

Financial Reporting Council

**Minutes of a meeting of the Board of Directors of the Company
held on 30 January 2013 at Aldwych House, 71 -91 Aldwych, London, WC2B 4HN**

PRESENT:	Baroness Hogg	Chairman
	Glen Moreno	Deputy Chairman
	Stephen Haddrill	Director & Chief Executive
	Richard Fleck	Chairman, Conduct Committee
	Jim Sutcliffe	Chairman, Codes & Standards Committee (by telephone)
	Mark Armour	Non-executive Director (By telephone)
	Peter Chambers	Non-executive Director
	Elizabeth Corley	Non-executive Director
	Gay Huey Evans	Non-executive Director
	Sir Steve Robson	Non-executive Director (By telephone)
	Keith Skeoch	Non-executive Director
Nick Land	Chairman, Audit & Assurance Council	
Paul George	Executive Director, Conduct	
Melanie McLaren	Executive Director, Codes & Standards	
IN ATTENDANCE:	Anne McArthur	Secretary
	Mridul Hegde	Executive Director of Strategy
	Pauline Wallace	Accounting Council Member
	Michelle Sansom	Director, Accounting
	Jenny Carter	Project Director
	Marek Grabowski	Director, Audit Policy (Items 5a and 5b)
	Paul Kennedy	Director, Actuarial Policy

1 MINUTES

- 1.1 The Board approved the minutes of the meeting held on 13 December 2013 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 reports, points and observations:

- On the reputation of the accountancy profession and the recent debates on tax advice, the Conduct Committee had decided that there should be a review of the extent to which the advice of the accountancy bodies to their members on this and other ethical issues was embedded in training programmes and the management of accounting firms;
- The Banking Commission had requested a note of changes the FRC would like to see to IFRS specifically in relation to banks and this was being prepared;

- The FRC would prepare a response to the DWP's call for evidence on pension smoothing which would be approved by the CSC. The response should reflect the view that the professionals in trustee roles and those advising them should use their judgment in order to achieve reporting which minimised the potential distortions caused by QE. It was also noted that the FRC standards did provide flexibility in this respect;
- On Turnbull, the CSC had considered the issue again following the Board's last meeting and had noted the pieces of guidance which overlapped to some extent: Turnbull, going concern, guidance on audit committees and guidance on audit tendering. The medium-term objective should be to bring them into a single piece of guidance, eliminating any overlaps and inconsistencies, and addressing any significant gaps. This would be a project for 2014/15. In the meantime the Turnbull guidance consultation should proceed with the aim of publication in October/ November but with a foreword which would describe how readers should put the various guidances together. It was agreed that the CSC should approve the amended Turnbull guidance for consultation and that the draft foreword should be circulated to the Board.

2.3 The Board noted the Chief Executive's report and the Key Projects Report.

3 COMMITTEE CHAIR REPORTS

- **Report from CSC meeting of 29 January 2013**

3.1 Mr Sutcliffe reported on the CSC meeting noting that due to late apologies the meeting was not quorate and this would be addressed. He noted the Committee had

- reviewed an early draft of a paper on Common Criticisms of IFRS which would be considered at the Board's meeting in March;
- agreed to support the nomination of Marek Grabowski for appointment to the IAASB Board following the retirement of Jon Grant from that Board at the end of 2013;
- discussed Accounting Council succession.

- **Report from CC meetings of 18 December 2012 and 23 January 2013**

3.2 Mr Fleck reported on the CC meeting noting in particular that progress was being made in addressing some of the older disciplinary cases.

- **Report from Remuneration Committee meeting of 13 December 2012**

3.3 Mr Chambers reported that the timetable for making any bonus payments had been revisited and any bonus payments would be made by the end of March 2013. On salary review, the Executive had recommended and the Committee had approved a 2.5% base pay increase. The Committee had also agreed to support a company-wide bonus.

3.4 Mr Haddrill introduced the paper proposing a 3% company-wide bonus on the basis of the progress against the plan, noting that the bonus was affordable. The Board agreed the proposal and requested a review post-payment before confirming that such a bonus would be continued in future years. The Board also requested a paper setting out the FRC remuneration policy following the changes overseen by the Committee over the last year.

- **Report from Audit Committee meeting of 25 January 2013**

3.5 Mr Land reported on the tender exercise undertaken following the confirmation from the FRC's auditors, PKF, of their impending merger with BDO, and their resignation in

the light of the FRC's policy on non-audit services. Mr Land confirmed that following the identification of firms to tender, conflict checks, initial discussions with appropriate partners and the submission of documents, 3 firms had given presentations to the Committee and key members of the Executive. All 3 firms were appointable. The level of audit fees was not considered until the end of the process and the highest fee had been submitted by the firm recommended for appointment following the unanimous agreement of the presentation panel: Hays McIntyre. The Committee therefore recommended the appointment of Hays McIntyre as auditors to the FRC and Mr Land invited the Board to appoint Hays McIntyre to fill the casual vacancy in the office of auditor following the resignation of PKF.

- 3.6 The Board agreed to appoint Hays McIntyre subject to the taking up of references to the satisfaction of Mr Land.
- 3.7 The Board noted the Committee Chair reports.

4 FOR BOARD APPROVAL AND ISSUE

a. FRS 102

- 4.1 The Chairman welcomed Pauline Wallace, Michelle Sansom and Jenny Carter to the meeting. She noted the importance of the item before the Board and its duty to give due consideration to the proposal before it. Specifically, she commented this was a major standard, affecting the majority of UK businesses which was tabled for approval at a time when confidence in standards was lower. The former ASB and the Accounting Council had spent 11 years in the UK GAAP project and it was crucial that the Board should take sufficient time to consider the proposal properly. Further, and without any disrespect to those present, it would be inappropriate to reach a final view in the absence of the Accounting Council Chair. [Note: the meeting had originally been scheduled for early February: the change of date meant that apologies for the meeting from Mr Marshall were unavoidable.]
- 4.2 The Chairman invited Ms McLaren and Ms Wallace to introduce the standard to the Board, following which Board members would pose any specific questions in writing to Ms McLaren in advance of a full discussion at the Board's next meeting which would be attended by Mr Marshall.
- 4.3 Ms McLaren explained that the UK GAAP project had been embarked upon 11 years ago and that the draft standard now tabled would apply to non-listed UK companies. The aim of the project had been a proportionate regime. The FRC had issued FRS 100 and FRS 101 which had established a proportionate framework. FRS 102 was the final piece of the UK GAAP jigsaw.
- 4.4 Ms McLaren advised the Board that due consultation had taken place. The tabled standard followed 11 formal consultations and a wealth of informal consultation. Genuine support had been demonstrated for the proposed standard. This was at least in part because for most companies the accounting basis would be unchanged by the new standard.
- 4.5 Ms McLaren reported that the IFRS for SMEs, the starting point for the proposed FRS 102, had been scrutinized very carefully. It was not proposed to adopt the IFRS for SMEs wholesale or to converge with it: it had been used as a starting point and then subjected to a set of filters over a long period of time including proportionality, the UK business context, the UK legal context and pragmatism. It was crucial that the Board was satisfied that the application of those filters had led to a fit-for-purpose UK GAAP.
- 4.6 Ms Wallace explained the Accounting Council thinking in advising the Board to approve the FRS 102. There was no doubt that commentators thought that UK GAAP

had irretrievably broken down. There were now fundamental holes in the existing UK GAAP which had led to an inconsistency of treatment by companies. A new, credible framework was required. Initially, the ASB erred too far to a position of adopting the IFRS: its application would have created significant difficulties for preparers. It was worth noting, however, that the IFRS was developed from a UK GAAP springboard and that the process of culling the UK GAAP had begun. Accordingly, to continue to use the IFRS as a basis for the revised UK GAAP was appropriate and the Accounting Council believed that the framework provided by the IFRS for SMEs would give the standard the chance to grow. That framework was then subjected to the filter principles outlined by Ms McLaren which had proved very helpful.

- 4.7 Ms Wallace noted that UK accountants were trained on IFRS but that those accountants who worked for smaller firms had little experience of using IFRS and would be unlikely to get it. By having a UK GAAP based on the IFRS for SMEs they would gain useful experience which would lead to more mobility within the market and would give firms room for growth.
- 4.8 Mr Sutcliffe noted that a list of the criticisms of IFRS was being prepared and that those criticisms would be answered specifically in relation to the proposed FRS 102.

b. Use of internal audit – Revision of ISA 610

- 4.9 Ms McLaren introduced the paper reporting that the consultation responses and feedback on the revised ISA 610 had elicited strong support but that the Audit & Assurance Council (AAC), on considering the revised standard, had reached a different view to the former Auditing Practices Board on the issue of external auditors obtaining direct assistance from internal audit staff. The fundamental issue was that any internal audit member was not independent. The advice from the AAC was that the FRC should consult on amending this aspect of the standard. On the impact of an amendment, the practice of direct assistance in the UK was not commonplace but it was used and so any change should not be immediate: it was proposed that the change should take effect after 2013 audits had been carried out. In addition, amending the standard would influence the international debate on this issue.
- 4.10 The Board strongly supported the proposals and approved:
- o The proposed Feedback Statement including the further consultation on prohibiting external auditors from using internal auditors to provide direct assistance;
 - o The proposed revision of ISA (UK and Ireland) 315: *Identifying and assessing the risks of material misstatement through understanding the entity and its environment* and the relating confirming amendments to 10 other ISAs (UK and Ireland);
 - o The proposed process for consulting on implementation of new/revised ISAs as described in the Feedback Statement.

c. Disciplinary Schemes and Sanctions Guidance

- 4.11 Mr Fleck introduced the paper. The Board noted the second consultation in relation on both the Accountancy Scheme and the Sanctions Guidance.
- 4.12 The Board approved the amendments to the Accountancy Scheme and agreed that the amended Scheme would take effect with each of the participating bodies when each of them had taken the necessary steps under their constitutions.
- 4.13 The Board noted the Sanctions Guidance which had, under the Accountancy Scheme, been approved by the Conduct Committee for issue subject to minor some drafting points.

5 FOR DISCUSSION

Autonomy

5.1 Mr Fleck introduced the paper. The Board discussed the FRC's approach to communications in relation to specific cases and noted the restrictions imposed by its own procedures and the Companies Act 2006. The Board also noted that the CC had made a decision to start an investigation under the Accountancy Scheme into the conduct of Members and a Member Firm in relation to Autonomy.

6 FOR AGREEMENT TO PROCEED

Repairing Confidence in Audit

6.1 Mr Grabowski introduced the paper. The Board supported the project proposals but, noting the need for focus and pace, agreed that the FRC should first gather evidence of the expectation gap and then finalise the project plan.

Project Capri

6.2 Mr Hadrill introduced the paper. The Board noted and approved the scope and governance of the actuarial regulation project.

Relevant and Shorter Annual Reports

6.3 Ms Sansom introduced the paper. The Board noted and approved the recommendations to

- Prepare a new Reporting Statement on narrative reporting;
- Develop and publish a series of thought leadership papers and reports on key issues;
- Commission a Financial Reporting Lab project on the role of electronic reporting;
- Work across the FRC in order to give feedback to preparers;
- Engage with the IIRC on their prototype framework.

6.4 The Board also noted the desirability of finding one or more entities to work with the FRC on this issue in relation to the preparation of their own annual report(s).

Actuarial Oversight – Update and Forward Steps

6.5 Mr Fleck introduced the paper. The Board noted the three key issues of focus (i.e. developing the ethical regime; quality controls at actuarial firms; and quality assurance and underpinning) and the progress being made.

7 FRC REPORTING – APPROVAL OF TIMETABLE AND FORMAT

7.1 The Board approved the proposal to:

- continue to publish an Annual AQR Report, Annual CRR Report and Corporate Governance Monitoring Report, and
- publish in July the FRC Annual Report which would include
 - the directors' report and audited accounts;
 - the report to the Secretary of State on the FRC's oversight activities;
 - an overview of all the FRC's regulatory activities with commentary from the FRC on the quality of corporate governance and reporting in the UK with

reference to the annual reports issued by the FRC during the year on specific areas.

8 OUTLINE BOARD CALENDAR 2012-2013

8.1 The Board noted the outline Board calendar.

9 ANY OTHER BUSINESS

9.1 There was no other business.

10 NEXT MEETING

10.1 Tuesday, 5 March 2013 at 8.30am