director Non-executive Director Non-executive Director Chairman, Actuarial Council Chairman, Audit & Assurance Council Chairman, Accounting Council Executive Director, Conduct Executive Director, Codes & Standards
IN ATTENDANCE:	Anne McArthur Chris Hodge Graham Clarke David Andrews Anthony Appleton Jenny Carter John Instance Mark Shennan John Grewe David Styles Cecilia Thorn	Secretary Executive Director, Strategy Finance Director (Item 5a) Head of Organisational Development (Items 5a) Director, Accounting & Reporting Policy (Item 5b and 5c) Director, UK Accounting Standards (Items 5b and 5c) Project Director, Actuarial Policy (Item 5d) Team Leader, Audit Quality Review (Item 5e) Director, Oversight (Item 5f) Director, Corporate Governance (Item 6a) Head of International Relations (Item 7b)

Apologies were received from Roger Marshall.

1 MINUTES

1.1 The Board approved the minutes of the meeting held on 22 May 2014 for publication subject to minor amendments.

Matters arising

1.2 There were no matters arising.

Action points

1.3 Mr Haddrill reported that BIS had introduced new legislation which decoupled the statutory exemption enjoyed by the FRC from the BIS grant. However, the draft provision had not dealt with all that the FRC had previously requested and they had not dealt with the statutory levy provision which would still be coupled to the grant in the absence of any amendment to the Bill.

1.4 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's strategy day would be held in September and Board members had contributed to the proposed agenda. The agenda would focus on the fact that the next year would be the 3rd year of a 3 year cycle but should reflect on the quickening pace of the regulatory environment and whether the FRC approach remains robust.
- 2.3 The Board noted the Chief Executive's report.

3 COMMITTEE CHAIR REPORTS

Report from CSC meeting of 25 June 2014

- 3.1 Mr Sutcliffe reported on the Committee's meeting and the key decisions of the Committee. The Committee had discussed the role of the FRC in relation to proxy advisers. Proxy advisers played an important role but there was some discomfort about how they carried out that role. The Committee agreed that the FRC would not develop a Code for proxy advisers but would advise institutional investors that when they use proxy advisers they are still required to follow the Stewardship Code and that the contractual arrangement they have with the proxies should reflect this. This approach was welcomed by the Board.

Report from CC meeting of 29 May & 24 June 2014

- 3.2 Mr Childs introduced the minutes of the May meeting and reported on the June meeting. He confirmed that the Committee would be considering the issue of costs assistance to respondents under the Scheme and would report to the Board in due course.

Report from Audit Committee meeting of 15 May 2014

- 3.3 Mr Land reported on the meeting, confirming that the auditor had given a clean opinion and had been complimentary about the FRC: the controls were good, the segregation of duties was appropriate and the management had been open and transparent. The audit had been thoughtful and thorough and the first following the adoption of FRS 102 and with a new style audit report. The Committee had spent a lot of time on the draft annual report assisted by Ian Wright. On the basis of that review, the Committee advised the Board that the report was "fair, balanced and understandable".

4 CHAIRMAN'S AGENDA

a. Programme for Performance Evaluations – FRC Board and its Committees

- 4.1 Ms McArthur introduced the paper, outlining proposals for the next effectiveness reviews for the Board and its Committees and Councils. The paper also set out proposals for the annual affirmation of the appointment of directors following the reviews. The FRC had committed to its effectiveness reviews including consideration of the continuation of each of the Directors in order to demonstrate a comparable commitment to compliance with the spirit of the Code in relation to annual re-election: it was proposed that following the reviews the Board would formally consider continuation of the appointments of the Directors and that the review report be provided to the Secretary of State for his consideration of the continuance of the appointments of the Chairman and Deputy Chairman.

4.2 The Board agreed that

- the effectiveness of the Board, its Committees, Councils and Conduct Committee sub-committees would commence in the Autumn of 2014 and conclude in the Spring of 2015;
- the effectiveness reviews would be internally led and conducted by reviewing the Councils, then the Committees and then the Board;
- following the reviews,
 - the appointments of each of the non-executive Directors excluding the Chairman and Deputy Chairman would be affirmed or otherwise;
 - a report of the review would be provided to the Secretary of State to assist with his consideration of the continuation of the appointments of the Chairman and Deputy Chairman; and
- the reviews and steps taken in response would be reported in the 2014/15 annual report.

5 FOR BOARD APPROVAL AND ISSUE

a. 2013/14 Annual Report

5.1 Mr Haddrill introduced the paper, reporting on the review by the Audit Committee and its consideration of whether the report was fair, balanced and understandable. He also proposed that the decision to combine the Annual Report with the FRC's report on its various activities to the Secretary of State should be reviewed with the benefit of two years' experience by the Board early in the new year.

5.2 The Board discussed and reviewed the Report and:

- Concluded that it was fair, balanced and understandable, based on its knowledge of the company's affairs, the processes followed as described in the paper and the recommendation of the Audit Committee.
- Subject to various amendments approved the Annual Report 2013/14 for publication and submission to Parliament, with a target date for publication of 16 July and delegated authority to Chairman and the CEO to approve any final editing of the Report to reflect the Board discussion;
- Approved the Press Notice; and
- Approved the Letter of Representation and authorised the Chairman to sign the Letter on its behalf.

b. Financial Reporting Standards

5.3 Mr Appleton introduced the paper, inviting the Board to agree to issue amendments to FRS 101 and FRS 102 and draft amendments to FRS 102. He explained that the amendments to FRS 101 resulted from the first annual review of FRS 101, had been consulted upon and were uncontroversial. The amendments to FRS 102 followed the FRC's commitment to revising the hedge accounting requirements before the standard's effective date (1 January 2015) and dealt with concerns in relation to the classification conditions of basic financial instruments. Both matters had been consulted upon and had been generally agreed, although there are some more contentious areas relating to building societies and housing associations. The proposed amendments to FRS 102 set out in FRED 55 proposed an amendment to FRS 102 to clarify whether the FRC's interpretation of IFRS articulated in the FRRP's

review of WH Smith Plc case also applied to UK GAAP. Mr Sutcliffe confirmed the recommendation of the Codes & Standards Committee and the advice of the Accounting Council.

5.4 The Board approved for issue:

- *Amendments to FRS 101 (2013/14 Cycle)* and the related Impact assessment and Feedback statement;
- *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland - Basic financial instruments and Hedge accounting* and the related Impact assessment and Feedback statement; and
- *FRED 55 Draft Amendments to FRS 102 – Pension obligations.*

c. Consultation on Accounting Directive

5.5 Mr Appleton presented the paper, reminding the Board that the Accounting Directive must be reflected in national law (and supporting regulations etc, including accounting standards) by 20 July 2015, for implementation in accounting periods beginning on or after 1 January 2016. BIS was expected to consult on implementation during the summer and it was proposed that the FRC consult alongside the BIS consultation to explain the impact for accounting standards and obtain views from stakeholders. The proposed consultation was a high level consultation and a more detailed consultation, informed by the responses, would follow. The Codes & Standards Committee recommended the Consultation Document with the advice of the Accounting Council.

5.6 The Board approved for issue the Consultation Document: *Developing and amending accounting standards for the UK and Republic of Ireland in the light of the implementation of the EU Accounting Directive* for the same period as the BIS consultation and subject to any amendments necessary for consistency with the BIS consultation.

d. Statement on Actuarial Standards with the IFoA (including approval of changes to MoU)

5.7 Ms McLaren introduced the paper, explaining that the statement was about setting a foundation for the work around the FRC's standards framework and would put into the public domain the conclusions of Project Capri relating to actuarial standards. The proposed changes to the MoU with the IFoA confirmed the FRC's reserve power to issue ethical standards. The Statement was recommended by the Codes & Standards Committee having received advice from the Actuarial Council.

5.8 The Board discussed the Statement, the proposed changes to the MoU and the press notice and made various drafting suggestions.

5.9 Subject to consideration of the drafting suggestions, the Board

- approved the Statement for issue; and
- approved the changes to the MoU between the FRC and IFoA.

e. Consultation on reporting of AQR findings by Audit Committees

5.10 Mr Haddrill introduced the item, reminding the Board that the proposed consultation was a consequence of the Competition Commission recommendation.

5.11 Discussion included the following points and observations:

- It was difficult to see how the recommended publication of AQR findings would promote competition but it might prove to be a powerful tool to promote audit quality;
- The initiative would be likely to bring together the interests of the company and the auditor as neither would want a bad review. This might risk the appropriate dynamic tension between the audit committee and the auditor and, therefore, transparency for the investor;
- The AQR could not sign off the audit as a whole and any review of group audits was confined to the UK audit work. A published AQR grade could be misinterpreted and mislead investors: there was a risk that any positive AQR findings would be seen as giving the company's financial statements a clean bill of health and vice versa;
- More time should be taken to consider the recommendation and its consequences. The FRC needed to be sure that publication of AQR findings would promote quality of audit;
- On timing some companies had indicated that they wished to reflect the Competition Commission's recommendations in their December 2013 year end reporting rather than wait for possible future amendments to the Corporate Governance Code and the FRC had indicated that it would consult on the issue in July 2014. Any delay would mean that there would not be guidance for companies with December year ends. However, the pressure on timing should not prevent the FRC from taking the time to think through the issues carefully.

5.12 The Board agreed that the consultation document should be revised and retabled in October.

f. Consultation on draft FRC Regulations and Guidance on Local Public Audit

5.13 Mr George introduced the item, confirming that the proposed instrument and guidance largely reflected what was in place for statutory audit. There were two key points of difference. The first was a proposal that there should be a minimum requirement that an (local audit) Engagement Lead should have two years' experience of local public audit in a supervisory role. This proposal was not likely to be controversial. The second was a proposal that an Engagement Lead should have to seek re-validation of their experience and competence after a specified period of e.g. five years. Opposition to this proposal had already been voiced. The Consultation Document was recommended by the Conduct Committee.

5.14 The Board discussed the re-validation proposal and concluded that in view of the existing competency requirements on firms and in the absence of any clear evidence that re-validation was necessary, the consultation document should not include this proposal. However, the Board recognised that there were additional public interest issues associated with local public audit and the consultation should include a question on how that additional public interest should be addressed.

5.15 The Board approved the Consultation Document for issue subject to the amendment on re-validation and the public interest question.

6 FOR AGREEMENT TO PROCEED

a. 2014 UK Corporate Governance Code consultation feedback

- 6.1 Mr Haddrill introduced the item and Mr Styles presented the paper. He reported that 72 responses had been received and that the responses had been as anticipated in view of discussions with stakeholders before the consultation.
- 6.2 The Board discussed the responses and
- noted that there remained some polarised positions on “going concern” but that there was some common ground;
 - agreed with the advice of the Codes & Standards Committee that the focus should be on the rationale of the FRC’s proposals and the consultation response should highlight that the option of doing nothing remains but would not be in line with the FRC’s public interest objectives; and
 - noted that the Codes & Standards Committee would put a formal recommendation to the Board on how to respond to the consultation responses as a whole at its September meeting and the Board’s approval would be sought through correspondence.

7 FOR DISCUSSION:

a. Conduct Themes: Quarterly Report

7.1 The Board noted the paper.

b. International Influencing

7.2 Ms Cecilia Thorne presented the FRC project, outlining the priorities and the challenges facing the FRC. In discussion the Board noted the importance of clarifying technical issues before negotiating and of building good relationships with other member states.

c. Implementation of Audit Directive (Project Presentation)

7.3 This item was deferred.

8 FOR DISCUSSION WITH SAM BECKETT, BIS

a. BIS Priorities and FRC/BIS relationship

8.1 The Chairman welcomed Ms Beckett to the meeting. Mr Haddrill acknowledged the relationship between the FRC and BIS and noted that the relationship had deepened in recent times as the FRC had, on some key projects, counterbalanced the reduction in resources at BIS within the policy area. Mr Haddrill confirmed the FRC’s offer to assist BIS in relation to the projects to implement the EU Audit Regulation and Directive and Accounting Directive. Mr Haddrill encouraged more engagement from BIS Ministers on the FRC annual report. He welcomed an articulation of the BIS approach to the deregulation/better regulation agenda particularly in situations where, if a deregulatory approach was taken, the context of the requirements might change as could be the case with the implementation of the Accounting Directive.

8.2 Ms Beckett noted that the priorities of BIS and the FRC were consistent: they were about building business confidence. She acknowledged that resources at BIS sometimes felt stretched in view of the time frames involved and that the offers of assistance from the FRC had been welcomed and BIS had been glad to draw on the FRC’s expertise. On engagement from Ministers, Ms Beckett was pleased to note the return of Jo Swinson. On deregulation, Government had undertaken not to increase regulation: this was carefully monitored and BIS had a good record. There was also a presumption in favour of simply copying out the provisions of EU directives in UK

legislation without amendment. All of that had to be taken into account on implementation.

- 8.3 Mr Haddrill closed the discussion by confirming the FRC's offer to the Secretary of State to be appointed the competent authority under the EU Audit Directive. He thanked Ms Beckett for participating in the discussion.

9 OUTLINE BOARD CALENDAR 2014

- 9.1 The Board noted the outline Board calendar.

10 ANY OTHER BUSINESS

- 10.1 There was no other business.

11 NEXT MEETING

- 11.1 Strategy Day – Wednesday, 24 September 2014 at 8.30 am; Board meeting – Wednesday, 29 October 2014 at 8.30 am.