

**FINANCIAL REPORTING COUNCIL**

**Minutes of a MS Teams meeting of the Regulatory Standards & Codes Committee (the 'Committee') held on Wednesday, 28 April 2021**

PRESENT:	Dame Julia Unwin John Coomber	Chair Committee member
OBSERVERS:	Clare Cole Mark Holmes	FCA BEIS
SENIOR ADVISORS:	Rosemary Beaver Paul Cox Richard Lawrence	
IN ATTENDANCE:	Mark Babington Anu Bhartiya Keith Billing  Jason Bradley  Jenny Carter Susan Currie  Helen Grimshaw  Jennifer Guest  Josephine Jackson  Alex Kuczynski  Jane O'Doherty  Deepa Raval  David Styles  Thomas Toomse-Smith	Executive Director, Regulatory Standards Committee Secretary Project Director, Audit & Assurance Policy (for Minute 4 only) Project Director, Audit & Assurance Policy (for Minute 5 only) Director, Accounting and Reporting Policy Chief of Staff, Regulatory Standards (For Minute 11 only) Senior Economist and Head of Strategy & Analytics (For minute 13 only) Project Director, Accounting & Reporting Policy (For Minutes 7 and 8 only) Director of International Auditing and Assurance Standards (For Minutes 4,5 and 6 only) Executive Director, Corporate Services and General Counsel Project Director, Accounting & Reporting Policy (For Minute 10 only) Director of Narrative Reporting (For Minute 10 only) Director, Corporate Governance & Stewardship Head of Innovation & Digital (For Minute 12 only)
APOLOGIES:	Keith Skeoch	Committee member

**1. WELCOME AND DECLARATION OF INTERESTS**

- 1.1 The Chair welcomed everyone to the meeting. The Chair noted that the meeting was quorate.
- 1.2 There were no conflict of interests declared.

**2. MINUTES OF MEETING HELD ON 10 MARCH 2021 AND ROLLING ACTION POINTS**

- 2.1 The minutes of the meeting held on 10 March 2021 were approved for publication.
- 2.2 The Committee noted the Rolling action log.

**3. REPORT OF THE EXECUTIVE DIRECTOR, REGULATORY STANDARDS**

3.1 The Executive Director of Regulatory Standards provided an update on the report which included:

- FRC’s work with BEIS on the Consultation document on audit and corporate governance reform, which was published in 2021 and working closely with Government and other regulators in respect of the ongoing stakeholder outreach programme;
- The Actuarial Policy Team’s work with JFAR in taking forward the technical work to propose a set of consistent assumptions and methodology in estimating retirement income for adoption for use in the projections in the Pensions Dashboard. It was acknowledged that the work would be challenging and involve complexities and therefore suggested consulting members of Advisory Panel having pensions and users expertise;
- MHCLG’s proposal to FRC to assist with the implementation of recommendations in respect of Tony Redmond’s review into Local Public Audit and Financial reporting.

3.2 It was requested and agreed that an update on the work in respect of dealing with new challenges in the post-COVID world when the support measures are unwound, would be presented at the next meeting.

3.3 The Committee received an update on the work in relation to the assessment of reports under Stewardship Code and the status of applications received so far and expected to be received by the deadlines in 2021. It was noted that it is likely to exceed the target of 200 applications in 2021. With regards to the Corporate Governance matters, the Committee noted that the following three pieces of external research were being finalised and would be published soon:

- Board Remuneration Reporting
- Workforce Engagement and the UK Corporate Governance Code
- Boardroom Diversity and Effectiveness in FTSE350 Companies

3.4 The Committee considered the extract of the Committee report for the Annual Report 2020/21 and noted a minor amendment to the activities of Audit and Assurance.

**4. ADOPTION OF ISA (UK) 240 (REVISED MAY 2021) – THE AUDITOR’S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS**

4.1 The Committee noted that the FRC had issued a public consultation in October 2020 on the proposal to revise ISA (UK) 240 to address concerns the FRC had identified, and which were highlighted by Sir Donald Brydon about the clarity of auditor’s obligations to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud. The Project Director outlined the small number of clarifications of the proposed enhancements to the requirements and other supporting material. The Committee noted that due consideration was given to the responses, which also supported the additional requirement to discuss risks of fraud with those charged with governance that has been introduced.

4.2 The Committee noted that the IAASB staff were in discussion with FRC staff as part of the IAASB’s review of the international standard.

4.3 In response to a query whether the proposed enhancements to the standard were enough to gain investors’ confidence, it was noted that this revision addresses Sir Donald Brydon’s recommendation to clarify the auditor’s obligations and that the BEIS consultation

document includes proposals to address Sir Donald’s other recommendations, including responsibilities for directors and further duties for auditors.

4.4 The Committee agreed to recommend to the Board the approval of the adoption of ISA (UK) 240 (Revised May 2021), to be effective for audits of financial statements for accounting periods beginning on or after 15 December 2021.

**5. ISRE (UK) 2410 – REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY THE INDEPENDENT AUDITOR OF THE ENTITY**

5.1 The Committee noted that the FRC had issued a public consultation in November 2020 on the proposal to revise ISRE (UK) 2410. In response to the feedback on consultation, the Committee noted the key changes made to the Exposure Draft, including:

- Introduction of an appendix to provide clarity on directors’ responsibilities in respect of interim financial statements;
- Amending language in paragraph 13-2 and 13-3 to recognise that ISRE (UK) 2410 is not setting ‘auditing’ requirements;
- Specific editorial changes to paragraphs 27-1 to 27-3 to clarify expectations on practitioners without weakening the purpose of the revisions.

5.2 The Committee noted that a stakeholder outreach programme was undertaken during the consultation period, and as a result the FRC would be supporting the release of the standard by a webinar or podcast to clarify what was meant by interim review and what assurance it provided.

5.3 It was queried whether in the process of revising the standard, consideration was given to enhancing the nature of interim report particularly setting out which matters the auditor looked into in order to provide some level of assurance to entities and users of financial statements. It was clarified that the consultation included a question whether a broader review of standard should be undertaken. Most of the respondents agreed that a broader review of the standard was needed; however, majority felt that any significant revision should be undertaken at the international level, with the FRC working with the IAASB to develop a revised standard, in order to ensure that equivalency is maintained. Through discussion, it was acknowledged that there should be balance in the length of the report to help stakeholder draw right amount of information.

5.4 A clarification was sought in respect of management changing their assessment of the entity’s ability to continue as a going concern and whether the auditor was required to perform review procedures on management’s assessment only when changes were made. It was clarified that paragraph 13, 13-1 and 13-2 required the auditor to update their understanding of the entity and it’s environment, including the application of accounting policies, and in updating this understanding, the auditor is required to consider events and conditions that may cast doubt on the entity’s ability to continue as a going concern.

5.5 The Committee agreed to recommend to the Board the approval of the final ISRE (UK) 2410 and the Feedback Statement.

**6. IAASB MARCH MEETING HIGHLIGHTS**

6.1 The Committee received a brief update on the updated Draft International Standard on Auditing for Audits of Financial Statements of Less Complex Entities which was considered at the IAASB meeting in March 2021. The rest of the paper was taken as read.

**7. PRINCIPLES AND OBJECTIVES FOR THE FRC TAXONOMIES**

7.1 The Project Director introduced the paper and noted that FRC taxonomies were embedded within the FRC key strategy and their scope and coverage was set to be extended further cross government. The Committee received an update on the

discussions held at the UK XBRL Technical Taskforce Committee and the UK XBRL Governance Committee.

- 7.2 Through discussion, the Committee made a number of points and suggestions, including:
- Some aspects that are tagged are easily found in the financial statements whereas some aspects such as non-financial matters are difficult to find;
  - The order of the Principles for Taxonomies could be reviewed so that there is no preference of one over the other;
  - The focus of taxonomies could be widened to include all aspects of annual report.

- 7.3 Whilst the Committee noted that the current set of Principles provided clear understanding of the priorities, care would be taken to ensure that the Principles do not restrict the future development of taxonomies and digital reporting. The Project Director agreed to take the suggestions into consideration while finalising the Principles and Objectives for the FRC Taxonomies. Subject to that, the Committee approved, in principle, the FRC Taxonomies Principles & Objectives.

**8. WORK PLAN FOR THE FRC TAXONOMIES 2021-2022**

- 8.1 The Project Director provided an update on the plans for improvements and amendments to the FRC Taxonomies suite for the 2021–2022-year cycle. The Committee was invited to send their suggestions by logging on to Yeti or emailing to the Project Director and noted that any minor suggestions would be taken into consideration for implementation in the 2021-22 work plan.

- 8.2 In response to a request to see a 2-3 year forward-looking work plan for taxonomies, it was noted that the FRC had confirmed publishing a three year plan and indicative budget in response to the Strategy, Plan & Budget 2021/22 consultation. The Committee noted that various divisions including the Regulatory Standards had started working on the forward-looking workplan and taxonomies would form part of the plan as the future strategy of FRC transitioning into ARGA was developed.

- 8.3 The Committee approved the FRC Taxonomies workplan for 2021-2022 amendment cycle.

**9. AMENDMENTS TO FRS 101 – 2020/21 CYCLE**

- 9.1 The Committee noted that FRED 77 *Draft amendments to FRS 101 – 2020/21 cycle* was issued in November 2020 with a comment period closing on 28 February 2021. Six responses were received, and all respondents supported the proposed amendments. The Committee noted that the key elements of *Amendments to FRS 101 – 2020/21 cycle* are unchanged from the proposals.

- 9.2 The Committee recommended to the Board that the *Amendments to FRS 101 – 2020/21 cycle* and the Impact Assessment and Feedback Statement be issued.

**10. FUTURE OF CORPORATE REPORTING - FEEDBACK**

- 10.1 The Committee received an overview of the feedback received on the Future of Corporate Reporting thought leadership paper and noted that there was broad support for a number of aspects of the paper including a model that takes into account the information needs of wider stakeholders, technology and gives equal status to non-financial reporting as financial reporting. The Committee noted the short, medium and long-term proposals arising from this project.

- 10.2 Through discussion, the Committee noted the comments around the reporting network including the timing of different reports and concerns about loss of integration. Respondents noted that there was a need to consider audit and assurance models

alongside corporate reporting. On international alignment, respondents commented on the potential loss of comparability that could arise from unbundling the annual report and distributing content across the network; and from the perspective of the desire for international standards on non-financial reporting.

10.3 The Committee noted that project had helped FRC to be in a position to participate in international discussions on global standards for non-financial reporting and any UK initiatives to be aligned with that.

10.4 The Committee welcomed the initiatives undertaken and progress made in the project and requested that updates be provided as the project progressed to next stages.

## **11. FASTER REVISIONS TO STANDARDS**

11.1 The Committee considered the purpose of the paper which was to establish a process and revised framework to respond quickly to revise standards. The Committee noted that FCA has a similar process in place to reflect quickly on the timing of consultations.

11.2 Whilst the Committee acknowledged the need for faster revisions to standards such as responding to emergency legislation passed by the government or the revisions not changing the substance of the standard or being non-controversial, there was some nervousness about not having consultation at all if there could be unintended consequences to the changes to the standards.

11.3 The Committee was assured that no changes to the standards would be made without presenting the changes to the Committee. Further, it was confirmed that the framework would be amended to ensure that the 'fast track' process without consultation would be undertaken for substantive changes in highly exceptional circumstances only, to ensure temporary interim provisions are in place, pending a consultation. The Director of Accounting and Reporting Policy agreed to review the framework.

11.4 In light of the above assurance, the Committee approved the revised process and the amended Framework text, subject to receiving the revised paper at the next meeting.

## **12. INNOVATION AND DIGITAL**

12.1 The Committee received an update on the strategy for Innovation and Digital and noted that the work would support the FRC's wider objective and connect with wider government initiatives on data strategy and digitisation. The Committee noted that effective digital reporting, ESG data capacity building and Digital, data and cyber risks would be the key priority areas to be focused on in 2021/22.

12.2 The Committee discussed a scenario acknowledging the challenges around the quality of data to support high value and consistent reporting. It was noted that FRC has considered several external consultations and policy documents, including the UK Data Strategy and response to the SASB XBRL taxonomy.

12.3 The Committee discussed the challenges around cyber risk reporting and noted that FRC was planning to undertake a project to consider cyber and data risk reporting and user needs and publish a report later in the year.

12.4 Through discussion, the Committee also noted the challenges of the quality of ESG data and whether they met the reporting under UN Sustainable Development Goals.

12.5 The Committee noted the initiatives taken in respect of Innovation and Digital strategy and welcomed an update on regular basis.

**13. RESEARCH PROGRAMME UPDATE**

13.1 The Committee received an update on the work of the Economics, Strategy & Analytics team that leads the research strategy for the FRC, ensuring that the research programme supports the development of policy thinking and effective delivery of the FRC strategy. The Committee noted the proposed research projects for 2021/22, enhanced programme management arrangements as the FRC transitions to ARGA, and the research delivered in 2020/21. The Committee also noted that the research plan and the work is shared with the BEIS colleagues to ensure it is complementary and not duplicated.

13.2 The Committee briefly discussed if there would be any merit in considering research on international assurance models. The Committee also discussed the opportunity for research on the emerging role of actuaries, the value of actuarial work and the perceived risks. The suggestions were noted and would be factored in as the discussions on future research priorities progress.

13.3 Due to the interest and scope of work of the Committee, it was agreed that an annual update on the research strategy would be helpful. However, it was requested that the team share emerging research findings with the Committee in the interim.

**14. REGULATORY STANDARDS & CODES COMMITTEE'S FORWARD PLANNER**

14.1 The Committee noted the forward planner.

**15. ANY OTHER BUSINESS**

15.1 There was none.

**16. DATE OF NEXT MEETING**

The Committee noted that the next meeting would take place on 17 June 2021.

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Chair

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Date