

**Financial Reporting Council**  
**Minutes of a meeting of the FRC Board held by Teams on 9 December 2020**

PRESENT:	Keith Skeoch	Chairman
	David Childs	Non-Executive Director
	John Coomber	Non-Executive Director
	Sir Jon Thompson	CEO (to item 18)
	Jenny Watson	Non-Executive Director
	Dame Julia Unwin	Non-Executive Director
IN ATTENDANCE:	Francesca Carter	Company Secretary
	Alex Kuczynski	Executive Director, Corporate Services & General Counsel (to item 18)
	Miranda Craig	Director of Strategy & Change (item 5.3)
	Elizabeth Barrett	Executive Director, Enforcement & Executive Counsel (item 9)
	Mark Babington	Executive Director, Regulatory Standards & Codes (items 10-14)
	Jenny Carter	Director, Accounting & Reporting Policy (items 10-13)
	Susan Currie	Chief of Staff, Regulatory Standards (item 10)
	James Ferris	Head of UK Auditing Standards (item 14)
	Claire Lindridge	Director of Audit Market Supervision (item 15)
	David Rule	Executive Director, Supervision (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 No new interests were declared.

**3 MINUTES AND MATTERS ARISING**

3.1 The Board approved the minutes of the Board meeting of 18 November 2020 for publication and approved the minutes of the AGM held on 18 November 2020.

3.2 The Board noted and ratified the decisions that had been taken in writing since the last meeting.

3.3 The matters arising log was reviewed and noted.

**4 CHAIRMANS REPORT**

4.1 The Chairman reported on meetings he had attended with both members of the executive and external stakeholders since the last meeting. The Board welcomed the update.

*Governance structure implementation*

4.2 The Board considered a report that set out a series of recommendations necessary to proceed with a staged approach to implementation of the governance structure agreed earlier in the year. Discussion focused on revised terms of reference for the Board Committees and revisions to the Matters Reserved to the Board.

4.3 The Board agreed:

- i. The proposed staged approach to implementation.
- ii. To delegate final sign off of the Schedule of Delegations to the CEO, Chairman and the Executive Director of Corporate Services & General Counsel.
- iii. Revisions to the Governance Handbook with effect from 01/01/21.

And on the recommendation of the People Committee the Board agreed:

- iv. The reappointment of David Childs as Chair of the Conduct Committee and a member of the People Committee to 31/05/21 (subject to an extension to his term as a NED by BEIS).
- v. The appointment of Keith Skeoch as a member of the Codes & Standards Committee (renamed to Regulatory Standards & Codes Committee from 01/01/21) from 01/01/21 to 11/04/21.
- vi. The continuation of Geoffrey Green, Sean Collins, John Hitchins, Anne Whitaker, Philippa Hardwick and Andrew Johnston as members of the Conduct Committee until 31/03/21.

4.4 The Board also noted that a written resolution to amend the Articles of Association would be circulated to the members of the Company.

*Consultation on changes to the Governance Structure*

4.5 The Board considered a paper that summarised responses to the 8-week consultation on governance related changes to the FRC's regulatory procedures and sought approval on a suite of updated procedures, guidance documents and policies.

4.6 The Board discussed in detail proposed guidance on delegation/retention of Board decisions in relation to enforcement and requested drafting amendments to clarify the presumption of delegation to the Conduct Committee and the context in which decisions would be retained by the Board.

4.7 The Board approved for publication the Feedback Statement and amendments to the Audit Enforcement Procedure, Accountancy Scheme, Actuarial Scheme, Auditor Regulatory Sanctions Procedure, Crown Dependency Regulatory Sanctions Procedure and the Auditor General Disciplinary Procedure Rules. The Board also agreed to delegate approval of non-substantive amendments to associated guidance and policies to the Chair of the Conduct Committee and the Executive Director of Corporate Services & General Counsel.

## **5 CEO'S REPORT**

5.1 The CEO provided an update on the activities of the executive, key outputs and on the establishment of the UKEB. The Board discussed progress against the 2020/21 plan and budget and noted that, as planned, staff numbers were expected to reach 300 before the end of the year.

*Transformation Programme Update*

5.2 The Board noted an oral report on the work of the Transformation Programme, incorporating recommendations arising from the Kingman review, the CMA's market study and the Brydon review, together with organisational changes associated with establishing ARGA. The Board noted an update on discussions in respect of the objectives for ARGA and the updated planning assumptions.

*Draft FRC Strategy and 2021/22 Budget*

5.3 The Board considered a draft Strategy and Budget for 2020/21. The Board noted the draft strategy was built on the interim strategy agreed by the Board in early 2020 and reflected updated thinking on the FRC's purpose, objectives and responsibilities.

- 5.4 The Board welcomed the draft strategy document. Through discussion the Board provided input on the proposed targets and KPIs, including the pace at which pursuit of those targets should be set in light of uncertainties around the legislative timetable to establish ARGAs.
- 5.5 The Board discussed the proposed budget in detail. Discussion focused on the rationale underpinning the proposed increase, funding of the UK Endorsement Board, the voluntary aspects of the FRC levy and associated risks.
- 5.6 It was agreed the draft strategy and budget would be updated to reflect the discussion and further consideration by the executive. The revised draft would be presented at the February Board meeting.

## **6 REPORT FROM THE AUDIT COMMITTEE CHAIR**

- 6.1 The Board noted draft minutes of the 26 November meeting of the FRC Audit Committee and a summary of key discussion points including suggestions with regards to the FRC's accounting policies for 2020/21.
- 6.2 On the recommendation of the Audit Committee the Board agreed that the terms set out in the existing Audit Engagement Letter remained appropriate and agreed the proposed audit fee.

## **7 REPORT FROM THE PEOPLE COMMITTEE CHAIR**

- 7.1 The Board noted an oral update from the People Committee meeting held on 9 December 2020 which included an update on NED recruitment and the outcome of the April 2020 Pay Award. It was noted that the Committee had considered, and agreed for recommendation to the Board, a series of Senior Advisor and Advisory Panel appointments; the appointments would be circulated to the Board for approval by email.
- 7.2 On the recommendation of the People Committee the Board agreed a recommendation in respect of the April 2020 Pay Award for eligible members of the Executive Committee.

## **8 REPORT FROM THE CONDUCT COMMITTEE CHAIR**

- 8.1 The Board noted confirmed minutes of the Conduct Committee meeting held on 15 November 2020 and an update on the expected timing of the report on the Disciplinary Tribunal hearing concerning Autonomy Corporation plc.

## **9 QUARTERLY REPORT FROM THE EXECUTIVE COUNSEL**

- 9.1 The Board noted a report that provided an update on the activities of the Enforcement Division and the status of active investigations.
- 9.2 The Board welcomed the report and discussed risks to the work of the Enforcement Division. The Board also discussed the scope of the Annual Enforcement Review and whether further consideration could be given to lessons learned.

## **10 DUE PROCESS OVERSIGHT OF THE UK ENDORSEMENT BOARD**

- 10.1 The Board considered a proposed approach to the fulfilment of its responsibility for oversight of due process by the UK Endorsement Board (UKEB) once established. It was noted the proposed approach had been developed having regard to approaches taken by bodies with similar responsibilities, of ensuring that the activity being overseen is carried out in the public interest.
- 10.2 Through discussion it was suggested further consideration be given to the proposed approach having regard to proportionality and the need to retain clearly demonstrable independence from the UKEB. The Board also highlighted the need for an exchange of formal letters between the FRC and UKEB to set out respective accountabilities and commitments.

## 11 REVISED SORP POLICY

- 11.1 The Board considered proposed amendments to the FRC's Policy on Developing Statements of Recommended Practice necessary to align with planned changes to the FRC governance structure and to clarify or improve the existing requirements of the policy. The Board noted the changes introduced a limited number of new requirements for SORP-making bodies.
- 11.2 In noting the proposed amendments had been considered, and were supported by, the UK GAAP Technical Advisory Group and had been subject to informal stakeholder outreach, the Board approved the revised Policy on Developing Statements of Recommended Practice (SORPs) (January 2021) for issue.

## 12 FASTER REVISIONS TO STANDARDS

- 12.1 The Board considered a paper that sought agreement to develop an accelerated process for agreeing and implementing revisions to standards in the case of urgent and / or non-controversial revisions.
- 12.2 Whilst the Board agreed to the development of an accelerated standard setting process, the Board reiterated the importance of ensuring robust due process is followed and that, as part of the accelerated process, input from Advisory Panel Members or Senior Advisors would always be sought. The Board also agreed that, in certain circumstances, for example when a standard requires amendment as a result of a change in legislation, it would be acceptable to issue an amendment without consultation.
- 12.3 The Board agreed to delegate approval of the accelerated process, subject to the matters raised in discussion (12.2), to the Executive Director, Regulatory Standards and the Executive Director, Corporate Services & General Counsel.

## 13 AMENDMENTS TO FRS 102 – INTEREST RATE BENCHMARK REFORM PHASE 2

- 13.1 The Board considered proposed amendments to FRS 102 necessary to respond to reform of international interest rate benchmarks, including the London Interbank Offered Rate (LIBOR). The amendments were designed to provide a practical expedient for the accounting of financial assets and financial liabilities and to deal with the financial reporting effects of interest rate benchmark reform by addressing unintended consequences.
- 13.2 Through discussion it was noted that the proposed amendments were based on amendments issued by the IASB and whilst those amendments had not yet been endorsed, positive endorsement advice had been issued by EFRAG. The UKEB secretariat had also consulted on a positive Draft Endorsement Criteria Assessment. The view of the executive was that it would be helpful for FRS 102 preparers to have certainty over the amendments.
- 13.3 The Board noted that, as with the Phase 1 amendments in 2019, these amendments are likely to precede endorsement. The amendments had been considered and were supported by the UK GAAP TAG and the Corporate Reporting Council, responses to the Exposure Draft had also been supportive.
- 13.4 The Board approved the Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland - Interest rate benchmark reform (Phase 2)* for issue.

## 14 CONSULTATION ON REVISIONS OF THE UK'S QUALITY MANAGEMENT STANDARDS

- 14.1 The Board noted the IAASB had issued amendments to the International Quality Management Standards (IQSMs) and ISA 220 (Revised) Quality Management for an Audit of Financial Statements, designed to significantly improve the robustness of the firm's system of quality management; independent quality reviews of audits and assurance engagements; and quality management for each audit engagement. Consequential amendments to the UK standards would

be necessary to align with the revised IAASB standards although the additional UK pluses derived from the EU Audit Regulation and Directive would be retained given that the regulation would be part of retained EU law.

- 14.2 Through discussion it was noted that the FRC supported the amendments introduced by the IAASB and that the Director of International Auditing and Assurance Standards had been engaged in the development of those amendments.
- 14.3 On the basis of the discussion the Board approved a 90-day consultation on revisions to ISQM (UK) 1, ISQM (UK) 2, ISA (UK) 220 (Revised November 2019) and other ISAs (UK) to reflect the changes made to the corresponding standards issued by the IAASB.

## **15 OPERATIONAL SEPARATION**

- 15.1 The Board considered a report that provided an update on transitional plans submitted by the 'Big 4' in respect of the operational separation of their audit practices and sought input on a number of matters identified following review of those plans.
- 15.2 Following detailed discussion, the Board supported proposals to empower Audit Boards and to amend the operational separation principles to clarify ring fencing arrangements. The Board agreed a public announcement be issued stating that implementation plans from the Big 4 firms had been received and the FRC would be moving to the next stage of implementation in Q1 of 2021.

## **16 FORWARD PLAN**

- 16.1 The Board noted the forward plan and revised dates for the March 2021 Board meeting and Strategy day.

## **17 AOB**

- 17.1 There was no other business.

## **18 PRIVATE SESSION**

- 18.1 The Board met for a private discussion without members of the Executive present.

## **Date of Next Meeting**

Wednesday 3 February 2021 at 10am.