

**Financial Reporting Council**  
**Minutes of a meeting of the FRC Board held by Teams on 20 May 2020**

PRESENT:	Simon Dingemans David Childs John Coomber Olivia Dickson Keith Skeoch Sir Jon Thompson Jenny Watson Dame Julia Unwin	Chairman (excluding item 16.2) Non-Executive Director Non-Executive Director Non-Executive Director (excluding items 9 - 14) Non-Executive Director CEO Non-Executive Director Non-Executive Director (excluding item 9)
IN ATTENDANCE:	Francesca Carter Elizabeth Barrett  Mark Babington  Miranda Craig Susan Currie Claire Lindridge  David Rule Sneha Shah Jenny Carter Mark Mainwaring Andrew Meek	Company Secretary Executive Counsel and Executive Director, Enforcement (item 9) Acting Executive Director, Regulatory Standards (items 11-13) Director of Strategy & Change (item 11) Chief of Staff, Regulatory Standards (item 11) Acting Director, Audit Firm Monitoring and Supervision (item 11) Executive Director, Supervision (items 11 & 15) Project Director (item 11) Acting Director, Accounting & Reporting Policy (item 14) Technical and Quality Manager (item 15) Acting Director, Audit Quality Review (item 15)

**1. QUORUM AND OPENING OF THE MEETING**

1.1 The Chairman noted the meeting was quorate and opened the meeting.

**2 DECLARATIONS OF INTEREST**

2.1 The Chairman reported that Dame Julia Unwin had been appointed as Chair of York St John University and would take on the role in August. Julia had also been appointed to a short-term advisory Committee to the Scottish Government on Economic Renewal, the Committee was due to report in June. Both appointments had been considered by the Nominations Committee.

**3 MINUTES AND MATTERS ARISING**

- 3.1 The Board approved the minutes of the Board meeting of 21 April 2020 for publication.
- 3.2 The matters arising log was reviewed and noted.

**4 CEO'S REPORT**

4.1 The CEO provided an oral update on key areas including staffing, plans to reopen the office, productivity and internal audit. The Board commended the executive team on the approach that had been taken to listening and responding to staff needs during the pandemic and welcomed the approach being taken to seek staff views on a return to the office. Through discussion it was noted that productivity remains high, a number of guidance documents had been issued and work that had been paused in response to Covid-19 had resumed, however, in some areas, including AQR and Enforcement, the current arrangements were proving to be sub-optimal.

## **5 CHAIRMAN'S AGENDA**

- 5.1 The Board had a high-level discussion on the impact of Covid-19 on FRC stakeholders and whether the FRC should review its priorities and focus in response. It was agreed that a detailed discussion would be held in due course.
- 5.2 The Board formally noted the Chairman's resignation from the FRC Board with effect from 31 May 2020 and recorded profound disappointment that the perceived conflict of interest could not be addressed. The Board noted appointment of a successor was a matter for the Secretary of State and not the FRC.

## **6 NOMINATIONS COMMITTEE REPORT**

- 6.1 The Chairman provided an oral report on matters considered by the Nominations Committee at its meeting earlier that day. In noting that implementation of the new governance structure had been delayed to 1 January 2021 and recruitment to appoint NEDs had been delayed the Board agreed the recommendations of the Nominations Committee to:
- i. extend John Coomber's term as Chair of the Audit Committee to 31 December 2020;
  - ii. extend Jenny Watson's term as Chair of the Remuneration Committee and a member of the Nominations Committee to 31 December 2020;
  - iii. extend Julia Unwin's term as Chair of the Codes and Standards Committee to 31 December 2020; and to
  - iv. extend Liz Murrall's term as a member of the Codes and Standards and Chair of the Corporate Reporting Council to 31 December 2020.
- 6.2 However, the Board requested the Nominations Committee consider whether the terms of Council and Committee members also due to be extended should be extended beyond 1 January 2021 in case of further delays to implementation of the new structure.

## **7 REMUNERATION COMMITTEE REPORT**

- 7.1 The Board noted an oral report of the Remuneration Committee meeting held earlier that morning. The Board noted the Committee had received a summary of the findings of the FRC's people survey and a paper outlining the findings and actions to be taken in response would be presented in July.

## **8 CONDUCT COMMITTEE REPORT**

- 8.1 The Board noted confirmed minutes of Conduct Committee meetings held on 10 March and 14 April an oral report of the meeting held on 12 May. The Board also noted a report on the FRC's review of the professional bodies' audit regulatory activities.

## **9 ORAL UPDATE FROM THE EXECUTIVE COUNSEL AND EXECUTIVE DIRECTOR OF ENFORCEMENT**

- 9.1 Ms Barrett provided the Board with a summary of key themes and messages included in the Annual Enforcement Review which would be presented to the Board for approval in July. The Board welcomed the summary.

## **10 AUDIT COMMITTEE REPORT**

- 10.1 The Board noted draft minutes of the Audit Committee meeting held on 5 May 2020. The Committee Chairman drew the Board's attention to the discussion of the internal audit report and noted that a management action plan would be presented to the Committee at its June meeting.

## 11 TRANSFORMATION PROGRAMME BOARD UPDATE

- 11.1 The Board considered a report that provided an update on the work of the refreshed programme board incorporating recommendations arising from the Kingman review, the CMA’s market study and the Brydon review together with the organisational changes associated with becoming ARGA. The Board noted the new organisation of the programme and the work that had been undertaken during March and April. Ms Craig summarised the priority areas that had been identified by BEIS for development, the planning assumptions BEIS had shared and the new process for agreeing the closure of individual recommendations.
- 11.2 The Board welcomed the update and the work that was being undertaken. Through discussion it was confirmed that consideration was being given to the impact of Covid-19 on the operating environment and on the appetite for, and pace of change.

### ***Minimum standards for Audit Committees***

- 11.3 The Board discussed in detail an updated proposal to establish a draft set of ‘minimum standards’ for Audit Committees which would respond to a recommendation of the CMA’s final report on the audit market. Whilst the Board welcomed the objective of raising standards for best practice by bringing together the various different material relating to Audit Committees issued by the FRC, the Board expressed concern that any publication should make it clear as to whether it was ‘guidance’ or an addition to the Code. Guidance was felt to be a more proportionate response particularly in light of other pressures on corporates due to the Covid-19 crisis.
- 11.4 In noting the Government’s response to the CMA market study would likely make reference to the CMA recommendation the Board agreed the draft guidance around minimum standards, subject to the drafting amendments identified, for discussion with stakeholders and with BEIS. Final guidance around minimum standards would be developed in response to feedback from the stakeholder engagement for presentation to the Codes & Standards Committee and Board in the Autumn.

### ***Operational Separation***

- 11.5 The Board considered and supported the proposed timeline for implementing operational separation, the success criteria and the revised principles.

## 12 AMENDMENTS TO FRS 101 2019/20 CYCLE

- 12.1 The Board noted respondents to FRED 73 *Amendments to FRS 101 - 2019/20 cycle* supported the proposed amendments which had been designed to address minor inconsistencies identified relating to cash flow disclosures. The Board approved *Amendments to FRS 101 – 2019/20 cycle* to be issued as soon as considered reasonable.

## 13 DRAFT AMENDMENTS TO FRS 102 - INTEREST RATE BENCHMARK REFORM (PHASE 2)

- 13.1 The Board approved the issue of FRED 74 Draft amendments to FRS 102 – Interest rate benchmark reform (Phase 2) on the basis the proposed amendments would provide accounting relief, similar to that proposed by the IASB, from some of the accounting impacts when financial instruments and leases are modified to transition to new alternative benchmark rates as part of the reform. The Board agreed FRED 74 to be issued as soon as is reasonable, with consideration of the impacts of Covid-19 in 2020, and that the consultation timetable could be shortened if necessary.

## 14 FRC ANNUAL REPORT & ACCOUNTS 2019/20 – DRAFT

- 14.1 The Board considered a draft of the Annual Report & Accounts for the 2019/20 year. A small number of drafting comments were made, and it was agreed greater emphasis should be placed on the impact Covid-19 has had on the FRC’s stakeholders and its operating environment.

## **15 AQR DRAFT PUBLIC REPORTS**

- 15.1 The Board considered a draft report that set out the 2019/20 inspection results, overall assessments for the individual audit firms and proposed commentary to be included in the 2019/20 public firm reports. The Board welcomed the steps being taken to enhance transparency and made a number of suggestions in respect of the content and structure of the report.
- 15.2 The Board discussed in detail the 2019/20 inspection results and the actions that had been identified to further improve audit quality in 2020/21. The Board encouraged the executive to take a more 'supervisory' approach to audit quality reviews. The Board also agreed the target that 100% of audits should require no more than limited improvements be reviewed.
- 15.3 Mr Meek undertook to revise the draft reports to reflect the discussion. Final draft reports would be presented to the Board for approval in July.

## **16 FORWARD PLAN**

- 16.1 The Board noted the forward plan.

## **17 AOB**

- 17.1 The Board noted the consultation proposing a minor amendment to a requirement within the Local Auditors Transparency Instrument was due to close the following week and agreed to delegate final approval to issue the amended Instrument to the Chairman and CEO.
- 17.2 The Board met without the Chairman to discuss governance following the departure of the Chairman on 31 May 2020.
- 17.3 There was no other business.

## **Date of Next Meeting**

Wednesday 1 July 2020 at 10am.