

Financial Reporting Council

**Minutes of a meeting of the Board of Directors of the Company
held on 21 March 2019 at the FRC, 8th Floor, 125 London Wall, EC2Y 5AS**

PRESENT:	Sir Winfried Bischoff Gay Huey Evans Mark Armour David Childs John Coomber Olivia Dickson Paul Druckman Stephen Haddrill Nick Land Jenny Watson Mark Zinkula	Chairman Deputy Chairman Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director Chief Executive Officer Non-Executive Director Non-Executive Director Non-Executive Director
IN ATTENDANCE:	Anthony Appleton David Andrews Elizabeth Barrett Siân Burgess James Calder James Ferris Paul George Stephen Haddrill Claire Lindridge Anne McArthur Andrew Miller Mike Suffield Tara Trousdale Tracy Vegro Marian Williams Siobhán O'Shea	Director of Accounting and Reporting (minute 10) Relationship Manager for BEIS (minutes 6 to 8) Executive Counsel Project Associate (minutes 11 and 12) Project Manager (minutes 11 and 12) Project Director (minute 9) Executive Director, Corporate Governance and Reporting Chief Executive Acting Audit Firm Monitoring and Supervision (AFMAS) Director (minute 14) General Counsel & Company Secretary Project Manager (EU Withdrawal) (minutes 6 to 8) Acting Director, Audit and Actuarial Regulation Finance Director (minutes 6 to 8) Executive Director of Strategy & Resources Director, Audit (minute 14) Committee Secretary (minutes)
APOLOGIES:	Sir Brian Bender Keith Skeoch Julia Unwin	Non-Executive Director Non-Executive Director Non-Executive Director

1 QUORUM AND OPENING OF MEETING

1.1 The quoracy of the meeting was confirmed by the Chairman who opened the meeting.

2 DECLARATIONS OF INTEREST

2.1 There were no declarations of interest not already registered.

3 MINUTES & MATTERS ARISING

3.1 Subject to minor amendments, the Board approved the minutes of the FRC Board meetings held on 15 January and 23 January 2019 for publication.

3.2 The schedule of matters arising was noted.

4. CHIEF EXECUTIVE'S REPORT

4.1 The Chief Executive introduced his report. Discussion included the following points and observations:

- *2018/19 FRC Pay Settlement* - the Board expressed its continued disappointment that the pay settlement had not yet received ministerial approval despite the FRC's efforts. Moreover, as it was now likely that this would not be obtained in the current financial year, there might be detrimental financial implications for some staff. As a public body, the FRC was not in a position to provide financial compensation to anyone who might be affected.
- *FRC remit letter* – the FRC had received a remit letter from the Secretary of State. This document would be published alongside the FRC's response to it. The Board agreed that the FRC's response should be clear on the need for more flexibility over recruitment given the staffing increases required to implement the Kingman recommendations. *(subsequently, this point was covered by a separate letter from the Chairman to the Secretary of State).*
- *Actuarial oversight* – it would be for the Treasury to take a final decision on the organisation best placed to oversee regulation of the actuarial profession. The Board expressed reservations on whether the FRC that body.
- *AQR results*: with the 2018/19 inspection cycle almost complete, it was anticipated that none of the Big 4 firms would achieve the target of 90 percent of audits rated not requiring more than limited improvements. The Board noted the importance of continued engagement with firms to identify root causes of any poor performance and the fact that the new audit firm monitoring and supervision approach (AFMAS) provided an opportunity to establish more formal mechanisms for identifying audit quality issues and then holding firms to account for improvements.
- *Corporate Reporting*: the Board suggested that it might be beneficial to revisit the guidance on going concern reporting ahead of the planned review of the FRC's *Guidance on Risk Management, Internal Control and Related Financial Business Reporting*.
- *Update on current investigations and resourcing* – the Board received an update on progress on current enforcement investigations. It was also explained that the first investigation delegated to the ICAEW was due to conclude in the near future. Mr Armour declared an interest in relation to one matter and was not present for discussion about that matter.
- *Enforcement Annual Report* – the inaugural report due to be published later in the year would include information on trends and progress against targets.

4.2 Update reports from the Acting Executive Director, Audit and Actuarial Regulation and the Executive Director, Corporate Governance and Reporting were noted.

5 CHAIRMAN'S AGENDA

5.1 The Chairman updated the Board on his recent meetings with the Department for Business, Energy and Industrial Strategy (BEIS). The Department had agreed that whilst the aim was to reduce the size of the FRC Board over time, it should retain a member with investment expertise.

5.2 A proposal to amend the FRC Articles of Association to provide that the Secretary of State appoints all Board members and remove the minimum number of Board members required had been circulated by written resolution. If agreed, the amended articles would come into effect from 1 April 2019. Some amendments to the FRC Governance Bible would then be required for consistency with the Articles.

5.3 The Board approved the following reappointments:

- (i) Liz Murrall as Member of the Codes & Standards Committee for 1 year to 15 May 2020;
- (ii) Keith Skeoch as Member of the FRC Board and as Member of the Codes and Standards Committee for a fourth term to 31 July 2020; and
- (iii) John Hitchins as a member of the Conduct Committee for a second term until 31 May 2022.

6 OPERATIONS REPORT

6.1 The Board was provided with an update on recruitment and staffing matters.

6.2 Phishing exercises and clear desk spot checks were highlighted as two mechanisms through which staff compliance with the FRC's information security policy was tested. The FRC had also recently been awarded advanced level accreditation Cyber Essentials Plus, the scheme that helped to ensure systems and processes are in place to protect organisations against the most common cyber-attacks.

6.3 The Board noted:

- (i) The Quarterly Dashboard (Q4, 2018/19);
- (ii) Finance Director's report presenting the financial position at 28 February 2019;
- (iii) The HR Dashboard (Q4, 2019); and
- (iv) The Project and Activity Tracker summarising progress on major projects and activities.

7 2019/20 PLAN, BUDGET AND LEVIES – APPROVAL FOR CONSULTATION

7.1 A paper had been circulated asking the Board to approve the FRC's Draft Plan, Budget and Funding for 2019/20 for consultation. The draft had already been reviewed by the Executive Team and the Audit Committee, and their respective comments taken into account.

7.2 It was clarified that whilst BEIS and the Treasury were in discussion on the FRC's reserves, in the interim, these were being held in a Government bank account. In the event of a significant funding need arising that could not be met internally, BEIS would work with the FRC to find a solution to ensure that it could continue to meet its regulatory obligations.

7.3 By the end of February 2019, core expenditure was £2m below budget mostly due to the lower than budgeted staff costs, partly caused by the delay in settling the pay proposal for 2018 and by delays in approvals from BEIS for recruiting to fill senior roles.

7.4 The Board approved the draft 2019/20 Plan, Budget and Levies for consultation.

8 EU EXIT – UPDATE ON FRC RESPONSIBILITIES

8.1 The Board was provided with an update on the FRC's preparations for the UK's forthcoming exit from the European Union. This project was on track, as far as it could be, with all reasonable steps having been taken to meet its objectives, which are that at the point of EU exit:

- (i) all responsibilities currently carried out by the European Commission with respect to the analysis of equivalence and adequacy of the endorsement and adoption of amended international accounting standards were transferred to the UK regime; and
- (ii) the UK continued to have an effective audit regime.

- 8.2 Preparations included planning for the possibility of the UK leaving the EU without approval of a formal withdrawal agreement. The necessary steps to establish a UK Endorsement Board were being taken, likewise arrangements for dealing with the registration of EEA audit firms as third country audit firms in the UK were being made. There had also been considerable engagement with the audit industry and other stakeholders to ensure that there was a good understanding of the requirements in the event of a no-deal 'Brexit'.

9 STANDARDS FOR INVESTMENT REPORTING (SIRs) – CONSULTATION ON REVISIONS

- 9.1 This paper set out proposals to consult on revisions to the Standards on Investment Reporting (SIRs), which established requirements and provided guidance for Reporting Accountants carrying out reporting engagements on UK investment circulars. The SIRs needed to be updated in advance of new EU wide Prospectus Rules, which would be effective from July 2019. A new SIR 6000 was proposed dealing with reporting engagements in connection with Quantified Financial Benefits Statements.
- 9.2 Overall, the revised SIRs did not represent a significant change to the previous iteration. However, some amendments were proposed to make them more consistent with contemporary auditing and assurance standards. One proposed consultation question focused on whether it was appropriate and proportionate to include references to the Fair, Balanced and Understandable principles of the UK Corporate Governance Code in the revised SIRs. In discussion, the Board decided that it would be better for the consultation document to retain the current SIRs requirement for reporting accountants to consider whether document (investment circular/prospectus) in which their report or name was included was 'misleading' when considered in its entirety. However, 'fair, balanced and understandable' could be included as part of criteria to be used the assessment on whether a document was misleading.
- 9.3 **The Board approved the revised SIRs 1000-5000 and the new SIR 6000 for consultation.**
- 9.4 **The Board approved the draft consultation questions subject to further amendment to incorporate the suggestion set out in discussion on this item (minute 9.2).**

10 UPDATE TO THE FRC's TRUE AND FAIR PAPER

- 10.1 In 2011 and 2014 the FRC issued and then revised a paper underlying the importance of the true and fair view concept to financial reporting and auditing. This now might benefit from updating to reflect changes in UK GAAP, UK auditing standards and the International Accounting Standards Board's (IASB) Conceptual Framework. One reason for consulting now would be to obtain feedback on any other aspects of the guidance that stakeholders would benefit from further clarity. Before taking forward it was agreed we should seek guidance from BEIS regarding their intentions on the UK's capital maintenance regime.
- 10.2 **The Board decided that rather than consult on the true and fair paper, it would be more appropriate to develop a more comprehensive consultation on the issue of distributable reserves.**

11. EU EXIT AND AUDITORS

- 11.1 In the event of the UK leaving the European Union without a withdrawal agreement, the Third Country Auditor (TCA) regime would need to be applied to all non-UK auditors that audited the accounts of companies outside the UK which issued certain securities on regulated markets.

The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019, which introduced the legislative changes required to deal with this eventuality, had recently received ministerial approval.

11.2 Before the Board were a number of documents which had been updated to reflect these legislative changes:

- Registration of Third Country Auditors in the United Kingdom – Directions by the Financial Reporting Council under the Companies Act 2006 ('the Directions');
- The Third Country Auditors (Fees) Instrument 2019 (the Instrument) and the Feedback Statement for the Instrument 2019 ('the Feedback');
- The Third Country Auditor Register Procedures ('the Procedures'); and
- The Eligibility Criteria.

11.3. The Board:

- (i) Approved the Directions, Instrument, Feedback, Procedures and Eligibility Criteria;**
- (ii) Directed that the Directions, Instrument, Procedures and Eligibility Criteria should take effect from the point that the UK leaves the EU (Exit Day);**
- (iii) In relation to the Directions and the Instrument, delegated to General Counsel the power to amend the commencement date(s) accordingly and as necessary to accommodate any changes to Exit Day; and**
- (iv) Directed General Counsel to sign the Instrument on the Board's behalf.**

12. PROFESSIONAL OVERSIGHT ACTIVITIES UPDATE REPORT

12.1 The Board noted that an update on the Recognised Supervisory Board (RSB) Governance Review was scheduled for the next meeting.

13. ENFORCEMENT PUBLICATION POLICIES

13.1 Earlier in March, the Conduct Committee had approved some minor amendments to the Enforcement Publication Policies, and reconfirmed its policy view that in general the decision to open an enforcement investigation should not be published unless the facts of a particular case merited this course of action in the public interest.

13.2 One of the Kingman review recommendations was that when the new regulator was established, its board should be enabled to take decisions on whether to launch audit investigations in cases it regarded to be of particular significance or in the public interest. All such decisions were currently delegated to the FRC's Conduct Committee. The Board discussed the complexities of this matter, noting that any decision to move to a new approach would need to take into account effectiveness and the management of conflicts of interest.

13.3 Whilst recognising that responsibility the Enforcement Publications Policies resided with the Conduct Committee, it was requested that these documents be presented to the next meeting so that the Board could provide its view on them.

14. AUDIT FIRMS CONTINGENCY PLANNING REVIEW

14.1 Under the EU Audit Regulation, the FRC had responsibility to monitor the UK Public Interest Entity (PIE) market. The new audit firm monitoring and supervision approach (AFMAS) assisted the FRC in discharging this responsibility and a recent review of the major audit firms' contingency plans confirmed that all of the 'Big Six' now had plans in place that set out how

they would seek to recover from severe events that impacted the delivery of services. Firms were also considering the actions they would take to minimise the impact on financial markets if they could no longer deliver audit services (resolution plans), but these tended to be less developed than recovery plans. The FRC would continue to do work in this area as part of the AFMAS framework, in conjunction with the development of the FRC's own contingency plans taking into account the Kingman and Competition and Markets Authority reviews.

- 14.2 It was noted that as a result of the FRC's review, the International Forum of Independent Audit Regulators (IFIAR) was now also doing work in this area.
- 14.3 The Board noted the report.

15. COMMITTEE CHAIR REPORTS

Report from the Audit Committee

- 15.1 The draft minutes of the Audit Committee meeting held on 19 February 2019 were noted.

Report from the Conduct Committee

- 15.2 The minutes of the Conduct Committee meeting held on 12 February 2019 were noted.

Report from the Nominations Committee

- 15.3 The draft minutes of the Nominations Committee meetings held on 11 February and 5 March 2019 were noted.

16. FORWARD PLAN

- 16.1 The forward plan was noted and it was agreed that an update on the progress on the implementation of the Kingman review recommendations should be added as a standing agenda item.

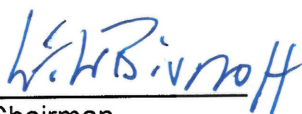
17. ANY OTHER BUSINESS

- 17.1 Gay Huey-Evans (Deputy Chair) would finish her final term on the Board on 30 April 2019 and so this was her last Board meeting. On behalf of the Board, the Chairman thanked her for her outstanding service to the FRC over the past seven years, for her commitment to taking on special tasks and for her "people" role at the FRC.

- 17.2 There was no other business.

18. DATE OF NEXT MEETING

- 18.1 Wednesday 15 May 2019.


 Chairman