

Financial Reporting Council

**Minutes of a meeting of the Board of Directors of the Company
held on 7 December 2016 at the FRC, 8th Floor, 125 London Wall, EC2Y 5AS**

PRESENT:	Sir Winfried Bischoff	Chairman
	Gay Huey Evans	Deputy Chairman (by phone, item 8 only)
	Stephen Haddrill	Chief Executive
	Mark Armour	Non-Executive Director
	Sir Brian Bender	Non-executive Director
	David Childs	Non-executive Director
	John Coomber	Non-executive Director
	Elizabeth Corley	Non-executive Director
	Olivia Dickson	Non-executive Director
	Paul George	Executive Director, CGR
	Ray King	Non-executive Director
	Nick Land	Non-executive Director
	Melanie McLaren	Executive Director, Audit
	Keith Skeoch	Non-executive Director (to item 9c)
IN ATTENDANCE:	Anne McArthur	General Counsel and Company Secretary
	Tracy Vegro	Executive Director of Strategy & Resources
	Rossella Pagano	Board Secretary
	Francesca Carter	Committee Secretary
	David Andrews	Head of Organisational Development (item 7a & 9b)
	Tara Trousdale	Finance Director (item 7a)
	Anthony Appleton	Director, Accounting & Reporting Policy (item 7b)
	Jenny Carter	Project Director (item 7b)
	Robert Inglis	Project Director (item 7c)
	Ann Muldoon	Director of Actuarial Policy (item 7c)
	Siân Barr	Project Director (item 9a)
	Dawn Dickson	Director of Professional Oversight (item 9a)
	David Styles	Director of Corporate Governance (item 9c)
APOLOGIES:		Roger Marshall, Non-executive Director

1 QUORUM AND OPENING OF MEETING

- 1.1 The Chairman noted that the meeting was quorate.

2 DECLARATION OF INTERESTS

- 2.1 The Board noted that Nick Land had been appointed as a non-executive member of the Thames Water Board with no objections from the members of the Nominations Committee.
- 2.2 Nick Land declared an interest as Chairman of the Vodafone Audit and Risk Committee in relation to item 8a.

3 MINUTES & MATTERS ARISING

- 3.1 The Board approved the minutes of the meeting held on 20 October 2016 for publication, subject to a minor amendment. The matters arising log was noted.

4 CHIEF EXECUTIVE'S REPORT

4.1 Mr Haddrill introduced his report. Discussion included the following reports, points and observations:

- On Pensions, Mr Haddrill had met with senior officials at the DWP to discuss the Green Paper on defined benefit pensions. It was expected that the Green Paper would be published later that month and the comment period would end in late January. The anticipated proposals would likely have implications on actuarial work and the FRC would formally respond.
- On cyber risk, a number of steps were being taken to strengthen the FRC's IT security. It was important to ensure that a disaster recovery and communication plan is in place and that cyber risk was accurately reported in the FRC risk register.
- On the request from Lord Hollick for clarification in respect of 'True and Fair', the Board discussed and supported the proposed approach to the FRC response.
- On the Green Paper on Corporate Governance Reform, the draft FRC response would be circulated to the Board for input. On executive remuneration and the role of the Remuneration Committee the FRC should liaise with the ICSA and / or GC100 Group. The resource implications of any further commitments on the part of the FRC would need to be considered if applicable.

4.2 The Board discussed the outcome of a PCAOB investigation into 12 audit partners at Brazil Deloitte for violations including issuing materially false audit reports, failure to co-operate with a PCAOB investigation and taking steps to conceal audit deficiencies. The Board noted that Deloitte Global had contacted the FRC to provide reassurance that steps were being taken to address the issues; the FRC would be taking forward work to test those assurances so far as they relate to the UK. Through discussion the Board identified three issues for consideration:

- The responsibilities of top management within firms and the 'tone from the top'. In order to change culture within audit firms there was a need to hold management to account.
- The role of INEs. Whilst there was a need to promote the role of the FRC as being open and accessible to INEs, consideration should be given to formalising the FRC's expectations of INEs.
- The challenges associated with regulating and having oversight of global networks operating through domestic firms.

4.3 The Board reviewed the Management Accounts dated 31 October 2016 and noted that, following discussion at the November Audit Committee meeting, a reforecasting exercise was underway. In the ensuing discussion the Board noted that a number of efficiency savings had been introduced during the year and that further savings were expected in 2017/18.

5 COMMITTEE CHAIR REPORTS

a. Report from the Codes & Standards Committee (CSC) meetings of 11 October and 22 November

5.1 The Board noted the minutes of the CSC meeting on 11 October and Mr Land's oral report of the meeting on 22 November and that the majority of matters that had been considered by the Committee were on the Board agenda.

b. Report from the Conduct Committee (CC) meetings of 13 October and 15 November

5.2 The Board noted the minutes of the CC meeting on 13 October and Mr Childs' oral report of the meeting on 15 November including that the CC had considered a number of

recommendations from the Case Management Committee Chairman. These related to the publication of Key Performance Indicators in respect of timings and the use of press notices, at the closure of a case, as a mechanism for commenting on any external causes of delay.

c. Report from Audit Committee meetings of 26 October and 22 November

- 5.3 The Board noted the minutes of the Audit Committee meeting on 26 October and Mr Land's oral report of the meeting on 22 November including that work had begun on preparing the viability statement for the next annual report and that, in the spring, the Committee would review the approach to internal audit for 2017/18.

d. Report from the Remuneration Committee meeting of 7 December

- 5.4 Ms Corley reported on the meeting of the Remuneration Committee earlier that day. The Committee had:

- Approved a recommendation to the Board regarding a reduction of the fees of a non-executive Board Member.
- Reviewed budget provisions for the 2016 salary and bonus review; work to develop a progression policy was underway and consideration would be given to the value of the company wide bonus.
- Amendments to the Committee Terms of Reference (ToR) to provide greater clarity in respect of the remuneration of the Board Chairman and the role of the Board in determining it. Further amendments had been requested and the revised ToR would be brought to the Board for approval following the March Remuneration Committee meeting.
- Requested that the Executive develop the Remuneration Committee report for inclusion in the FRC Annual Report & Accounts and undertake a gap analysis against best practice.

- 5.5 The Board noted the report and agreed that the fees of Roger Marshall be set at £65,000 with effect from 1 January 2017 as proposed by the Committee.

6 CHAIRMAN'S AGENDA

a. Appointments and re-appointments

- 6.1 The Chairman reported that an internally led effectiveness review of the Board, its Committees and the Councils would commence in January. The review would feed in to the Governance Review scheduled for later in the year.
- 6.2 The Chairman also reported that his re-appointment, and the reappointment of Gay Huey Evans, had been recommended to BEIS. The Board agreed the terms of appointment should be for three years and two years respectively.
- 6.3 The Board noted the Executive were liaising with BEIS and HMT to clarify the status of the FRC and that relevant stakeholders are aware of the issue.

7 FOR BOARD APPROVAL AND / OR ISSUE

a. FRC Plan & Budget 2017/2018 – Draft Consultation

- 7.1 Mr Andrews introduced the paper, noting that due to uncertainties, including Brexit and the Government's corporate governance agenda, the document was more consultative than in previous years, and that revisions to the plan might be necessary in the spring.
- 7.2 The Board noted the intention to publish the Plan & Budget before Christmas with a two-month comment period and that, to facilitate engagement with the consultation, a number of stakeholder meetings would be held.

7.3 The Board reviewed the consultation document, the assumptions underlying the budget and the proposals in respect of reserves. Through discussion a number of drafting amendments were suggested, including a clearer explanation of the basis on which the funding requirement had been set and an invitation for views on what key performance indicators might be used to reflect the quality of corporate governance in the UK. It was agreed that a further draft would be recirculated to the Board by email.

b. Amendments to FRS 101 – Reduced Disclosure Framework

7.4 Ms J Carter introduced the item and summarised the feedback received from respondents to FRED 65 and the FRC response to that feedback. In respect of FRED 66 the Board noted the proposed amendments to FRS 101 are limited and introduce one new disclosure exemption in relation to IFRS 16 *Leases*.

7.5 On the advice of the Corporate Reporting Council and the recommendation of the Codes & Standards Committee the Board approved for issue:

- Amendments to FRS 101 and FRS 102 – Notification of shareholders; and
- FRED 66 Draft amendments to FRS 101 – 2016/17 cycle.

c. Revised Technical Actuarial Standards

7.6 Ms Muldoon introduced the report and summarised the consultation and outreach processes that had informed the development of the revised suite of standards. The Board commended the Actuarial Policy Team on the innovative risk based approach that had been taken to developing the standards and on the level of engagement with stakeholders.

7.7 On the advice of the Actuarial Council and the recommendation of the Codes & Standards Committee the Board approved the issue of:

- The new Framework for FRC Technical Actuarial Standards;
- TAS 100: Principles for technical actuarial work, TAS 200: Insurance, TAS 300: Pensions, TAS 400: Funeral Plan Trusts and the Glossary of defined terms used in FRC Technical Actuarial Standards; and
- The Feedback Statement on the consultation on the revised Specific Technical Actuarial Standards.

7.8 The Board noted the Standards would be issued the following week with an effective date of 1 July 2017.

7.9 The Chairman reported that Mr Inglis would be leaving full time employment at the FRC in early January. The Board thanked Mr Inglis for his significant contributions to the work of the FRC.

8 QUARTERLY REPORTS

a. Report of the Executive Director, Audit & Actuarial Regulation

8.1 Ms McLaren introduced her quarterly report and drew the Board's attention to an audit independence issue and in view of the FRC's continuous improvement philosophy, the extent to which the FRC should guide firms about how to interpret its Ethical Standards for audits. Following detailed discussion the Board confirmed that the handling of the specific issue had been appropriate and that, in pursuit of the continuous improvement philosophy, it would be appropriate for the FRC to engage with audit committee chairmen and / or audit firm central risk and ethics functions, to comment on the application of the Ethical Standards within the parameters of the FRC's knowledge of precedent on the basis that no assurance in respect of monitoring or enforcement action would be given.

- 8.2 The Board noted and discussed the remainder of the Executive Director report.
[Mr Land was not present during the discussion on the matter set out at minute 8.1]

9 FOR DISCUSSION

a. Actuarial Quality: monitoring and professional oversight

- 9.1 Mrs Dawn Dickson introduced the item and reported the proposals to develop the existing Actuarial Oversight Strategy and to introduce an Actuarial Monitoring Strategy to inform the assessment of adherence to ethical standards, the technical quality of actuarial work, the effectiveness of the profession and the effectiveness of FRC standards.
- 9.2 The Board reviewed the proposals to strengthen the FRC's non-statutory oversight of the IFoA and welcomed the approach set out. Through discussion the Board noted that amendments to the Memorandum of Understanding (MoU) would be necessary to ensure the FRC's expectations of how the on-going oversight should operate and that the FRC would publically report on any breaches to that MoU.
- 9.3 The Board reviewed the proposals for a monitoring regime put forward by the IFoA Regulation Board. Whilst the Board considered the proposals to be a positive step, the proposals did not yet provide sufficient evidence to address the risks to the quality of actuarial work. The Board agreed the Executive's proposals to encourage the IFoA to make further progress on a timely basis and agreed that the FRC should express concerns publically should the IFoA fail to make further progress.

b. FRC Risk Management

- 9.4 Mr Andrews introduced the item and reported that the revised Risk Management process, including the Risk Register and Assurance Map, had been reviewed by the Audit Committee at its November meeting.
- 9.5 The Board noted a summary of the revised risk process and the proposals for reporting to the Board on risk and assurance. The Board reviewed the descriptions of the risks identified, the risk triggers and the risk scores. The Board requested that, at its next meeting, it have an opportunity to review risk appetite. Mr Andrews undertook to prepare a paper to inform the review for the February meeting.

c. Developments in Corporate Governance & Stewardship 2016 – Draft Report

- 9.6 Mr Styles introduced the item and summarised the key messages that had come out of the Codes & Standards Committee discussion on 22 November. The Board noted the Executive Summary was being updated to provide context and a forward look.
- 9.7 The Board reviewed the draft Report and suggested a number of drafting amendments including the insertion of additional text to reflect that the evidence underpinning the review had been gathered from a range of external sources.
- 9.8 Mr Styles undertook to revise the draft Report to reflect the discussion and to circulate a revised draft to the Board for approval by email before Christmas in order for the Report to be published in January 2017.

d. Key issues to inform the government's negotiating position on Brexit in FRC's areas of remit

- 9.9 The Board considered a draft FRC response to a BEIS request for information on areas within the FRC remit with respect to Brexit. The Board welcomed the response and supported submission of the response to BEIS subject to further review by the Executive and the Governance & Legal Team.

e. Enforcement Sanctions review

- 9.10 Ms McArthur introduced the item. The Board agreed that, in response to concerns from some stakeholders that the sanctions imposed on large accountancy firms under the Accountancy Scheme were not sufficient to deter those firms from 're-offending', a review of Sanctions be undertaken. The Board supported the proposal that the scope of the review include the Accountancy Scheme, the AEP and the Actuarial Scheme and agreed the anticipated completion date should be the end of June 2017.
- 9.11 The Board considered the proposed methodology and suggested consideration be given to the composition of the review panel.

f. Accountancy Scheme – future scope

- 9.12 The Board noted that, following implementation of the ARD and the FRC's new Audit Enforcement Procedure, there was a need to agree the scope and form of the Accountancy Scheme with participant bodies. The Board agreed the negotiating position to be taken forward by the Executive in discussions with the participant bodies as set out the report. It was agreed any further comments would be circulated by email.

10 OUTLINE BOARD CALENDAR 2017 AND 2018 DATES

- 10.1 The Board noted the outline Board calendars for 2017 and the 2018 dates.

11 ANY OTHER BUSINESS

- 11.1 It was noted that since its last meeting the Board had approved by way of email, on the Nomination of the Independent Assessor, the appointment of Paul Druckman as an FRC Board Member and, on the recommendation of the Nominations Committee, the appointment of Paul Druckman as Chair of the Corporate Reporting Council and as a member of the Codes & Standards Committee.

12 NEXT MEETING

- 12.1 Thursday 2 February 2017 at 9am.