

**Minutes of a meeting of the Board of Directors of the Company
held on 20 May 2015 at 8th Floor, 125 London Wall**

PRESENT:	Sir Winfried Bischoff	Chairman
	Gay Huey Evans	Deputy Chairman
	Stephen Haddrill	Chief Executive
	Mark Armour	Non-executive Director
	David Childs	Chairman, Conduct Committee and non-executive Director
	Elizabeth Corley	Non-executive Director
	Paul George	Executive Director, Conduct
	Nick Land	Chairman, Codes & Standards Committee and Chairman, Audit & Assurance Council and non-executive Director
	Roger Marshall	Chairman, Accounting Council and non-executive Director
	Melanie McLaren	Executive Director, Codes & Standard
IN ATTENDANCE:	Anne McArthur	Secretary
	Chris Hodge	Executive Director, Strategy
	Andrew Jones	Director, AQR (Item 5a)
	Mark Shennan	Policy & Planning Director, AQR (Item 5a)
	Phil Fitz-Gerald	Head of Supervisory Enquiries (Item 5b)
	Anna Colban	Project Manager, C&S (Item 5b)
	Marian Williams	Director, C&S (Item 6a)
	John Grewe	(Item 6a)
	Kate Cobill	Assistant General Counsel (Item 6a)

Apologies were received from Brian Bender, Olivia Dickson, Keith Skeoch and John Stewart. No conflicts of interest were declared in relation to any of the matters for discussion.

1 MINUTES

1.1 The Board approved the minutes of the meetings held on 23 April 2015 for publication subject to minor amendments.

Matters arising

1.2 There were no matters arising.

Action points

1.3 The Board noted the action points.

2 CHIEF EXECUTIVE'S REPORT

2.1 Mr Haddrill introduced his report.

2.2 Discussion included the following points and observations:

- on the Corporate Governance Code and culture, the FRC was taking its work forward with a series of roundtable discussions. It was anticipated that, rather than issuing guidance, a coalition of parties would be formed and that by joining the coalition the parties would sign up to promote best practice;

- on the FRC's future leaders programme, the Chairman reported, there had been positive feedback from staff at the breakfast meeting preceding the Board meeting. Board members could assist by mentoring those on the programme;
- on the accountability to share-holders of ring fenced banks, discussions with the Bank of England continued and the FRC and PRA had been asked to write to the Treasury Select Committee on the issue. This was an area which required continued careful consideration and would be considered in more detail by the Board at its meeting in July;
- on the FRC budget, there had been upward pressure of £500k on the budget since publication. The Executive Committee had found savings to offset this increase. The original estimate of a deficit of £200k remained and it was unlikely this would be eliminated. The Board recognized this and noted the importance of the development of the revenue strategy;
- on the Audit Regulation and Directive, following the Secretary of State's decision on how to implement, the FRC should hold events across the UK (and not just in London) informing stakeholders of the FRC approach;
- on EFRAG, it was noted that the search for a new president continued and that Mr Marshall would continue as acting President for the time being. The IASB had reviewed ASAF and confirmed that it would continue its functions but with a refreshing of its membership. It was agreed that Mr Marshall should be nominated for membership either as the UK representative or as an EFRAG representative if so agreed by EFRAG.

2.3 The Board noted the Chief Executive's report.

3 COMMITTEE CHAIR REPORTS

Report from CC meeting of 19 May 2015

3.1 Mr Childs reported on the key items discussed and agreed at the CC meeting, noting in particular that a significant amount of time had been spent with McKinsey and that the CC were content with the preliminary recommendations. They had expressed concerns about whether the transparency recommendations were achievable in the light of the statutory restrictions on information obtained by the CRR.

Report from Audit Committee meeting of 13 May 2015

3.2 Mr Land reported that the audit was almost complete and that an unqualified opinion was anticipated. A fuller report would be provided when the audit was complete and the Committee had reviewed a complete draft annual report.

Conduct Quarterly Report

3.3 Mr George reported on the work of the Conduct Division noting that since his report the judgement on the Tanfield judicial review had been received: the claimants had been unsuccessful and leave to appeal had been refused. The Tribunal hearing would now be scheduled unless the claimants sought leave to appeal from the Court of Appeal.

3.4 The Board noted the reports.

4 CHAIRMAN'S AGENDA

a. Board and Committee Effectiveness Review Update

4.1 Ms McArthur introduced the item.

4.2 The Board

- noted the various actions taken in response to the issues arising out of the effectiveness reviews of the Board, the Committees and the Councils and approved the further actions recommended; and
- considered and suggested amendments to a draft report of the effectiveness review for inclusion in the Annual Report;
- noted the actions being taken to seek a Board member with actuarial and CEO (or senior executive) experience.

5 FOR BOARD APPROVAL AND ISSUE

a. AQR Annual Report

5.1 Mr Shennan introduced the item explaining that this would be the FRC's 11th such annual report. The report had been considered by the CC and the Monitoring Committee and amendments made to reflect the discussions.

5.2 The Board discussed the draft report and made various drafting points and suggestions including strengthening references to issues on third country audit. It was agreed that the points would be addressed and a final draft would be circulated to the Board together with a press notice for approval.

b. Smaller Listed and AIM Companies

5.3 Mr Fitz-Gerald introduced the item seeking the Board's approval for publication of the report and views on the specific recommendations.

5.4 The Board considered and approved the report for publication subject to editing suggestions.

6 FOR AGREEMENT TO PROCEED

a. Implementation of the EU Audit Regulation and Directive

6.1 Mr Haddrill introduced the item confirming that the Board was invited to agree a number of policy issues which would inform the FRC's discussions with BIS and the professional bodies on the implementation of the Regulation and Directive and the FRC's role in audit regulation.

6.2 The Board discussed and agreed the following broad approach:

- the FRC should be designated the single competent authority with specific tasks being delegated to Professional Bodies to the full extent possible under the legislation;
- the AQR should limit its scope to that required by the Audit Regulation i.e. companies listed on a regulated market, banks, and insurers (collectively PIEs) – plus large AIM companies. The professional bodies should take on more inspections in the important areas of charities, pension funds and larger private companies;

- enforcement of the requirements in the ARD on auditors of PIEs should be through a new, single, administrative procedure;
- in respect of FRC Ethical and Auditing standards to implement ARD, AIM companies should in general continue to be included within the scope of FRC auditing and ethical standards; on non-audit services, the FRC should proceed on the basis of a combination of a black and a white list;
- the FRC's governance structure should be reviewed to ensure independence and accountability. It was likely to require fine tuning rather than radical overhaul; and
- the funding of the FRC's statutory audit responsibilities post implementation should be secure but should not compromise the FRC's private body status. Discussions with BIS on the options should be conducted on this basis.

7 FOR DISCUSSION:

a. *The State of Actuarial Regulation – Capri Update*

- 7.1 Mr Haddrill introduced the item. He and the Chairman had received comments on this item from Olivia Dickson who was not able to attend the meeting.
- 7.2 A key issue unresolved since the conclusion of Project Capri was the monitoring gap in relation to actuarial work. The FRC should be concerned to find some way of closing this gap to give confidence in the quality of actuarial work.
- 7.3 The Board noted that:
- the conclusion of the FRC's Project Capri two years ago that the framework of actuarial regulation was generally fit for purpose, needed to be reconsidered because of the pressures on the insurance and pensions industries arising from regulatory developments (Solvency II, IORP II), the continuing low interest rate environment, pension reform, the lack of progress in closing the monitoring gap and the profession not having implemented its quality assurance proposal (which in any event was only a partial answer);
 - the FRC's role in setting the technical basis for determining statutory money-purchase illustrations – ASTM1 – sat increasingly uneasily within its remit, in view of pension reform;
 - progress on the other specific Capri recommendations was good in relation to technical standards development and establishing close links with other regulators;
 - the Institute and Faculty of Actuaries (IFoA) was slow to respond to the FRC on some of the more significant issues, which could undermine the effectiveness of the FRC's oversight role; and
 - international standard-setting activity was now progressing and the FRC was well-placed to contribute to it.
- 7.4 The Board agreed:
- to a thematic review on the quality of actuarial work focusing first on the general insurance sector. This would involve securing the agreement of PRA to share general insurance reserving reports. Once that review had been completed the FRC should look more closely at the pensions sector;
 - to the outcome of the review informing the need for correspondence with the Chancellor of the Exchequer on the changing risk profile of and the remaining gaps in the regulatory framework;

- to write to the new pensions minister, Ros Altmann, to highlight the need for DWP to review pensions communication requirements in the light of pensions reform and to highlight the FRC's concerns as to the SMPI regime and specifically, that the FCA should take on ASTM1;
- progress the FRC's work with JFAR on risks to the public interest from actuarial work and on the standards framework;
- to make proposals to the IFoA concerning the development of oversight; and
- to set clear influencing objectives for the new Director of Actuarial Policy in relation to the international standard setting bodies - IAA, IAIS, AAE and EIOPA.

b. Public Interest Responsibilities for Accountants

- 7.5 Mr George introduced the item confirming that the paper tabled was to provide an update to the Board and that the issue would be brought back to the Board when the ICAEW had reported on the review of its Guide to Professional Ethics in the light of the MG Rover Appeal Tribunal judgment.
- 7.6 The Board noted the position and that whilst accountants should not be subject to more onerous public interest consideration requirements than other professions, the existing Guide required clarification. The Board agreed to review the issue when any ICAEW proposals had been provided and that a working group should be established to assess whether the proposals proffered the right solution and/or whether the FRC should take a lead.

c. McKinsey Preliminary Recommendations

- 7.7 Robin Nuttall and Conor Kehoe of McKinsey were welcomed to the meeting by the Chairman. They presented the findings of their review and their preliminary recommendations and responded to questions from Board members. The Board agreed the high level proposals in their report and that a working group should be established to agree how the recommendations should be implemented and report to the Board.

8 OUTLINE BOARD CALENDAR 2015 and 2016

- 8.1 The Board noted the outline Board calendar.

9 ANY OTHER BUSINESS

- 9.1 There was no other business.

10 NEXT MEETING

- 10.1 Wednesday, 1 July 2015 at 8.30 am.