

**Minutes of a meeting of the Board of Directors of the Company
held on 21 May 2013 at Aldwych House, 71 -91 Aldwych, London, WC2B 4HN**

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| PRESENT: | Baroness Hogg Glen Moreno Stephen Haddrill Richard Fleck Jim Sutcliffe Mark Armour Peter Chambers Elizabeth Corley Gay Huey Evans Sir Steve Robson Keith Skeoch 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 (By telephone) 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 David Andrews Graham Clarke Anna Colban Marek Grabowski Andrew Jones Paul Kennedy Michelle Sansom Ashok Gupta Sir Philip Mawer | Secretary Head of Organisational Development (Item 6c and 6d) Director of Finance (Item 6d) Project Manager (Item 6b) Director, Audit & Assurance (Items 4a, 4b and 5) Director, AQR (Item 4c) Director, Actuarial Policy (Item 6b) Director, Accounting (Item 6a) Actuarial Council Member (Item 6b) President, IFoA (Item 6b) |

1 MINUTES

- 1.1 The Board approved the minutes of the meeting held on 23 April 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 points and observations:

- On audit reform, it was important to demonstrate that the FRC's proposals in relation to tendering represented a good workable mechanism. Whilst some commentators had argued that the FRC could have gone further, business had said otherwise. The FRC should not encourage all to adhere to the FRC proposals until best practice guidance on implementing the proposals had been issued. It was anticipated that the guidance would be issued in June and would be circulated to Board members in advance;
 - On the Competition Commission, the FRC would respond by 19 June 2013 to the suggestion that the FRC should have a competition objective and the draft response would be circulated to Board members;
 - A group of investors had obtained leading counsel's opinion in relation to IFRS and the Companies Act 2006. The Board would receive a briefing on these issues at its next meeting;
 - The FRC draft response to the EU paper on long-termism would be prepared with the benefit of advice from a consultative group and would be circulated to Board members.
- 2.3 The Board noted the Chief Executive's report and progress on the FRC's top 15 projects.

3 COMMITTEE CHAIR REPORTS

- 3.1 The Board noted that there had been no Committee meetings since its last meeting and no business was raised under this item.

4 FOR BOARD APPROVAL AND ISSUE

a. ISA (UK and Ireland) 700 revisions and related feedback paper

- 4.1 Mr Grabowski introduced the paper, reporting that there had been strong support for the proposals consulted upon. There had been 5 negative responses but these had been difficult to reconcile with the general response. Some amendments had been made in response to distinct points. The final revisions and feedback paper tabled were supported by the Audit & Assurance Council and included minor changes suggested by the Council.
- 4.2 Discussion included the following points and observations:
- The major firms primarily affected by the changes were supportive;
 - The number of responses from preparers was low. Whilst there was an awareness that preparers supported the proposals through e.g. feedback to the Financial Reporting Lab's audit committee reporting project it would be preferable to have received more formal preparer feedback and the lesson for the FRC was to actively elicit formal feedback from particular groups to ensure a rounded response for future consultations;
 - On the relationship between the auditors' report and the audit committee report, it would be unsatisfactory if the proposals led to 2 similar lists set out in the annual report. The amended standard was not prescriptive on this point and so the auditor could cross refer to other information in the report but this should be clarified before a final standard was issued.
- 4.3 The Board approved
- The proposed Feedback Statement;

- The proposed revision of ISA (UK and Ireland) 700 “The Independent Auditor’s Report on Financial Statements” with an effective date of periods commencing on or after 1 October 2012 subject to Mr Grabowski, Ms McLaren and Mr Sutcliffe making minor amendments to the standard and basis of conclusions to signal on length, boiler-plate and repetition.

4.4 The Board agreed that Mr Sutcliffe and the Chief Executive would agree a press notice to be issued with the feedback document and standard.

b. Use of internal audit – Revision of ISA 315 & 610

4.5 Mr Grabowski introduced the paper. He reported that many who responded to the consultation thought that a prohibition on the use of internal audit was not necessary but noted that the consultation was aimed at eliciting views on practical implications of the change. Some logistical issues had been identified and, to give firms reasonable time to address these, a later implementation date was recommended. Mr Grabowski confirmed that the proposals were supported by the Audit & Assurance Council.

4.6 The Board considered the proposals and approved:

- The proposed Feedback Statement on the consultation on the prohibition of direct assistance;
- Revisions to ISAs (UK and Ireland) 315 and 610, with conforming amendments to other ISAs (UK and Ireland), to implement the revisions to the corresponding ISAs issued by the IAASB and reflecting the FRC’s prohibition of direct assistance; with an effective date for audits of financial periods ending on or after 15 June 2014;
- Amendment to the definition of ‘audit team’ for the purposes of the Ethical Standards for Auditors to remove the current sentence that explains that it could include internal audit personnel as this would now be prohibited.

c. AQR Annual Report

4.7 Ms George introduced the paper.

4.8 The Board:

- considered and commented on the report and the press notice and suggested various amendments in relation to the presentation of the AQR findings and the interpretation of trend data;
- agreed that Mr Fleck, Mr George and Mr Hadrill would oversee the amendments to the documents and circulate to the Board before publication;
- requested a further paper on issues identified during monitoring of the major firms’ quality control procedures.

5 FOR DISCUSSION

a. Sharman Consultation - update and emerging issues

5.1 Mr Grabowski introduced the paper and reported on the issues emerging from the consultation on implementing the Sharman recommendations on going concern. There was support for the principles but the FRC had been urged to pause and to consult again on revised recommendations. In particular, there should be separate guidance for SMEs and different usage of the term “going concern” should be avoided.

5.2 Discussion included the following points and observations:

- There was a risk that if the Turnbull and Sharman Guidance were integrated and time proved that they should be de-coupled, it would be difficult to do so. Flexibility should be retained within the drafting to guard against this risk;
- Companies were already working on compliance with the Sharman principles and that effort should be encouraged.

5.3 The Board agreed

- To issue integrated Turnbull (risk management and internal control) and Sharman (going concern guidance for both stewardship and financial reporting purposes) Guidance, for companies who must, or who voluntarily, apply the UK Corporate Governance Code;
- To issue separate, simplified going concern guidance for SMEs;
- The Codes & Standards Committee would review the guidances before they were tabled to the Board;
- The Code going concern statement be re-developed to address both going concern (as used for the financial reporting purpose) and the longer term viability risks to the business (as meant by Sharman and referred to as the stewardship purpose). The latter should use a different and distinct term other than “going concern”, to avoid the dual usage of this term;
- A statement should be issued following the meeting, setting out the agreed way forward and an indicative timetable. The statement should also remind companies of the principles set out in Sharman and encourage all companies to adhere to the principles pending the detailed guidance;
- To issue for consultation in the Summer proposed Code changes related to remuneration;

5.4 The Board noted that the approach agreed (including the need for re-consultation) would result in mandatory implementation being delayed to years commencing on or after 1 October 2014, compared with 1 October 2012, as consulted on.

6 FOR AGREEMENT TO PROCEED

a. Update on UK Financial Reporting Standards

6.1 Ms Sansom introduced the paper. The Board noted that work was underway to resolve issues in relation to accounting by residential management companies and that this might lead to the tabling of a draft Abstract and draft amendments to the FRSSE. The Board also noted that it would be invited to approve an exposure draft of FRS 103 at its next meeting.

b. Future of Actuarial Regulation (Capri) – recommendations

6.2 The Chairman welcomed Sir Philip Mawer and Ashok Gupta to the meeting.

6.3 Ms McLaren introduced the paper.

6.4 Sir Philip Mawer thanked the FRC for its collaborative approach to the project. He noted that it was a challenge to all to ensure that actuarial regulation worked. The Profession should retain ethical regulation of the profession but should work with the FRC and should develop a collaborative approach with other regulators. The outcome of the project from both perspectives was greater clarity in relation to roles and responsibilities; a sharper focus to the work of the Profession and working more closely the FRC without detracting from the FRC’s oversight role.

- 6.5 The Board discussed the responsibilities of the various regulators and the risks of the current regulatory framework. Any letter to Government should set out the risks and not seek to give any comfort in relation to those risks.
- 6.6 The Board also discussed the need for monitoring of actuarial work, recognising both the need to assess the quality of the work and whether UK standards were fit for purpose and the dangers of monitoring the work regulated by other authorities. Peer review was a mechanism that could be looked at more closely and the Profession was undertaking further work in this area.
- 6.7 The Board requested an annual risk report on the risks posed by the regulatory framework.
- 6.8 The Board agreed to:
- continue to set technical standards, oversee the regulatory activities of the IFoA and operate a public interest disciplinary scheme;
 - in conjunction with the IFoA, develop a mechanism at a senior management level for enhanced collaboration with the Pensions Regulator (tPR), PRA, FCA;
 - explore the opportunities for better access to intelligence through monitoring of the quality of actuarial work via a joint forum with PRA, FCA, tPR and the IFoA, initially for
 - formal, regular feedback from the monitoring activities of PRA, FCA and tPR; and
 - thematic studies of actuarial quality and compliance with standards, based on risk;
 - develop, within the Morris approach, a new framework for technical actuarial standards (TASs), and work in collaboration with the IFoA on both technical and ethical standards, establishing a process through which it could activate its reserve power to set ethical standards if it considers that this is necessary in the public interest;
 - communicate the FRC's role and that of the IFoA in actuarial regulation more effectively to Government, other regulators and the public;
 - conclude an agreement between the FRC and IFoA to ensure sharing and reporting of data and research relevant to actuarial regulation and closer collaboration in planning both our work programmes;
 - extend the FRC's ability to engage and influence internationally and to promote independence and principles-based standards; and
 - write to Ministers and other regulators to report on the conclusions of the project, including on the risks in the regulatory architecture.
- 6.9 The Board noted that Sir Philip was retiring in June and thanked him for his contribution to actuarial regulation.

c. Avoiding Over-regulation

- 6.10 Ms Hegde introduced the paper. Discussion included the following points and observations:
- The FRC's mission statement was compatible with the Government's latest growth initiatives;
 - The FRC should be clear on the evidence of need for any new regulation;
 - Evidence of risk was not always evidence of the need for new regulation. Sometimes risk should be tolerated for a period in order to assess the issues and arrive at the right regulation;
 - An issue in relation to costs benefit analysis was the difficulty in measuring the benefits of regulation. This was not an issue peculiar to the FRC;

- If the FRC were to commit to amending its codes, guidance or standards within a 3 year cycle there was a risk of losing the benefit of those codes etc which should be kept current. On the other hand, the FRC should avoid consulting on change too often and on too large a scale.

6.11 The Board noted that the FRC was in a good position to respond to the Government's better regulation agenda and that the Executive Committee would ensure that the FRC continued to identify opportunities to avoid over-regulation and promote a proportionate regulatory regime.

d. 2012/13 Annual Report: review draft (extracts only)

6.12 Ms McArthur introduced the paper. The Board noted the progress of the report, commented on the draft extracts and emphasised the importance of the report being fair, balanced and understandable.

7 OUTLINE BOARD CALENDAR 2012-2013

7.1 The Board noted the outline Board calendar.

8 ANY OTHER BUSINESS

8.1 The Board agreed to appoint Ms Corley to the Remuneration Committee with immediate effect and as Chair of the Remuneration Committee from 1 November 2013 when Mr Chambers would stand down.

9 NEXT MEETING

9.1 Tuesday, 9 July 2013 at 8.30 am