

Financial Reporting Council

**Minutes of a meeting of the Board of Directors of the Company
held on 26 April 2017 at the FRC, 8th Floor, 125 London Wall, EC2Y 5AS**

PRESENT:	Gay Huey Evans	Deputy Chairman (Chaired meeting)
	Sir Winfried Bischoff	Chairman (by phone from item 3)
	Stephen Haddrill	Chief Executive
	Mark Armour	Non-Executive Director
	Sir Brian Bender	Non-Executive Director
	John Coomber	Non-executive Director
	Olivia Dickson	Non-executive Director
	Paul Druckman	Non-executive Director
	Paul George	Executive Director, CGR
	Ray King	Non-Executive Director
	Nick Land	Non-executive Director
	Roger Marshall	Non-executive Director
	Melanie McLaren	Executive Director, Audit
	Keith Skeoch	Non-executive Director
	Mark Zinkula	Non-executive Director
IN ATTENDANCE:	Francesca Carter	Board Secretary
	Anne McArthur	General Counsel and Company Secretary
	Tracy Vegro	Executive Director of Strategy & Resources
	Claire Lindridge	Assistant Director, AQR (to item 11.2)
	Mark Babington	Deputy Director of Audit Policy (item 8a only)
	Daniel Park	Project Associate, AQR (item 8b only)

QUORUM AND OPENING OF MEETING

The Deputy Chairman welcomed Mark Zinkula to his first Board meeting and welcomed Claire Lindridge, Assistant Director AQR who was observing the meeting in her capacity as an FRC Future Leader. Apologies were noted from David Childs. The Chairman noted that the meeting was quorate.

1 DECLARATION OF INTERESTS

1.1 There were no declarations of interest.

2 MINUTES & MATTERS ARISING

2.1 The Board approved the minutes of the meeting held on 9 March 2017 for publication subject to two minor drafting amendments.

2.2 The Board confirmed the re-appointment of Sir Winfried Bischoff as a member Remuneration Committee for a second term of three years.

2.3 The Board reviewed the matters arising log and noted that the Board would be taken through, using a real life example, how the FRC currently monitors firms and how this would change under the proposed approach at the September meeting.

3 CHIEF EXECUTIVE'S REPORT ON KEY ISSUES

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

- *On Ethical Issues in Audit Firms.* Having regard to a number of ethical issues that had come to the fore in recent times overseas and in the UK, the Board discussed in detail whether there is a need to take additional action in relation to the UK and in relation to global network risk. Discussion included consideration of the level of engagement between the FRC with UK and global leads, the role of INEs and the FRC’s membership of IFIAR. In recognising the importance of good leadership and culture in promoting ethical behaviour, the Board encouraged the executive to consider broadening the scope of its audit quality work to be more holistic and include consideration of the quality of leadership and of the culture of firms.
- *On the FRC Culture Project.* The Board noted the project was underway; a Board working group had been established and an all staff event on culture had been scheduled for 18 May. SH undertook to provide the Board with an update on progress, including project milestones, at the July meeting.
- *On the ESA review.* The Board noted the European Commission had launched a consultation of the future of ESMA, the EBA and the EIOPA and considered the purpose of the review. In noting that the FRC would likely have a strong on-going interest in EU adoption of accounting standards it was agreed that the FRC should respond to the consultation.
- *On Actuarial Oversight.* The Board noted that the IFoA had undertaken to provide the FRC with updated proposals before the end of May; the proposals would be brought to the Board for consideration. Through discussion it was suggested that the FRC also consider whether a review of the IFoA’s governance arrangements would be necessary.
- *On the Accountancy Scheme.* The Board noted progress on discussions with the participating accountancy bodies, considered the options and the potential adverse impact of a reduced scope in terms of the public interest. The Board noted that a further paper would be tabled at the May Board meeting.
- *On FRED 67: FRS 102 – Triennial Review.* The Board agreed a recommendation to issue an interim change to FRS 102 in relation to accounting for small company directors’ loans. This would allow small companies with a March year end to revert their accounting back to FRSSE requirements whilst changes to FRS 102 are finalised. The Board noted that the change, which would maintain the pre-existing accounting approach, was most often requested in outreach. Subject to advice from the Corporate Reporting Council **the Board approved the interim change to FRS 102 and agreed the interim change be issued without consultation.**

3.2 The Board noted the remainder of the report which included the Management Accounts dated 31 March 2017 and the project and activity delivery report.

4 CHAIRMAN’S AGENDA

2017 Effectiveness Review Action log

4.1 The Board considered a log of the actions that had been identified to respond to the recommendations of the Board effectiveness review. The Board approved the action log and noted that a progress update would be provided in July.

5 FRC MATTERS

FRC Monitoring of Mitie

5.1 The Board considered a detailed report on the FRC’s monitoring of the reporting and audit of Mitie which addressed criticisms in the media that the FRC had been aware of accounting regularities and had failed to respond.

- 5.2 The Board noted that whilst the review had concluded that the criticisms were not justified it had identified lessons, including on the timeliness of the FRC's initial interaction with the complainant and more frequent correspondence with the complainant throughout the process.

6 CORPORATE GOVERNANCE

The UK Corporate Governance Code and the Governance of Large Private Companies

- 6.1 Mr George introduced two papers covering the BEIS Select Committee recommendations, the FRC's plans for updating the UK Corporate Governance Code (the 'Code') and proposals for a Corporate Governance framework for larger private companies.
- 6.2 On the BEIS Select Committee recommendations. The Board supported the proposal to write to the Department and agreed to delegate finalisation of the letter to the Chairman, the CEO, the Chair of the Codes & Standards Committee and Mr George. The letter would be private as the FRC was constrained by purdah restrictions.
- 6.3 The Board agreed that the letter should:
- Respond positively to the recommendations and welcome that the FRC has been positioned as the body to take matters forward.
 - Reinforce the messages of the FRC Response to the Green paper and the need to build on the strengths of the existing UK corporate governance system;
 - Reinforce support for proposals made in our response to the BEIS Green Paper:
 - Improve section 172 reporting.
 - Broaden the responsibilities of remuneration committees, emphasising the need for them to exercise discretion, establish an escalation mechanism for significant adverse votes and enhance enforcement in relation to corporate governance matters.
 - Make monitoring and enforcement more effective so that the fragmented disciplinary arrangements are addressed. In doing so, recommend that the FRC be given the powers to monitor Corporate Governance statements.
 - Set out the risks in relation to the recommendations that, if introduced, would be inconsistent with the existing UK system, particularly the Unitary Board and the 'comply or explain' approach. Those risks were most significant in relation to the traffic light grading system for premium listed companies, a ban on LTIPs and prescriptive requirements in relation to remuneration committees and advisory groups.
- 6.4 Mr George undertook to provide the Board with a copy of the final draft report before issuing.
- 6.5 *On changes to the UK Corporate Governance Code.* Mr Styles reported that the executive had begun a programme of outreach to seek views on changes to the Code. The Board noted that initial corporate feedback had been cautious. Whilst most of those consulted understood the rationale for the review and supported a greater focus on the application of the principles and a shortening and sharpening of the Code, there was scepticism that the objectives would be achieved without losing important principles.
- 6.6 The Board considered the feedback and early suggestions for changes to the Code. Through discussion concern was expressed about a proposal to move provisions out of the Code and in to Guidance on Board effectiveness. The Board highlighted that, in

the absence of the ‘comply or explain’ approach, practices that are considered to contribute to good governance may no longer be followed, and the absence of a requirement to explain when principles or provisions could result in lower quality reporting. It was suggested that the executive consider refocusing the Code on the effectiveness of the Board. Mr Styles undertook to prepare further options for the Board to consider.

- 6.7 The Board noted that, in light of the 8 June election, the timescale for the Code review was uncertain. An updated timetable would be presented in due course.
- 6.8 *On the governance of large private companies.* The Board discussed the recommendation of the BEIS Select Committee for the FRC, with the IoD and Institute for Family and Business to develop an appropriate Code which the largest privately-held companies would be expected to apply. It was noted the FRC had in its response to the Green Paper indicated that it would be ready to develop a governance framework for larger private companies. The Board cautioned however, that the wording of the BEIS recommendation, specifically the reference to a Code, could set unrealistic expectations if it was felt that a private Company Code would achieve as much as the current UK Corporate Governance Code. The Board noted that UK Corporate Governance Code is based on a number of principles which could not readily be applied to private companies. The Board agreed that, whilst the FRC should continue to support the development of a governance framework for larger companies, the response should encourage further consideration of what the framework would look like and whether the changes that are sought could be achieved through improved section 172 reporting and increased focus on the interests of wider stakeholders.
- 6.9 The Board discussed what entities should be caught within the scope of any framework and cautioned against setting the bar too low; suggesting that only the largest companies should be within scope and that carve outs should be available for subsidiaries.
- 6.10 The Board discussed a view put forward by Douglas Flint proposing an extension of section 172 requirements to fund managers in relation to portfolios. The Board suggested the executive explore the proposal further.

7 ENFORCEMENT

Sanctions Review

- 7.1 Ms McArthur provided an update on progress with the Sanctions Review. The Board noted good progress had been made and the call for evidence would be issued shortly.

8 AUDIT & ASSURANCE POLICY

a. Bank Reports – Practice Note 16

- 8.1 Mr Babington invited the Board to approve the issue of a consultation inviting comments on proposals to update guidance on obtaining bank reports for audit purposes. Mr Babington reported that the consultation proposed the withdrawal of PN16 and its replacement with additional application material in ISA (UK) 330 and ISA (UK) 505.

- 8.2 The Board considered the draft consultation document and feedback statement. In noting that the proposal would be minor in nature; would not change the requirements of auditors; and would reduce the amount of guidance in issue by better integrating guidance with auditing standards, the Board approved the consultation for publication.

b. De-registration of TCA Procedure

- 8.3 Mr Park introduced procedures that had been developed by the FRC in order to apply a consistent, efficient and transparent process for the de-registration of Third Country Auditors between renewals, where the Board considers there to be grounds for doing so. Mr Park reported the Procedures had been considered by the Conduct Committee the previous day, and, subject to a drafting amendment, the Committee recommended them to the Board.

- 8.4 The Board considered and approved the Procedure for issue and publication of the Feedback Statement.

9. FOR INFORMATION

Outline Board calendar 2017 and 2018 dates

- 9.1 The Board noted the outline calendar for 2017 and the 2018 meeting dates. Mr Haddrill summarised the topics to be discussed at the Board Strategy Day on 13 September.

10 COMMITTEE CHAIR REPORTS

a. Report from the Conduct Committee

- 10.1 The Board noted the minutes of the Conduct Committee meeting held on 14 March 2017 and noted an oral report of the Conduct Committee meeting held on 25 April 2017.

b. Report from the Codes & Standards Committee

- 10.2 The Board noted draft minutes of the Codes & Standards Committee meeting held on 12 April 2017.

11 ANY OTHER BUSINESS

- 11.1 The Board noted that BEIS had issued several reminders on Data Protection, IT Security and Fraud in relation to partner bodies. On the first two, the FRC has policies and procedures which are kept under review by the Audit Committee. Following discussion between the Finance Director and BEIS on the Grant Payment Fraud correspondence, it had been agreed that it would not apply to FRC as no grant or benefit payments are made.

- 11.2 The Board received an update on progress of the investigation in to communications with the media in relation to the Connaught matter. A full report would be provided in due course.

12 NEXT MEETING

- 12.1 Wednesday 24 May at 9am.