

Minutes: Investor Advisory Group

Date: 03 December 2018 @ 12:00-14:00

Venue: Financial Reporting Council, 125 London Wall, EC2Y 5AS

Lead: Stephen Hadrill, Financial Reporting Council

Attending:

Amra Balic (by phone)	BlackRock
Andrew Cave (by phone)	Baillie Gifford
Daniel Summerfield	USS
David Gorman	Castlefield Investment Partners
Janice Turner	Association of Member Nominated Trustees
Jonathan Haymon	Institutional Shareholder Services
Laurie Fitzjohn-Sykes	HSBC
Michael Marshall	LGPS Central
Mohammed Amin	Representing both UKSA and ShareSoc
Natasha Landell-Mills	Sarasin & Partners
Paul Marsland	Kepler Cheuvreux
Jen Sisson	Financial Reporting Council
Lydia Smith	Financial Reporting Council

Apologies: Faith Ward - Brunel Pension Partnership, Leon Kamhi – Hermes, Carine Smith – Ihenacho – Norges Bank Investment Management, Simon Siu – BT Pension Scheme, Ben Yeoh – RBC Global Asset Management

Guests: David Banks – Public Affairs Manager, David Styles – Director of Corporate Governance, Deepa Raval – Director of Narrative Reporting, James Ferris – Project Director in the Audit & Assurance Team

1 Welcome & Introductions

2 Brexit Update

- 2.1 David Banks, Public Affairs Manager at the Financial Reporting Council (FRC) updated the Investor Advisory Group (IAG) on recent Brexit Activities. He informed the group that the draft withdrawal agreement had been published. David also added that there were 7 pages out of a 600-page document about the future relationship between the EU and UK which was followed by another paper which was published a week later which was on the future relationship.
- 2.2 A summary of key points from the withdrawal agreement were that the deal allows for a transition period and during the transition period the UK will continue to follow EU law however the UK may not have a seat at the EU table to input into any decisions that are being made. We will continue to contribute as a regular member of state.

- 2.3 From the published withdrawal agreement, the most relevant points to the FRC is the section on the recognition of professional qualifications. The agreement states that the future recognition of professional qualifications by the host state, or state of work before the end of the transition period will maintain its effect in the respective state and the text specifically refers to the approval of statutory auditors from another member state. The examination of the application of the recognition of professional qualifications introduced before the end of the transition period shall continue to follow existing EU law.
- 2.4 The political declaration on the future relationship contained points relevant to our work such as data protection, digital issues, financial services, economic partnership and trade, governance and structure of the future relationship.
- 2.5 The Political Declaration paper also touches on professional qualifications and states that the parties should develop appropriate arrangements on qualifications which are necessary to the pursuit of regulatory professions. David explained that for the FRC this means that accounting and corporate reporting regimes will remain unchanged however there will be changes to reflect that the UK is no longer a member of the EU.
- 2.6 Around IFRS endorsement and the process, BEIS are developing framework for endorsement and adoption of IFRS following our departure from EU. The new framework will be brought into effect by secondary legislation by statutory instrument under the EU withdrawal act 2018. The statutory instrument hasn't yet been published. BEIS have set up an external stakeholder group to consider IFRS endorsement process and gather views from members.
- 2.7 David then discussed the technical notice where there are a number of points to consider in a no deal. UK incorporated subsidiary's and parents of EU businesses will continue to be subject to the UK corporate reporting regime. However certain exemptions in the company's act relating to preparation of individual accounts will no longer be extended to companies with parents of subsidiaries within the EU. UK businesses with a branch operating in the EU will become 3rd country businesses.
- 2.8 Because we will no longer be part of the EU it means that we must formally adopt the IFRS standards otherwise they won't come into law in the UK. The questions of how far the standards that are adopted diverge from the IFRS itself or diverge from the EU adopted IFRS is a launch in practice where a significant degree of divergence is required.

3 Revisions to the UK Stewardship Code

- 3.1 David Styles, Director of Corporate Governance at the FRC attended the IAG meeting and provided members with a draft version of the revised UK Stewardship Code which a consultation will be launched for at the end of January.
- 3.2 David Styles explained to the IAG that the revised Stewardship Code is part of the implementation of the Shareholder Rights Directive and partly what other regulators and the government want to do around the issue of stewardship.
- 3.3 In terms of the structure the UK Stewardship Code is to resemble what the UK Corporate Governance Code looks like. Instead of just principles and guidance the Code will have the principles and specific detailed best practice provision for which we want investors to contribute to as it is more demanding.
- 3.4 In terms of content we are looking at the nature and definition of stewardship and extending it beyond the relationship between an equity holder and a company and a wider range of assets under management.
- 3.5 David discussed the reporting requirements of the Stewardship Code and an issue which constantly gets asked is on the future of tiering. David said that what the FRC consider in terms of what the future of tiering is will change overtime depending on the consultation. The FRC will be making an assessment on the quality of reporting in the future but are proposing that signatories to the code should produce a statement of application to what principles they do now but also report annually on what their activities were in terms of engagement, why the engagement took place and why the engagement was appropriate.
- 3.6 Members of the IAG voiced their opinion that there is a good improvement compared to the previous version of the UK Stewardship Code and a great definition of the term 'stewardship'. It was also added that the new Code clearly sets out responsibilities for all parts of the investor chain and there is clear accountability for asset owners and it encompasses different asset classes.

- 3.7 David added alongside the consultation document there will be a discussion paper which is being agreed by the FCA as they want to put the code in terms of context in a more market-based approach in the institutions that they monitor.
- 3.8 One member added that Corporate Governance Code was concise and well laid out and not overly complicated, the member stated that this must be reflected in the Stewardship Code.
- 3.9 It was agreed by some members of the IAG that the code should call out climate change, environmental management and environmental risks. A member then added that we shouldn't stop here and that we should call out human capital management and social risks. The focus should not just be on climate change. The risk is that if you restrict language to particular areas then it may give the impression that they are the only ones that count. It was then stated that a counter argument is that other organisations such as DWP are also looking at the language but if the Stewardship Code doesn't revert to the various areas then why are they.

4 Future of Corporate Reporting

- 4.1 Deepa Raval, Director of Narrative Reporting at the FRC attended the Investor Advisory Group meeting to give an update on the Future of Corporate Reporting project. Deepa added that they are seeking to explore a number of themes. A key question is what investors need from reporting and what purpose it serves. We also need to understand why the information in reports is useful.
- 4.2 Deepa explained that there is increasing pressure on reporting and more pressure on annual reports. The Future of Corporate Reporting project is looking at how to satisfy the needs of other stakeholders and how technology can play a part.
- 4.3 The project will explore the role of non-financial sustainability reporting and Deepa asked the IAG the question on what do we mean by non-financial reporting. IAG members generally felt that non-financial reporting is Information that tackles broader matters.
- 4.4 Deepa asked the IAG what their thoughts were on technology in terms of reporting and there was a mutual agreement across the group that PDF documents were a good way of formatting reports as you have the search facility, clear formatting easily accessible. It was also added that excel files are useful and clear to read.
- 4.5 There was a general agreement that consistency in documents and its format makes a report easier to read and would speed up the time in finding the information that you require rather than searching through foot notes and graphics.
- 4.6 A member of the IAG also added that as a rule all documents should have only a few different fonts and sizes to choose from as well as colours. This should be a mandatory rule from standard setters.
- 4.7 There was also an agreement that when reports are being designed in a PDF document, they should be designed for tablets and phones not just for paper viewing.
- 4.8 Deepa gave a short overview questioning if there are parts of the document that can be more concise where you have the ability to scroll down to the information that you need. Deepa added that another aspect is that is there a role for standing data for example can information be placed online if the data isn't changing yearly. A third aspect is if we didn't have an annual report what would a model look like and would a series of shorter targeted reports be better. Deepa also asked the IAG to think about if there was anything you would take out of the reporting model at the moment, not just the annual report but more widely, are there too many different types of reports?

5 Future of Audit

- 5.1 James Ferris, Project Director in the Audit & Assurance team at the FRC attended the IAG meeting to update the group on the future of Audit and the various projects that were going on. James updated the group on Project Flora which is looking at the changing stakeholder expectations of audit and looking at the impact of technology on audit clients and on auditors. Correct structure and process is under discussion to maintain the independence of the project.
- 5.2 James spoke about the CMA review of competition in the audit market. He stated how there are questions around what the audit market will look like at the end of the review.

- 5.3 James informed the group on the open FRC consultation on the Post Implementation Review of the 2016 ethical and auditing standards and stated that the FRC are asking for feedback until 15th February 2019. The FRC are looking at to what extent practitioners think and not just stakeholders.
- 5.4 A member of the IAG asked how does the FRC consultation on audit and ethical standards link to the monitoring group standards to which the FRC responded that we have our own specific ethical standards for auditors in the UK which deal with conflicts of interests, business relationships, non-audit services, audit tenure and all aspects of maintaining auditor independence.
- 5.5 The FRC stated that they will assess the feedback from the consultation and consider whether the FRC are in a position to change audit standards.
- 5.6 James highlighted the link between what the CMA review might do and what the FRC do. He explained that If you take structure of the firms and the challenge on independence the FRC could tighten the standards which is a relatively simple thing to do. James added that this would require legislative or competitive intervention to split the firms down. James also added that when you look at the independent standards people should consider if they should go further and what would that look like.

6 Dividends and capital maintenance

- 6.1 Jen Sisson gave a quick summary on the letter from Stephen Haddrill that is addressed to BEIS to inform them of the discussions the IAG have had on the capital maintenance topic. Jen added that BEIS are happy to come in to talk to the IAG and are also happy to receive a letter from Stephen.
- 6.2 It was agreed that this discussion will be taken forward to another meeting as members question that this topic is outside the remit of the Investor Advisory Group and goes beyond what the governance and terms of reference ask of the group.
- 6.3 It was also agreed that the agendas in future will not include as many topics to cover.
- 6.4 IAG members found it useful hearing from different FRC staff on various topics.

7 Open FRC consultations and projects

[Consulting on a revised UK Stewardship Code](#)

[FRED 71 Draft Amendments to FRS 102: Multi-employer defined benefit plans](#)

[FRED 70 Draft amendments to FRS 101: Reduced Disclosure Framework - 2018/19 cycle](#)

[Third Country Auditors \(Fees\) Instrument 2019 - Public Consultation](#)

[Consultation Paper and Impact Assessment – Proposal to revise Practice Note 19 \(December 2018\)](#)

[Post Implementation Review Providing Assurance on Client Assets to the FCA - Call for Feedback](#)

[Post Implementation Review 2016 Ethical and Auditing Standards - Call for Feedback](#)

[Consultation Paper: Actuarial Statement of Recommended Practice 1](#)