FINANCIAL REPORTING COUNCIL

Record of the Annual Open Meeting held on Thursday 12 September 2013
at the Royal College of Surgeons, 35-43 Lincolns Inn Fields, London WC2A 3PE

PANEL
Baroness Hogg                           Chairman
Stephen Haddrill                        Chief Executive
Paul George                            Executive Director for Conduct
Melanie McLaren                        Executive Director for Codes and Standards

Opening address by Baroness Hogg

We are extremely grateful to you for coming to our Annual Stakeholder Meeting.

As an independent regulator, we have the unique opportunity to engage with our
stakeholders in this face to face way and I look forward to answering your questions and
telling you a bit more about our organisation.

Last month we released the first Annual Report since the Financial Reporting Council
underwent a reform process that brought together 8 independent operating bodies under the
single authority of the FRC. The challenge for the new FRC has been to demonstrate its
benefits - that it now operates as a joined-up, grown up, independent and efficient
organisation. The new structure has allowed us to exploit the connections between our
various responsibilities, and, we believe, produces an organisation where the whole is
greater than the sum of its parts. There were times in the past when we managed to be less
than the sum of our parts. It is always a journey for anybody who wants to make progress.

Each of the activities we engage in is focused around our mission which is ‘to promote high
quality corporate governance and reporting in order to foster investment’. That final word
'investment' is, in our view, an important statement of economic purpose.

The FRC does not operate solely to keep accountants, auditors, actuaries and corporate
boards in order, or to protect the reputations of the professions within its remit. At the heart of
its mission is the objective of helping capital markets, and in particular ensuring that the
market for risk capital functions well. We hold this as our mission because of the importance
of these markets to the health and growth of the economy.

I said in my introduction to this year’s annual report that events have continued to
demonstrate that we actively need risk capital, and if conventional equity is dismissed as
irrelevant (and we are in danger of it becoming fashionable to say so), the market will simply
have to devise ways of making bond-holding risk-bearing instead.

It sometimes seems to fall to the FRC to act as a champion for risk capital and to remind
policy-makers that, when working well, equity markets are a hugely efficient capital conduit.
They enable growing companies to attract risk-bearing finance for investment, and savers to
share in the value creation of growing companies. Indeed, one of the fastest growing industries at the moment are the public to business online funding sites that allow members of the public a chance to get involved.

Our primary task at the FRC is to help them capital markets operate effectively by ensuring that investors in the capital markets have what they need to place their money. Expressed simply, that is:

- effective boards who communicate well;
- useful annual reports and accounts; robust and easily comparable accounting standards; and
- effective audit and actuarial standards.

That is not to say that investors can ever place their money at risk without risk, but they ought to be able to place it with reasonable confidence that risk will be taken knowingly and managed as well as it can be.

Amidst the calls for more and tougher regulation that naturally came out of the crisis, the FRC has tried to assemble and disseminate best practice, producing guidelines and principles based codes rather than adding an excess of rules and regulations that don't accurately reflect the needs of our stakeholders.

We are working in an environment where the shape of financial regulation, with its new institutional arrangements, is still in motion. We have taken steps to secure better co-ordination between the FRC and the Bank of England, the new Prudential Regulation Authority and the Financial Conduct Authority (FCA). Closer co-operation between the FRC and the FCA is needed if the market is to maintain confidence in the UK regime for corporate governance in the listed sector.

This will be my last open meeting as chairman of the FRC Board as I will be standing down shortly, once the Department for Business, Innovation and Skills has identified a successor.

Looking back at my time here I would like to congratulate the FRC for how it has reacted to changing circumstances and in particular to congratulate the Chief Executive, Stephen Haddrill, and his for undertaking the challenging process of reform.

I will leave you with one final thought. A colleague recently came across our very first annual report, published in 1991 during the first year of the FRC's existence. What really struck me when reading through it was a line in my predecessor's report that read:

"the effective working of financial markets ... turns upon excellence in financial reporting"

That statement was relevant 22 years ago and remains as relevant today. While markets and the needs of investors may have evolved, good governance and robust, relevant financial reporting remain vitally important to the effective movement of capital between investors and the companies they invest in.

Address by Stephen Haddrill

I would like to add my welcome and question, from my knowledge of the workings of Whitehall, whether the Chairman was wise to expect that this would be her last Annual meeting as Chairman.

I would also like to introduce my colleagues, Paul George (the Executive Director for Conduct and member of the FRC Board) and Melanie McLaren (the Executive Director for Codes and Standards and also a member of the FRC Board).
As a private company the FRC does not have an open AGM but holds this Annual Stakeholder Meeting instead together with a further Open Meeting later in the year to discuss the strategy and plan for the coming year.

As the Chairman said the FRC's mission is to promote high quality corporate governance and reporting to foster investment and that captures exactly what we do. We do one or two extra things as well as the Government has been keen from time to time to give us extra responsibilities. In the recent debate about extending our audit inspection work into the finances and audits of local government we wondered whether it would be entirely consistent with our mission statement until we recognised that local government sometimes raised money on the capital market.

The objectives we set for ourselves last year were:

- to promote fit for purpose codes and standards;
- to ensure that the UK was well positioned internationally;
- to make our regulation responsive to emerging risks, joined up, transparent and proportionate; and
- to implement the FRC's reform programme.

On the codes and standards side, the code that the FRC is most known for is the Corporate Governance Code. For the past two years the FRC has been reviewing the quality of corporate governance in the UK and the effectiveness of the Code which it does on an annual basis. Our commitment to the market is not to change the Code more than once every two years and then only after close consultation with stakeholders and testing whether a change is necessary or not. People, including the Government, from time to time suggest changes that we should make but we are absolutely committed, as an independent regulator (even where the suggestions come from Whitehall) not to implement them unless we are absolutely certain, through our consultation, that they are necessary and worthwhile.

On 1 October last year we changed the Code, affecting three broad areas:

Promoting diversity in the boardroom with a requirement that companies should state their policies in relation to diversity, including gender diversity.

Enhancing the quality of reporting. It was an important step forward when we said that the company's corporate report should be fair, balanced and understandable and that this should apply to the corporate report as a whole. I hope that will favour pressure in the boardroom against any tendency to use parts of the report as a kind of advertisement for the company. It should be good quality information and it should be balanced. In constructing its own report this year we applied that standard and recognised that it was not an easy thing to create balance in the report because you want to tell the good stuff but it is important that companies and regulators talk about the light and the shade together.

We have also introduced a requirement for a more comprehensive report from the Audit Committee. Audit Committees are perhaps not paid sufficient attention by investors and we want to see a better and more comprehensive report from the Audit Committee that investors will find useful. In particular we want to make sure that Audit Committees report on all matters of significance that they have discussed during the year and we want the auditor to provide assurance that they know of nothing else that should have been reported.

Thirdly, we have introduced auditor re-tendering every ten years. This had been a matter of considerable debate over the last four or five years, kicking off in Brussels where there was a proposal initially for rotation of the audit every six years. We have argued quite strongly against that. It is our view that a company should be clear that it has got the best auditor it can find for its business. We do not think a company can safely say that unless it has re-tendered the audit on some kind of a regular basis and after extensive consultation we proposed a ten-year cycle. We also thing that the company cannot necessarily say it has got
the best auditor unless it gives the incumbent a chance and that is why we think compulsory rotation, where the incumbent does not get a chance, is not the right thing. We are also very conscious that very large companies, particularly in financial services, may, for all sorts of reasons, have very little choice if the incumbent was not allowed to bid for the contract. We continue to think this is the right way forward and that it has been a successful policy. We think we have seen a step change in companies retendering their audits with enormous interest in boardrooms about action being taken. We hope that the Competition Commission (which is proposing retendering every five years, which we think is unnecessarily costly and will have some damaging consequences) will take notice of the success that has been had in this area.

The Corporate Governance Code has been built on the principle of comply or explain and therefore to be effective it is very important that investors are paying attention to the explanations, are using their votes and their influence and are engaging with companies and with boards. To promote that, we introduced the Stewardship Code that now has 267 signatories among fund managers and some asset owners and is from that point of view a major success but it is a priority of ours to make sure that investors are not just paying lip service to it and that there is real engagement.

A great deal of standard setting is done at international level but we are still the standard setter for UK GAAP (the accounting standard for private non-listed companies in the UK) and we introduced a new UK GAAP in the last year. We have been commended in the Times for producing a supply-side reform which is quite fundamental in the way it simplifies the accounting standards for UK companies, reducing something like 3,000 pages of text to about 300, and is much more accessible. It is based on the IFRS for SMEs but has been adapted to meet UK needs and the interests of our UK stakeholders. It will, however, enable a non-listed company that is moving up into the listed market to prepare its accounts using the same principles as it moves into the international accounting arena.

The Sharman Report was a major piece of work that reviewed some of the consequences of the financial crisis and talked about the importance of assessing whether the company was a going concern, not just on an annual basis (although that remained very important) but over the business cycle that applies to the company. We consulted on that and there was a considerable body of support for the proposals but some concern about the detail of implementation. Therefore we have over the past few months been reviewing and revising the proposals and integrating them with the Turnbull Guidance on internal controls and the management of risk. They were overlapping pieces of work and we wanted to produce something that was coherent and easier for the market to adopt. We do recognise that there was a legitimate affection for the 'going concern' label being applied to just the one year judgement and that we need to find something else to apply to a longer-term horizon. We will be publishing our findings on that in the next few months and hope that they will gain support.

We are often associated with the accounting and auditing world so it is very important to us that we also have the role of independent regulator of actuarial standards and oversight of the work of actuarial profession (and I am very pleased to see the Chief Executive of the profession, Derek Cribb, in the room today). We have reviewed our work on actuarial regulation during the year and we have reported very briefly in our Annual Report on our findings. Our principal finding is that this is an area where regulation needs to be effectively joined up - not just between us and the Institute and Faculty of Actuaries but also between us and the Prudential Regulatory Authority, the FCA and The Pensions Regulator. We are the standard setter but the other regulatory bodies have the benefit of seeing how those standards are applied on the ground. We need their actual experience to be fed back into the development of standards and we will be working with them in future to make sure that happens and that any risks they identify are fed back to us so that we can take early, effective action if necessary.
The Financial Reporting Lab has also flourished with a number of reports published this year helping companies to identify better ways of reporting. It is about best practice but there is an ongoing theme (which I will return to later) about the need to cut clutter in annual reports where we feel that progress is, perhaps, too slow.

We operate both on the global stage and very much in Europe. We are very pleased that, recently, Roger Marshall, an FRC Board member and Chairman of the Accounting Council, was invited on to the IASB’s new advisory body. The IASB was reaching out to a limited number of standard setters and we were very pleased to be selected as one of three to represent the interests of the UK as well as European interests.

We have been working with IFIAR, the international organisation that brings together audit regulators, and through that with the Financial Stability Forum which has taken an increasing interest in accounts setting and the quality of audit.

We have also increased our engagement with EU institutions on audit regulation, company law review, corporate governance and so on. We have worked very closely with MEPs and were very pleased when the European Parliament’s Economic Committee shared our views on the problems with audit rotation, something that we worked very hard to convince them of. We also engaged very closely with the other supervisory bodies in Europe, particularly the securities regulator, ESMA, and the insurance regulator, EIOPA.

We have established an office in Brussels and it is a commitment of ours that we will try to extend our influence in the international arena.

On conduct we have, throughout the year, sought to enhance our engagement with audit committees. We feel that audit committees have a central role in relation to much of our supervisory activity. We have started to talk to audit committee chairs before initiating an audit inspection to take their views on what the principal issues might be in relation to the audit. It also provides an opportunity later to feed back our views to them. Audit inspection should not be just for the benefit of the auditor but also for the audit committee to reflect on what they should get out of the audit and on what they should expect from the auditor. We worked very closely with a group of audit committee chairs in thinking about what kind of best practice guidance would be useful to companies in terms of the approach to retendering. That guidance was produced recently and reflects much of what companies are trying to achieve in the market. We are particularly keen to stress to companies that they must think about what they want to get out of the audit and not just the price of the audit. It will be regrettable if tendering just leads to cuts in prices and not to an increase in the quality of audit.

The audit inspection findings, as a result of conducting about 100 audit inspections of mainly listed companies during the year, showed significant improvement in some audits but the performance was not uniform. We found more top quality audits than in the previous year but we found rather more bad ones as well which was not entirely satisfactory. It is also of concern to us that a number of financial services audits fell below the average. We commented on the quality of audits where much of the audit was being done overseas or where the entity being audited was effectively a ‘letter box’ company and saw some risks that we wish to have addressed. We also want to make sure that audit firms are assessing the risks to the quality of audit from their efforts to increase their own efficiency in conducting audits.

Much of the quality of corporate reporting is good but this is not universally so, particularly among smaller companies where we continue to find poorer accounting being done. We would like smaller listed companies to focus on that with their auditors, who ought to be able to help to avoid mistakes in the accounts. The issues we have raised across the market include the quality of accounting in relation to revenue recognition, the impairment of financial instruments, cash flow statements and the perennial problem of trying to reduce clutter in the annual report.
We spend a lot of time monitoring - finding out what is good and what is not so good - but from time to time it is necessary to apply an appropriate sanction to work which really fails to meet an acceptable standard. In the past the FRC has referred performance failures in relation to the audit to the professional bodies. We felt, as part of the FRC reform programme, that this did not bolster our independence from the profession and we are now on the point of introducing a sanctions regime for performance failures that we will apply ourselves. We have also gone through a major reform of the whole disciplinary process. There had been criticism in the past about the disciplinary regime and the sanctions that applied to it. People had said that cases had taken too long to complete and that the sanctions had been insufficient.

We have, during the year, brought a number of quite difficult disciplinary cases to a conclusion, including some high profile cases that have not gone so well and other regulatory authorities have taken them forward, which we are pleased about. We are also pleased with the outcome of the case on Rover, announced at the beginning of the week. Inevitably people had focussed on the fine but what really matters is the quality of the tribunal's findings where it stressed the importance of the profession holding to its public interest responsibilities and to good processes that identify conflicts of interest and provide safeguards against those conflicts of interest. There are some important lessons for the profession in it and I hope that the profession as a whole look at those findings and take them seriously.

In our regulatory approach overall we try to operate to three key principles:

- ensuring our decisions are based on sound evidence and analysis and that we are transparent in the way we operate (we have been commended over the year for being the most transparent authority in the world for the way we report on our audit inspections and we are committed to continuing with that);
- promoting effective consultation with stakeholder, especially investors (an area where we have not always been able to tease out an investor view as effectively as we would like, so we are seeking to build bridges to the investor community even more strongly and we have just appointed Angus Bogle as Director of Investor Engagement); and
- ensuring our work is proportionate and justified in the requirement it places on market participants (I think we have demonstrated over the past year our continuing commitment to effective consultation and that we do listen and I hope our response to the consultation on the Sharman Report is evidence of that).

Many of you contribute to our existence through your funding of us so I thought you would like to know how we have managed the money. Our expenditure was a little bit above budget. Much of this was due to the costs of our disciplinary scheme where some of the costs fall somewhat outside our control because it is not within our control whether cases go to tribunal or not. If a case is settled we spend significantly less than if it goes to tribunal and if it goes to tribunal, the more aggressively it is fought the more it costs us. We still managed to break even because we collected more money, thanks to the generosity of some preparers, for which I am very grateful, and the funding from the accountancy bodies matched the increasing costs of the disciplinary schemes.

Our current strategic priorities, as published in our three year plan, include:

- monitoring and enforcing our codes and standards,
- a focus on stewardship and the importance of trying to encourage investor engagement with companies,
- continuing to monitor corporate reporting to ensure that it is fair, balanced and not overburdened with clutter,
building confidence in the value of audit (on which we have a specific project from which we will be publishing some views later in the autumn),

• implementing the new role of actuarial regulation, and

• getting a better understanding of the economic and market context of our work.

The development of our next Plan as part of our three year strategy will lead to publication of a draft Plan in mid-December with a consultation period closing around the middle of March 2014 including a consultation meeting in the early part of the new year. The final Plan and Budget will be published by the end of May.

Thank you very much for listening.

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**Question and answer session**

**Brian Murnane** (member of the Committee of the Governance Specific Interests Group of the Association of Project Management) We are living in an era of change, so what more can we do in financial reporting to address the risk of management change initiatives and oversight of the governance of project management within accounts? We have seen developing problems, for example, with the Department for Work and Pensions accounts which are influenced by IAS standards.

**Melanie McLaren** We absolutely agree that the management of change is a board level issue. Many of the initiatives that Stephen has been describing actually respond to the sorts of issues you are talking about. Change often equates to managing risk and Stephen has explained that we are currently looking at the Corporate Governance Code and related guidance on risk management to point boards in the right direction. Currently the emphasis is on internal controls, particularly financial internal controls, and we are seeking to put more emphasis on managing risk more holistically. We are currently working on a check list but we will be reiterating that the board, and the reports this it gives, need to focus on the principal risks, how are they developing, how are they being managed and how are they being mitigated.

I encourage you to look at the consultation later in the autumn and let us know whether that meets your needs.

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**Eric Chalker** (Policy Co-ordinator for the UK Shareholders Association) We are broadly supportive of the work of the FRC, we welcome the structural changes, we applaud the new assertiveness which we believe we can see and we hope and trust it will lead to greater effectiveness. We are particularly pleased with the energy you have shown on audit matters where private investors and savers generally have lost huge sums of money through what they would see as audit failures over recent years. Stephen Haddrill knows that we are less enthusiastic about the Stewardship Code because we see weaknesses and deficiencies in it. We undertook a study and I will draw our conclusions to your attention. In your report to us, on page 12, you say: "Consultation is necessary, but we must beware of listening to the loudest voices when they may not be right. The voices of investors are of the greatest importance to us but can be divided and less powerfully transmitted than professional interests." We in the UK Investors Association, think you pay too little attention to private investors who put their own money directly into shares either with their own name on the register or through nominee accounts. We have had a number of meetings with Stephen Haddrill (and trust we will have more) and have made points to him but I want to make another point in the form of a request. In Professor Kay's report he shows a pie chart in which...
insurance funds have 8% ownership of the FTSE 100, pension funds 12% and private individuals 11% so we equate, collectively, to pension funds and are rather more than insurance companies. He also showed on the previous page a set of figures (running up to 2010) showing that the share of beneficial ownership in 2010 held by individuals was one-third more than insurance companies and nearly twice as much as pension funds. We are volunteers and do not have the resources of the professionals in this industry and the time has come for the FRC to give serious consideration to making some kind of resources available on a continuous basis to work with private investors to balance out the influence of the big investors who do not have the same interest because it is not their own money, whereas in our case it is our own money.

**Baroness Hogg** I had the pleasure of discussing the Stewardship Code with one of your colleagues this very morning which I found very useful. In response to your last request I have to tell you that we do not have much in the way of resources. Our engagement on the Stewardship Code is done with a lot of energy but with very few people, unlike the FCA or PRA, but we are very well aware of your importance in the balance. I would also say, of course, that we do not count pension funds as the owners. They are part of the chain back to the true beneficial owners, the individuals who have their money, their savings and their retirement income ultimately at risk. I am very much against the view that intermediaries are ultimate owners - they certainly are not. We do try to respond to the concerns of individual shareholders. For example we had a splendid engagement (slightly outside our range of responsibilities but where we were not getting traction anywhere else) where a number of retail shareholders were complaining to us about some companies listed on the UK market who, being registered outside the UK, were holding their AGMs in rather obscure cities with no connection back to the UK so shareholders had no possibility of engagement. Having gone through several hoops with no success, a part of the FRC had ensured that the Financial Times knew of this and the problem was solved. We do have your interests very much in mind.

**Stephen Haddrill** I mentioned Angus Bogle's appointment as Director of Investor Engagement and I certainly wish Angus to engage with you and your interests as much as with the major fund managers.

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**Anthony Archer** *(JWT Governance Services LLP)* Would you like to say any more about retendering, in the light of the Competition Commission's report that retendering should be mandatory, which rather offends against the comply or explain principle in the Corporate Governance Code which has served well for the last 22 years?

**Baroness Hogg** What is in the Code is 'comply or explain' because that is the essence of the Code. Applying the principles of the Code has an element of being mandatory about it because you have to apply the principles of the Code to be listed on the UK market. How you do it and when you comply with the details of the Code or explain why not is up to you and up to your shareholders whether they like your explanations, although we try to help a bit in nudging the quality of the explanations which we sometimes think are not good enough. It is very important for companies to be able to say that this is really not the moment to be retendering its audit if it is in the middle of a major corporate event. One of the advantages of the Code was that there was no need to define the specific occasion when come exemption might be need. It was left to those covered by the Code to explain why. So we go on making the case for retendering rather than rotation and Stephen has already highlighted our response to the Competition Commission.

**Stephen Haddrill** We would like the Competition Commission to reflect also on the interaction between their proposals and the European Commission's own proposals which are close to the end of negotiations. The European Commission now seems to be endorsing the idea of retendering at ten years (the same as our position) and if you retender at ten years the rotation (which they still hold to) will be delayed by a period. With think companies
will genuinely want to retender at ten years and that there is an alignment between our position and the emerging European Commission position. I hope the Competition Commission will reflect on the experience that we have had over the last year in the UK, which I think is very positive, and how their proposals interact with what the European Commission is proposing.

-Michael Davies (Managing Director, NJ&B Corporate Services Ltd)-

We are now past the third anniversary of the Corporate Governance Code 2010, where the requirement for FTSE 350 companies were to be externally evaluated every three years. I would like to know if the FRC have any intention of expanding that number to, possibly, the FTSE 500, bearing in mind that a lot of companies are doing externally validated evaluations as best practice anyway. I would also like to address the question to the FRC itself because I notice that in the Annual Report this year you state that you intend do an externally validated evaluation next year. Can I ask, on the basis of best practice, why is the FRC being so dilatory in only getting round to doing this evaluation now, rather than when the recommendation was first introduced?

-Baroness Hogg-

I can assure you that we have previously had an external evaluation so this will not be the first time. We considered the first question when we produced the 2012 Code. We had some interesting conversations with people in the field recently to see how the market was developing and the newer requirement to say who your evaluator is will be an important part of the evolution of the market. We are hesitant to move, even on a comply or explain basis, too much onto smaller quoted companies because there is always the danger of making a big shelf of requirements between the unquoted and quoted and thereby discouraging listing. If it is happening anyway as best practice that is, in my view, the best way that things can happen. We are delighted to see the evolution of the market and the professionalisation of many of these processes.

-Den Bushman (responsible-investor.com)-

There is a lot of talk about de-cluttering annual reports. Where does the integrated reporting initiative fit into this?

-Melanie McLaren-

We focus on what is the objective of annual reports and think it is to provide relevant information to investors so we have been pleased to see that the IIRC, in its consultation on the integrated reporting framework, has established that as its key objective. In its framework it had lost its way and had not held true to that objective and we have made that point in our response. We have recently looked at strategic reports in the UK and have put out a consultation with some draft guidance on how to meet the strategic report. We have conversations with the IIRC in which we have said that we think we have set out with exactly the same objectives as you - it is about looking holistically at what are the range of issues that you need to report to investors, whether that is strategy, business model, key financial metrics or resources that are pertinent to the continuity of the business. The IIRC agreed with us and when you look at the Press Notice that we issued when we released our consultation you will see that there was a Press Notice from the IIRC the very same day endorsing the direction of travel that our guidance was taking. If we all hold to that key principle we can use that as an objective standard for de-cluttering. We can actually go through annual reports and accounts and say this information is not useful or relevance to the purpose for which we are doing this reporting. There are big challenges because there are policy makers who would suggest that the annual report and accounts are to further their policy thinking rather than serve the needs of investors. we are not so naive as to believe that this is an easily done job but will hold firm to the objective around fostering investment.

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**Roy Colbran** *(UK Shareholders Association)* Having noted what you have said about the FRC promoting the risk capital market, how do you see yourselves in relation to Professor Kay’s review and the Government’s response to it (and now the Select Committee)?

**Baroness Hogg** This is not in any way our official response - it is a personal emphasis of my own as I feel we have a need to do this because there is no one else who has the same focus on equity markets. Professor Kay quite rightly noted that equity markets had been providing a significantly declining proportion of the capital of major financial institutions. It has been true that during the financial crisis the equity markets have not played a major role, so far, in how you recapitalise banks. Whether that remains true is another question and there is a new story every other day about whether some bank or other wishes to tap the equity market. It was equity markets, to a significant extent, that stepped up to the plate for the rest of the corporate world during the financial crisis. The sale of rights issues during that period was very significant and probably very significant in preventing contagion from the financial sector spreading right throughout the corporate world. In Denmark when the government ran out of money it was the equity markets that stepped up to the plate. We feel that in Europe and in the regulatory landscape in the UK it is important that the need for risk capital is emphasised and this is an important context for our mission statement about the promotion of investment.

**Stephen Haddrill** Professor Kay was very much focussed on promoting the longer-term investment horizon - pushing back on the investment decisions around short-term profit. We certainly have some sympathy with that policy objective. There is a need to be quite careful about intervening in a legitimate market in a way that might be seen as undermining trading of any kind. When I was talking about corporate reporting and Lord Sharman’s proposals, I think that is an illustration of the growing interest amongst investors to get a better forward-looking picture of where a company is going and to be assured that the company has got a better grip of the risks that it is facing in the longer term and that it is revealing those risks to shareholders. This is something that we want to see enhanced through Lord Sharman’s work and other work on company communications with investors.

**Roy Colbran** The Government’s response seems very laid back. How do you feel about that?

**Stephen Haddrill** This is one of those moments when I feel I have to say: “I couldn’t possibly comment”.

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**Martin Samphire** *(3pmkl Ltd and Chairman of the Committee of the Governance Specific Interests Group of the Association of Project Management)* I am very pleased with the comment that project governance is definitively a board issue. How often does the FRC seek or survey feedback on how well organisations are applying your Codes because I find board responsibility for project governance is rarely happening in practice even by people who say they are?

**Baroness Hogg** One technique we use in this area, rather than producing more codes or guidance on codes, is to assemble people with expertise on particular issues to produce a report that will hopefully disseminate best practice. We carried out that kind of exercise on the latest version of the Corporate Governance Code on what was changing in terms of risk decision-taking, risk management and the relationship between the two. That exercise did produce some interesting evidence of how best practice was developing without us trying to write another code. If we are not very careful we will be drawn into writing codes on every kind of risk management, whether it is IT, project management, cyber-risk and so on. The Christmas Tree phenomenon in relation to codes is well known to all of us.

**Melanie McLaren** We have a well-established process that if we change something in the Code we hold discussion forums and test it out with people. We also have other tools in the toolbox such as monitoring exercises and looking at what is being reported and whether it is
having any impact on the type of issues being reported. We have an annual monitoring exercise which we discuss each December. We have the Financial Reporting Lab which is increasingly looking at the impact of the changes we have made and we are using the Lab to give practical help to boards in terms of how they are to approach it. There is a current Lab project looking at the audit committee and auditor reporting and we are minded to do something about risk management reporting and the management of risk in due course once we have implemented the changes to the Code as part of the promotion and implementation process.

Rachel Singh (Accountancy Age) You have said you want to reduce the time it takes in disciplinary cases for the investigation. The Rover case took nine years so how are you going to do that without skipping steps or diluting any of the investigation?

Paul George Nine years is a bit longer than the investigation actually took but I accept that it did take a long time. We have made a number of changes to the disciplinary scheme. A lot of the focus for those changes was to ensure the greater independence of the FRC but also to improve efficiency and effectiveness. We have also spent a lot of time looking at where we can improve the processes and, by and large, we have a significantly enhanced team to undertake our disciplinary activities. We believe the changes will enable us to investigate cases significantly more quickly. The Annual Report highlights progress we have made in the last 12 months moving a number of cases through the system and I have every confidence that progress will continue over the next 12 months.

Carlos Martine (Accounting Magazine) There have been some changes in the Companies Act requiring quoted companies to report carbon emissions. Will the FRC be the regulator enforcing the new requirements and, if so, are you ready for this task?

Stephen Haddrill Responsibility for reviewing whether reports and accounts are consistent with the law and with accounting standards does fall to the FRC so the answer to the first part of your question is: "Yes". It is an area where we have done some work in the past in terms of whether environmental reporting is consistent with good quality reporting standards and I believe we will be able to do that in future. If we have any difficulties we would recruit to fill the gap.