

Financial Reporting Council

**Minutes of a meeting of the Board of Directors of the Company
held on 5 July 2017 at the FRC, 8th Floor, 125 London Wall, EC2Y 5AS**

PRESENT:	Sir Winfried Bischoff Gay Huey Evans Stephen Haddrill Mark Armour Sir Brian Bender David Childs John Coomber Olivia Dickson Paul Druckman Paul George Ray King Nick Land Roger Marshall Melanie McLaren Keith Skeoch Mark Zinkula	Chairman Deputy Chairman Chief Executive Non-Executive Director Non-Executive Director Non-Executive Director Non-executive Director Non-executive Director Non-executive Director Executive Director, Corporate Governance & Reporting Non-Executive Director Non-executive Director Non-executive Director Executive Director, Audit & Actuarial Regulation Non-executive Director Non-executive Director
IN ATTENDANCE:	Francesca Carter Anne McArthur Tracy Vegro Marian Williams Deepa Raval Eden Leglesse Hannah Armitage Kate Cobill David Styles Mark Babington James Ferris Dawn Dickson Sian Barr Anthony Appleton Jenny Carter	Board Secretary General Counsel and Company Secretary Executive Director of Strategy & Resources Director, Audit Project Director (item 4f and item 6) Associate (item 4f) Policy Advisor (item 6) Lawyer & Assistant General Counsel (item 6) Director of Corporate Governance (item 6) Deputy Director of Audit Policy (item 7b) Project Director (item 7c) Director of Professional Oversight (item 8) Project Director (item 8) Director of Accounting & Reporting Policy (item 10b) Director of UK Accounting Standards (item 10b)

1. QUORUM AND OPENING OF MEETING

- 1.1 The Chairman noted that the meeting was quorate and opened the meeting.
- 1.2 The Board noted that, subject to regulatory approval, Olivia Dickson had been appointed as a member of the Board of the Royal London Group.
- 1.3 The Board also noted feedback from a staff and Board members breakfast held that morning.

2. DECLARATION OF INTERESTS

- 2.1 There were no declarations of interest.

3. MINUTES & MATTERS ARISING

- 3.1 The Board approved the minutes of the meeting held on 24 May 2017 for publication. 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 Corporate Governance Reform.* The Board discussed the FRC's intentions in relation to corporate governance reform in light of the Queen's Speech. Whilst the Board noted the Government has not made public any plans to move quickly in responding to its Green Paper consultation and the prospect of legislation to provide the FRC with new powers is unlikely, the Board supported the proposal that the FRC's work on the UK Corporate Governance Code 'the Code' and Stewardship should continue. The Board discussed what the revised 'Code' could look like and highlighted the importance of gathering input from a broad range of stakeholders.
- *On the Accountancy Scheme (the 'Scheme').* The Board noted discussions with the ICAEW on the continuation of the Scheme. Whilst narrower in scope than proposed by the FRC, the ICAEW had agreed the continuation of the Scheme for local audit public interest matters and corporate reporting matters involving members in business. The latter category would include directors and employees of PIEs, large AIMs and Lloyds Syndicates. On aligning the Scheme with the AEP, agreement was yet to be reached. The Board noted the views expressed by the participant bodies and supported further discussion on the matter. The Board agreed that the amendments to the Scheme to effect the amended scope should be finalised by early September and to delegate responsibility for approving the necessary amendments to the Scheme to the Chair of the Conduct Committee; amendments in relation to alignment with the AEP would be submitted to the Board for approval.
- *On Brexit.* The Board noted the FRC had responded to BEIS's request for advice on how to proceed in setting IFRS in the future. In line with the Board discussion in May, the response set out that the UK should adopt IFRS whilst retaining the ability to modify it and that the FRC should be the standard setter.

- 4.2 The Board noted the remainder of the report which included the Management Accounts to 31 May 2017, the FRC risk universe and the Delivery Unit report.

4 CHAIRMAN'S AGENDA

a. Governance Review

- 4.2 Ms McArthur provided an update on the progress of the FRC governance review. The Board would be invited to discuss detailed proposals at its September meeting.

b. Board Strategy Day

- 4.3 The Board reviewed a draft agenda for the strategy day to be held on 13 September. Through discussion it was agreed the agenda would include a discussion on the FRC's strategy in relation to the future of corporate reporting.

c. Five Code Chairmen meeting

- 4.4 The Board noted a summary of the annual meeting of the Five Code Chairmen from Germany, France, Italy, the Netherlands and the UK held on 2 June.

- d. Nominations Committee Appointment**
- 4.5 On the recommendation of the Nominations Committee the Board approved the appointment of John Coomber to the Remuneration Committee from 1 August to 2 July 2018.

- e. Codes & Standards Committee Appointment**
- 4.6 The Board approved the reappointment of Ashok Gupta to the Codes & Standards Committee for one year from 31 August 2017 to 31 August 2018.

- f. People Forum representatives**
- 4.7 The Board noted feedback in person from two members of the FRC's 'People Forum' on their experience of the Forum and a summary of matters that had been considered by the Forum.

5 FRC MATTERS

- a. FRC Annual Report & Accounts for the year ended 31 March 2017**
- 5.1 The Board reviewed the Annual Report and Accounts for the year ended 31 March 2017. Through discussion a small number of drafting amendments were suggested in relation to the Chairman's' statement and the reserves policy.

- 5.2 On the recommendation of the Audit Committee the Board:
- (i) Approved the Annual Report and Accounts 2016/17 subject to any final editing of the report approved by the CEO and Chairman;
 - (ii) Authorised the CEO to sign the Strategic Report, the Chairman to sign the Balance Sheet and authorised the Company Secretary to sign the Directors' Report on behalf of the Board;
 - (iii) Authorised the executive to submit the Annual Report and Accounts 2016/17 to Parliament before the House rises on 20 July;
 - (iv) Approved the Letter of Representations to the auditors, subject to review of the final paragraph, and authorised the CEO to sign the Letter on behalf of the Board;
 - (v) Agreed to recommend to the Company at its annual general meeting (AGM) the adoption of the Annual Report 2016/17; and
 - (vi) Noted the draft Press notice announcing the publication of the Annual Report & Accounts.

- 5.3 The Board noted that the Audit Committee had reviewed the performance of the auditor, haysmacintyre, at its June meeting. The Committee recommend the reappointment on the basis that the current audit partner would be rotated off having, served five years. Following discussion the Board agreed the recommendation of the Audit Committee to recommend to the Company at its AGM:
- (vii) The Reappointment of the auditors, haysmacintyre (subject to the appointment of a new audit partner), and
 - (viii) To authorise the Directors to determine their remuneration. The new audit partner would be interviewed and appointed by the Audit Committee.

- 5.4 The Board highlighted the importance of ensuring that KPIs the FRC wishes to report on in 2017/18 are planned in advance, welcoming as part of a lessons learned exercise scheduled for August.

5.5 The Board noted that, in preparing the Annual Report & Accounts, the executive had identified a need to clarify that the diversity objectives set out also apply to the Codes & Standards and Conduct Committees and that the objective in relation to the diversity of senior management is to continue to ensure that approximately half of senior roles are held by female executives. The Board approved amendments to the Diversity Policy to provide that clarification.

b. FRC Mission

5.6 Mr Haddrill introduced a report that set out the wording and presentation of a new FRC mission and the values and behaviours that would underpin that mission. The Board noted the mission and underpinning values had been developed through a programme of extensive engagement with staff including three all staff events and staff working groups.

5.7 The Board discussed the mission and supporting graphic in detail. Whilst the Board questioned the use of the word integrity it was considered to be appropriate given the outcome focused nature of the mission statement. On the supporting graphic the Board suggested replacing the objective of achieving ‘greater prosperity’ with ‘building public trust in business for a healthy economy’ it was also suggested the ‘strong conduct’ be replaced with ‘ethical conduct’.

5.8 The Board welcomed the addition of two new values, ‘speaking up’ and ‘developing yourself and others’ and suggested that, to ensure alignment between the values and the supporting graphic, the values make reference to ‘sound’ decisions.

6. CORPORATE GOVERNANCE

a. Corporate Governance Code and the Strategic Report

6.1 Mr Styles introduced a report that provided an update on the FRC’s review of the UK Corporate Governance Code (the ‘Code’) and revisions to the FRC’S Guidance on the Strategic Report. The Board noted that discussions with BEIS in relation to the prospect of legislative change in the area of corporate governance continue.

6.2 On the comprehensive review of the Code the Board noted that a series of roundtables and individual meetings with a broad range of stakeholders had been held and considered a list of topics that had been covered, a summary of the reactions of stakeholders to those topics and an early view on the expected results of the review and possible revisions.

6.3 The Board discussed the report in detail. Whilst supportive of the direction of travel the Board encouraged the executive to reflect on advice from stakeholders to take a cautious approach to the review. Discussion included the following observations and suggestions:

- The Code should encourage / promote a link between strategy and what is to be delivered in the long term.
- The Board supported the addition of a Principle concerning wider stakeholders with a range of options for how the view of these stakeholders might be heard in the boardroom. The Board suggested that the revised Code should also promote more effective use of the viability statement in this regard.
- The Board supported the proposal to update the FRC’s Guidance on Board Effectiveness to provide more useful and targeted best practice recommendations.
- On Remuneration Committees:
 - proposals should be consistent with the FRC response to the Select Committee Inquiry;

- consideration should be given as to what Non-Executives could realistically achieve; and
 - the executive should consider the role of a possible Financial Reporting Lab project.
 - It was noted that the FRC would await further direction from the Government in relation to the development of bespoke guidance aimed at large private companies.
- 6.4 On the Strategic Report Guidance, Ms Raval reported the update was primarily to reflect legislative changes arising from the implementation of the EU Directive on non-financial and diversity information. The update would also take account of the evolving corporate governance reform agenda, including strengthening the link between the purpose of the Strategic Report and directors' duties under s172 and reporting on the generation of value. The Board noted there is some uncertainty on the interpretation of the new regulations in respect of non-financial reporting and encouraged the executive to obtain independent legal advice as proposed.

6.5 The Board agreed that the Executive begin preparing the update of the Code in accordance with the suggestions set out in the paper and to reflect the discussion.

b. FRC Powers: Corporate Governance

6.6 The Board approved a proposed approach to increased monitoring of corporate governance reporting in the absence of legislation and agreed that a more detailed proposal regarding monitoring powers be presented to BEIS in conjunction with the FRC's work on enforcement powers. The Board suggested the proposal to BEIS highlight what the implications of expanding corporate governance monitoring would in terms of resourcing and funding.

7 AUDIT AND ASSURANCE POLICY

a. FRC as Competent Authority

7.1 Ms Williams introduced a report that provided detailed evidence in respect of the FRC's discharge of its responsibilities as Competent Authority for Audit (CA) for the period from January 2017 to July 2017.

7.2 The Board reviewed the report and, noting the conclusion of the Executive and the Conduct Committee, confirmed that it was satisfied the FRC had fulfilled its Competent Authority responsibilities. The Board agreed that it should continue to receive bi-annual reports on the FRC's discharge of its responsibilities as CA.

b. Audit & Assurance projects

7.3 On the advice of the Audit & Assurance Council and the recommendation of the Codes & Standards Committee the Board approved the issue of revised ISAs (UK) 250, 330 and 505.

c. Audit State of the Nation Report

7.4 Mr Ferris introduced a near final draft report for consideration. The Board noted the report had been drafted to reflect the views expressed by the Board at the May meeting and input from the Conduct Committee, Codes & Standards Committee, Audit and Assurance Council and the Audit Quality Review Committee.

7.5 The Board reviewed the draft; through discussion a number of minor drafting amendments were identified and suggestions on topics to consider for inclusion in the 2017/18 Developments in Audit report were identified.

- 7.6 The Board agreed that the report be finalised by the Executive Director: Audit & Actuarial Regulation for publication in July.

8. PROFESSIONAL OVERSIGHT

Actuarial Monitoring proposals

- 8.1 Ms Barr introduced a report that set out a revised proposal from the IFoA to introduce in 2019, direct monitoring of actuarial work by practising certificate (PC) holders as a condition of holding a PC and a programme of thematic reviews of high public interest work. Ms Barr reported that the executive and the Conduct Committee consider the revised proposal meets the hallmarks of an effective monitoring regime as developed with the advice of the Actuarial Council; and that the outcome of the monitoring proposal, if implemented as described, would provide sufficient evidence for the FRC to perform its actuarial roles effectively and would therefore sufficiently close the gap in actuarial regulation. The full monitoring regime would commence in 2019 following consultation by the IFoA.
- 8.2 The Board considered the revised proposal and the risks associated with implementation. It was noted that, subject to the addition of conditions including a commitment to a granular timetable and the issue of persuasive member communications which would be reviewed by the FRC, the executive consider suitable mitigations had been identified and would be implemented. Through discussion it was agreed that the commitment to a granular timetable would be broadened to ensure arrangements are in place to enable the FRC to have oversight of implementation and to alert the FRC to any developing risks.
- 8.3 On the basis of the report and the recommendation of the Conduct Committee the Board agreed:
- (i) To accept the proposals, subject to the addition of conditions set out in the report and discussed at the meeting.
 - (ii) The FRC should commit in principle to an FRC contribution towards funding the proposed monitoring regime in the medium term.
 - (iii) To a period of stability in actuarial regulation on the condition that the IFoA delivers the proposed regime and that no significant regulatory issues arise.

9. ENFORCEMENT

- 9.1 The Board noted the quarterly report of the Executive Director, Enforcement.

10. CORPORATE REPORTING

a. Annual Report of Corporate Reporting 2016/17

- 10.1 The Board agreed the structure and content of the report and noted that a final draft report would be presented to the Board for approval in September.

b. Amendments to FRS 101 (2016/17 cycle)

- 10.2 On the advice of the Corporate Reporting Council and the recommendation of the Codes & Standards Committee the Board approved the issue of amendments to FRS 101 to provide certain disclosure exemptions in relation to IFRS 16 Leases. The Board also approved the issue of the supporting feedback statement and impact assessment.

11. COMMITTEE CHAIR REPORTS

a. Report from the Conduct Committee

- 11.1 The Board noted the minutes of the Conduct Committee meeting held on 23 May 2017 and noted an oral report of the Conduct Committee away day held on 20 June 2017.

b. Report from the Codes & Standards Committee

- 11.2 The Board noted an oral report of the Codes & Standards Committee meeting held on 21 June 2017.

c. Report from the Audit Committee

- 11.3 The Board noted the minutes of the 10 May 2017 and 14 June 2017 Audit Committee meetings. The Board noted the Committee had reviewed the draft Annual Report & Accounts at its May meeting and the final draft at its June meeting and commended the team on the preparation of the document. In response to a query the Chairman reported the Committee receives routine updates on Information Security and that good progress had been made in strengthening information security in the past year: the FRC was also in the process of achieving Government Cyber Essentials plus accreditation.

d. Report from the Remuneration Committee

- 11.4 The Board noted draft minutes of the 6 June 2017 Remuneration Committee.

e. Report from the Nominations Committee

- 11.5 The Board noted draft minutes of the 6 June 2017 Nominations Committee.

12. FOR INFORMATION

Outline Board calendar 2017 and 2018 dates

- 12.1 The Board noted the outline calendar for 2017 and the 2018 meeting dates.

13. ANY OTHER BUSINESS

- 13.1 The Board noted a letter that had been sent to Board Members Sir Brian Bender, Keith Skeoch and Mark Zinkula from the Local Authority Pension Fund Forum and agreed a response.

- 13.2 The Board noted the conclusion of an internal investigation into communications with the media in relation to the Connaught case.

- 13.3 The Chairman reported that it would be Ray King's last meeting. The Board thanked Ray for his contribution since 2012 to the work of the FRC variously as a Board Member, Codes & Standards Committee Member and as Chair of the Audit and Assurance Council and wished him well for the future.

14 DATE OF NEXT MEETING

- 14.1 Wednesday 13 September 2017 (Strategy Day and AGM).

Chairman