

FINANCIAL REPORTING COUNCIL

Minutes of a MS Teams meeting of the Regulatory Standards & Codes Committee (the ‘Committee’) held on Thursday, 17 June 2021

PRESENT:	Dame Julia Unwin John Coomber Keith Skeoch	Chair Committee member Committee member (From Minute 1 to 6.3)
OBSERVERS:	Clare Cole Andrew Death	FCA BEIS
SENIOR ADVISORS:	Rosemary Beaver Paul Cox Richard Lawrence	
IN ATTENDANCE:	Hannah Armitage Mark Babington Sian Barr Anu Bhartiya Anna Colban Kate Dalby Jenny Carter Claudia Chapman Susan Currie Irene Hurrell Alex Kuczynski Vanessa Leung Stephen Maloney Matthew Myring-McCullagh Jane O’Doherty Deepa Raval David Styles	Project Director, Financial Reporting Lab (For Minute 10 only) Executive Director, Regulatory Standards Project Director, Professional Oversight (For Minute 5 only) Committee Secretary Project Director, Audit Market Supervision (For minute 11 only) Project Director, Audit & Assurance Policy (for Minute 3 only) Director, Accounting and Reporting Policy Head of Stewardship (For Minute 8 only) Chief of Staff, Regulatory Standards (For Minute 11 only) Director of Legal Services Executive Director, Corporate Services and General Counsel Director of Actuarial Policy (For Minute 5 only) Senior Project Director, Accounting & Reporting Policy (for Minute 9 only) Project Director, Actuarial Policy (For Minute 6 only) Project Director, Accounting & Reporting Policy (For Minute 9 only) Director of Narrative Reporting (For Minute 4 only) Director, Corporate Governance & Stewardship
APOLOGIES:	None	

1. WELCOME AND DECLARATION OF INTERESTS

- 1.1 The Chair welcomed everyone to the meeting and in particular Andrew Death, who was attending in place of Mark Holmes and Irene Hurrell, who had recently joined FRC as Director of Legal Services. The Chair noted that the meeting was quorate.

- 1.2 There were no conflict of interests declared.
- 1.3 The Chair informed that Keith Skeoch would be leaving the meeting early at 11.00am. Though the Committee would be quorate even after his departure, the Committee agreed to rearrange the order of the agenda and agreed to consider the decision items first.
- 2. MINUTES OF MEETING HELD ON 28 APRIL 2021 AND ROLLING ACTION POINTS**
 - 2.1 The minutes of the meeting held on 28 April 2021 were approved for publication.
 - 2.2 The Committee noted the Rolling action log.
- 3. REVISION OF THE UK'S QUALITY MANAGEMENT STANDARDS**
 - 3.1 The Committee noted that the FRC had issued a consultation on the adoption of the following new and revised standards designed to significantly improve the robustness of the firm's system of quality management:
 - ISQM (UK) 1 *Quality Management For Firms That Perform Audits Or Reviews Of Financial Statements, Or Other Assurance Or Related Services Engagements*
 - ISQM (UK) 2 *Engagement Quality Reviews*
 - ISA (UK) 220 (Revised) *Quality Management For An Audit Of Financial Statements*
 - 3.2 The Committee noted that the responses to the consultation unanimously supported the adoption of the new and revised quality management standards. Having regard to the responses, some further minor editorial changes were made to enhance the requirements and application material.
 - 3.3 In response to a query whether consideration was given to operational separation of Big 4 firms, it was noted that there was nothing in ISQM (UK) 1 which prevented firms from complying with the principles. In addition, it was noted that in order to be compliant with ISQM (UK) 1, where an audit firm's CEO or managing partner is not eligible for appointment as a statutory auditor, ultimate responsibility and accountability for the system of quality management would need to be assigned to the firm's managing board of partners, of which, at least one of those individuals would need to be eligible for appointment as a statutory auditor. The Committee noted that the requirement was clarified in the Feedback Statement.
 - 3.4 With regards to the effective date of the standards, the Committee noted that three respondents argued for a delayed implementation. However, a view was taken that firms had been aware of these changes in the international pipeline for some time and delaying the implementation was not necessary.
 - 3.5 The Committee agreed to recommend to the Board to approve the quality management standards for adoption with an effective date of 15 December 2022.
- 4. FUTURE OF CORPORATE REPORTING**
 - 4.1 The Committee received a brief update on the next steps to the Future of Corporate Reporting thought leadership paper. The Committee noted the Feedback Statement which gave due consideration to the responses, the context of the FRC's own transformation programme and the fast-moving developments relating to international sustainability standards. The Committee acknowledged that the delivery of changes to corporate reporting will be through government's plan for wider reforms.

- 4.2 In light of BEIS’s responsibilities in respect of wider corporate reporting, the Committee agreed to share the paper and the Feedback Statement with BEIS’s team.
- 4.3 In response to a query relating to PIE definition, it was noted that the definition was being considered as part of the wider audit reform proposals, and the text would be changed to reflect adequately. It was acknowledged that the concept of dynamic and double materiality was being considered internationally and a view would be taken accordingly. In light of increasing supplementary reporting by companies on ESG and climate, it was suggested that the FRC Lab could undertake a project to see how companies are reporting in practice.
- 4.4 The Committee approved the Feedback Statement, in principle, with any final changes delegated to the Executive Director, Regulatory Standards.
- 5. FRC’S POLICY ON ACTUARIAL REGULATORY REFORM**
- 5.1 The Committee discussed the paper on actuarial regulation covering the aspects as set out in BEIS’s consultation on Restoring trust in audit and corporate governance.
- 6. FEEDBACK ON ACTUARIAL ASPECTS OF INSURANCE AUDITS**
- 6.1 The Committee received a brief introduction about the work of the Audit Quality Review involving audit of insurance entities and the input received from the Actuarial Policy Team.
- 6.2 The Committee noted the key findings from the work of the most recent review period which was summarised in a letter to audit firms. The Committee noted that this was the first letter the FRC had produced on actuarial related matters within the audit context which was broadly consistent with verbal feedback given to the audit firms.
- 6.3 The Committee noted that identified areas of improvement over time and made a number of suggestions on content and recipients of the letter.
- 6.4 The Committee approved the publication of the letters to auditors in the first week of September 2021. The Committee noted that the letter would be circulated to the Supervision Committee in July for information and comments.
- 7. REPORT OF THE EXECUTIVE DIRECTOR, REGULATORY STANDARDS**
- 7.1 The Executive Director of Regulatory Standards provided an update on the report which included:
- strengthening the division with further recruitment;
 - engagement with the Ministry of Housing, Communities and Local Government in respect of regulating the audit of local public sector entities;
 - working closely with BEIS in relation to the ongoing consultation on *Restoring trust in audit and corporate governance*;
 - Covid Working Group considering likely issues to address over the coming months;
 - Engagement with FCA regarding stakeholders’ concerns about large number of different reporting thresholds;
- 7.2 The Committee noted the Framework for developing standards, statements of practice, codes and guidance.
- 7.3 With respect to the FRC’s involvement on the Pensions Dashboard and considering the complexities involved around assumptions and methodology, it was suggested seeking input from pension specialists. It was noted that the matter was being delivered through JFAR which included significant expertise from other regulators. It was reported that there

were a number of actuaries joining in the coming months and expertise from FRC's Advisory Panel would be sought.

8. CORPORATE GOVERNANCE & STEWARDSHIP

8.1 The Committee received an update on the ongoing research activities in respect of promoting high-quality corporate governance. It was noted that the assessment of Corporate Governance Code reporting was underway.

8.2 The Committee also received an update on the approach to the assessment of Stewardship Reports which was close to schedule. It was noted that reporting quality was variable. It was also noted that the assessment methods were developed in order to discern the quality of reporting required to be a successful signatory. The Team acknowledged the difficulties and complexities involved in the assessment process and thanked Paul Cox for his continued valuable contribution.

8.3 The Committee encouraged the team to consider introducing peer ranking for the next reporting period to encourage competition for better reporting. Through discussion, the Committee noted a number of points made by the team including:

- the intention to provide feedback to unsuccessful applicants so they can reapply at the next opportunity; and
- the plan to introduce a tiering system for reporting in 2022.

8.4 The Committee discussed the lower numbers of asset owners applications and the team noted they will be working with the DWP's Occupational Pensions Council to encourage more asset owners to apply in future. It was also noted that unlike UK Corporate Governance Code, the Stewardship Code was not a result of a legitimacy document, or independent review. However, the Asset Management Taskforce introduced their recent session with reference to the Stewardship Code and the industry supported it.

9. SUMMARY OF ANNUAL REVIEW OF SORPS

9.1 The Committee received a brief update on how the SORP-making bodies issue SORPs with a view to promoting high-quality consistent financial reporting within a sector or industry by providing recommendations on financial reporting that supplement FRS 102. The Committee noted the paper that summarised the work done during the year and the results of the annual reviews for the 2020/21 cycle.

9.2 In response to a query about whether the FRC sets expectations for limiting membership on the board to nine years on the SORP-making bodies, it was noted that this limit was not set out in the Policy on Developing Statements of Recommended Practice. The Policy required SORP-making bodies to consider the length of service and the need for the membership to be periodically refreshed. It was viewed that the issue of independence was critical for introducing different dynamics in the board room and therefore a nine-year limit should be encouraged.

9.3 The Committee briefly discussed the considerations involved when there is a requirement to introduce a SORP in a particular sector. It was noted that apart from achieving consistent reporting, considerations are also made of any sector regulators and whether a suitable SORP-making body is willing to take on the task of producing and keeping a SORP up to date.

10. FRC ESG DISCUSSION PAPER

10.1 The Committee received an update on the Discussion Paper that highlights issues with environmental, social and governance areas, suggests ways forward for addressing them, and outlines how the FRC will work towards a more effective framework.

- 10.2 In light of the anticipated policy changes coming from BEIS's consultation, the Committee agreed to share the Discussion Paper with BEIS's team.
- 10.3 The Committee acknowledged that there was a long way to go before ESG information, and the frameworks and structures that surround it, are as mature as those for financial information. Through discussion, the importance of distinguishing ESG reporting and Climate reporting was highlighted. It was also highlighted that the quality of data used for these reporting was varied due to differences in data sourcing, measurement of uncertainty and adjustments made. It was also noted that there had been an enormous amount of voluntary reporting over the decades, therefore it would be challenging to consider which data should be standardised. It was noted that whilst the proposal by the IFRS Foundation to create international sustainability standards may help to resolve the issue over time, there was a need to fill the gap at a national level and influence the development of international standards.
- 11. AUDIT FIRM GOVERNANCE CODE**
- 11.1 The Committee noted the purpose of revising the Audit Firm Governance Code which was to ensure it is consistent with regulatory requirements for audit firm governance, including operational separation, to provide greater clarity and close gaps identified by our monitoring work in 2020, and to promote good governance practice in the largest audit firms.
- 11.2 In terms of process, it was noted that a draft of the revised Code along with a supporting consultation document would be circulated to the Committee and the Board in July 2021. The consultation would be open over the summer/early autumn with a view to finalise the Code at the end of 2021 or in early 2022.
- 11.3 In discussion, it was suggested that some form of engagement with audit committee chairs was important for INEs due to their responsibilities around audit quality and to enable them to develop a collective view of audit committees' concerns around how audit quality is measured and understood. With regards to the role of INEs it was suggested that their role in relation to the public interest should be set out in the letter of engagement.
- 11.4 In summary, the Chair observed that there was support for the direction the work on the Audit Firm Governance Code was taking and welcomed the opportunity for the Committee to stay in touch with the work.
- 12. REGULATORY STANDARDS & CODES COMMITTEE'S FORWARD PLANNER**
- 12.1 The Committee noted the forward planner.
- 13. ANY OTHER BUSINESS**
- 13.1 The Committee noted that the Away Day in July had been cancelled and the meeting in September would be cancelled.
- 14. DATE OF NEXT MEETING**
14 October 2021.

Chair effective from 1 September 2021

Date