

Financial Reporting Council

**Minutes of a meeting of the Board of Directors of the Company
held on 2 February 2017 at the FRC, 8th Floor, 125 London Wall, EC2Y 5AS**

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| PRESENT: | Sir Winfried Bischoff | Chairman |
| | Gay Huey Evans | Deputy Chairman |
| | Stephen Haddrill | Chief Executive |
| | Mark Armour | Non-Executive Director (by phone) |
| | David Childs | Non-executive Director |
| | John Coomber | Non-executive Director |
| | Elizabeth Corley | Non-executive Director |
| | Olivia Dickson | Non-executive Director |
| | Paul Druckman | Non-executive Director |
| | Paul George | Executive Director, CGR |
| | Nick Land | Non-executive Director |
| | Roger Marshall | Non-executive Director |
| | Melanie McLaren | Executive Director, Audit |
| Keith Skeoch | Non-executive Director (by phone) | |
| IN ATTENDANCE: | Francesca Carter | Board Secretary |
| | Anne McArthur | General Counsel and Company Secretary |
| | Tracy Vegro | Executive Director of Strategy & Resources |
| | Gareth Rees | Executive Counsel (item 4b) |
| | Hannah Armitage | Project Director (item 9a) |
| | David Styles | Director of Corporate Governance (item 9a) |
| | Marian Williams | Director of Audit (item 9b) |
| | Fiona Goh | Project Manager (item 9c) |
| | Dawn Dickson | Director of Professional Oversight (item 9c) |
| | Jenny Chandler | Head of HR (item 9d) |
| | David Andrews | Head of Organisational Development (item 9e) |
| | Rebecca Smart | Risk Manager (item 9e) |
| | APOLOGIES: | Sir Brian Bender, Non-executive Director |
| | Ray King, Non-executive Director | |

1 QUORUM AND OPENING OF MEETING

- 1.1 The Chairman welcomed Paul Druckman to his first meeting.
- 1.2 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 effect from 6 February 2017.
- 2.2 The Board also noted that Elizabeth Corley had been appointed Chairman of an Advisory Group to the Government on creating a culture of social impact investing and savings. Olivia Dickson had been appointed as a member of the Group.

3 MINUTES & MATTERS ARISING

- 3.1 The Board approved the minutes of the meeting held on 7 December 2016 for publication.

3.2 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 Audit Strategy. The Board discussed proposed work on audit firm culture and supported proposals to review and refresh the FRC's strategy for driving audit quality. Through discussion it was agreed that the review should include consideration of how the FRC could best use its Competent Authority status in pursuit of the objective and that, in light of the FRC's report on corporate culture, the review be broadened to consider audit firm governance. The Board agreed a paper outlining the scope of the review and next steps be prepared for the March meeting.
- On the Corporate Governance Reform agenda. Mr Haddrill reported that discussions were being held with the FCA and the Insolvency Service on what the three bodies could achieve together and to close any regulatory gaps. Consideration was being given to making a joint submission to Ministers at BEIS on changes to the FRC's powers and the Insolvency Service's powers.
- On Industrial Strategy. The Board considered the proposal set out in the Green Paper on Industrial Strategy for companies with dual class share structures to be allowed to obtain a Premium Listing on the London Stock Exchange. The Board acknowledged the concerns raised by institutional investors and noted that, by themselves, dual class structures do not necessarily lead to a long term view. It was agreed the FRC should not support the proposal.

4.2 The Board noted the remainder of the report, the Management Accounts dated 31 December 2016 and the project and activity delivery report.

5 COMMITTEE CHAIR REPORTS

a. Report from the Audit Committee

5.1 The Board noted the minutes of the Audit Committee meeting on 22 November 2016.

5.2 On the recommendation of the Committee the Board approved the Audit Engagement Letter.

b. Report from the Codes & Standards Committee

5.3 The Board noted the minutes of the CSC meetings held on 22 November 2016 and 18 January 2017. Mr Land reported that the focus of discussion at the January meeting had been the Government Green Paper on Corporate Governance Reform.

5.4 Ms Corley reported on feedback relating to Stewardship Code Tiering and a presumption that the FRC had lowered standards necessary to achieve a Tier 1 rating. The Board asked that the FRC should consider how to respond to this incorrect presumption.

c. Report from the Conduct Committee

5.5 The Board noted the minutes of the Conduct Committee meetings held on 15 November 2016 and 17 January 2017. Mr Childs drew attention to an on-going issue with an audit firm in respect of their co-operation with the Enforcement Division and a progress report from the Audit Quality review team.

d. Report from the Nominations Committee

5.6 The Board noted the minutes of the Remuneration Nomination Committee meeting held on 7 December. Sir Win reported that consideration was being given to broadening the

diversity of the Board and that the Committee would consider a paper setting out proposals at the March meeting.

e. Report from the Remuneration Committee

- 5.7 The Board noted the minutes of the Remuneration Committee meeting held on 7 December. Ms Corley reported that, as discussed at the December Board meeting, the Committee Terms of Reference had been revised and were on the Board agenda for approval.

6 CHAIRMAN'S AGENDA

- 6.1 On the recommendation of the Nominations Committee the Board approved the appointment of Sir Brian Bender as Chair of the Remuneration Committee, and member of the Nominations Committee, from 1 April 2017 to 29 February 2020; coterminous with his appointment to the Board.

7 QUARTERLY REPORTS

a. Report of the Executive Director, Corporate Governance and Reporting

- 7.1 Mr George introduced his quarterly report and drew attention to the Corporate Reporting Review Operating procedures consultation. Mr George reported that, feedback received suggests there is an awareness of the limited resources within the FRC, relative to similar bodies. Mr George also reported that some hold the view that too much focus is placed on FTSE 350 companies and that the focus should be redirected to smaller listed companies.

- 7.2 Mr George reported on an issue arising from an increasing trend for companies to move away from Long Term Incentive Plans towards Restricted Stock Provisions and in particular the impact of their overlap in the reporting of a single number for remuneration. The Board supported the suggestion that the FRC look to facilitate discussions between companies and investors on how such issues should be reported. They also suggested consideration be given to whether Government should be encouraged through the Green paper response to review the calculation, potentially through a review of the relevant Regulations.

- 7.3 The remainder of the report was noted.

b. Report of the Executive Counsel

- 7.4 Mr Rees introduced his quarterly report and drew the Board's attention to the following matters:

- 7.5 *Enforcement Review.* Mr Rees reported that the review was underway. Preliminary conclusions suggest that, whilst good progress has been made, there remains room for further improvement. The review has identified where those improvements could be made and the next stage of the review would be to focus on how to achieve those changes.

- 7.6 The Board discussed barriers to progress and that, in some instances, a lack of co-operation from audit firms in respect of investigations can significantly delay proceedings. The Board considered how this could best be addressed and suggested consideration be given to formalising expectations of, and interactions with, INEs and Audit Committee Chairmen.

- 7.7 *Case Schedule.* The Board noted the case schedule attached to the report and received an oral update on the progress of a number of cases. Through discussion it was agreed that, when the executive anticipate that a public announcement relating to the progress of a case will be made, the Board will be informed orally of the possible announcement at the preceding Board meeting.

8 FOR BOARD APPROVAL AND / OR ISSUE

a. FRC Governance Issues

- 8.1 Ms McArthur introduced a report that set out proposed changes to the FRC's Governance Bible. The Board noted the changes reflected the decision of the Board at its meeting in October 2016 to dispense with the requirement that the Councils are chaired by a member of the FRC Board and a review of the Remuneration Committees' terms of reference.
- 8.2 Ms McArthur reported that, following discussion at the December 2016 Board meeting, the terms of reference for the Remuneration Committee had been updated and that the Committee had been considered and approved the revisions. It was confirmed that when the Board considers executive pay, the executive director would not be present.
- 8.3 The Board agreed that:
- The Terms of Reference for the Remuneration Committee be amended as set out at appendix 1 and to include and the additional point regarding executive involvement; and
 - The Terms of Reference for the Councils be amended as set out at appendix 2.

9 FOR DISCUSSION

a. Corporate Governance Reform

- 9.1 Mr Styles introduced a paper on Corporate Governance Reform and a draft response to the Government Green Paper. The Board noted the paper reflects feedback from the Codes & Standards Committee and proposes changes to the UK Corporate Governance Code (the 'Code') and related reporting.
- 9.2 The Board discussed in detail a proposal to take the opportunity offered by the current focus on corporate governance, and recent FRC work for example on corporate culture, to undertake a review of the structure of the Code that would be wider than the revisions proposed in the Green Paper. Whilst supportive of the proposal the Board highlighted the importance of ensuring the review is thorough; that the end result is a simplified Code that is fit for current and future use; and that elements of the current Code that are working well and are embedded in practice are retained. Through discussion it was agreed that, as part of the review, consideration be given to how amendments could encourage a greater focus on wider stakeholders and stewardship and how to appropriately link to S172 of the Companies Act.
- 9.3 The Board considered the draft response and made a number of suggested amendments including specific proposals on Remuneration Committee responsibilities, the Directors' Report and Large Private Companies. With regards to the cover letter to the response it was suggested the FRC should offer greater insight in to the experience it has of the issues that have been identified. In addition, in setting out how the FRC could respond it was suggested that where additional government involvement is necessary, for example on resourcing and / or powers, this should be noted.
- 9.4 Mr Styles undertook to revise the draft response to reflect the discussion and to circulate the response cover letter to the Board for approval by email. The Board agreed that the detailed response be finalised by the Chairman, Chief Executive and the Executive Director of Corporate Governance and Reporting. Mr Styles also undertook to commence initial discussions with relevant stakeholders on a wider review of the Code.

b. FRC as Competent Authority

- 9.5 Ms McLaren introduced a report that set out what the FRC has done in respect of its Competent Authority (CA) responsibilities since June 2016. Ms McLaren reported that, following consideration of a similar, detailed report, the Conduct Committee had concluded that the CA duties had been sufficiently discharged. The Board discussed what more the FRC could do with its CA status in pursuit of the objective of improving justifiable confidence in audit and noted the paper being prepared for discussion in March would explore this further.
- 9.6 Ms McLaren reported that, in due course, the Government would assess how effective the FRC had been in discharging its duties. In noting that the self-assessment approach is, to a certain extent limited to measuring compliance, the Board supported a proposal that a formal project be established to conduct a review of the effectiveness over the remainder of the 2016/19 strategy period. It was suggested that to complement that review the FRC might wish to explore whether there would be scope for peer review.
- 9.7 In noting the support of the Conduct Committee, and confirmation from the General Counsel, the Board concluded that the FRC had fulfilled its Competent Authority responsibilities since June 2016.

c. Professional Oversight Activities Report

- 9.8 Ms Dickson introduced a report on progress of the Professional Oversight Team's (POT) statutory and non-statutory oversight work in relation the audit, actuarial and accountancy professions, together with an update on other ongoing activities in relation to 2016/17.
- 9.9 The Board welcomed the report and the level of detail provided. Through discussion the Board suggested the FRC should, where shortcomings of failures have been identified, be firm in establishing a timeframe within which an improvement should be expected. It was also suggested that, future reports to the Board on progress should include detail on how those short comings and / or failures have been addressed.

d. FRC Culture and People Strategy

- 9.10 Ms Vegro introduced a report that provided an update on views relating to FRC Culture and sought input on the scope and content of the project to review the FRC's Culture and wider People strategy.
- 9.11 In noting the growth of the FRC, both in terms of size and responsibilities, the Board supported the review and the initiatives that had been launched. Whilst the Board welcomed the broad thrust of proposals but suggested that further work to ensure an alignment between the people strategy and the organisation's overarching strategy be undertaken. Once the culture and strategy are clear, a plan as to how that strategy will be achieved is needed.
- 9.12 Ms Vegro undertook to reflect on the discussion and to prepare a paper for the Board to consider in due course.

e. FRC Classification

- 9.13 Ms McArthur introduced a paper setting out progress on the issue of FRC Classification. The Board considered the analysis of the recommendation from the Office for National Statistics (ONS) and the consequential decision of HM Treasury to classify the FRC as a Central Government body.
- 9.14 Discussion included the current Central Government classification and the possibility of the FRC being classified as a Public Non-Financial Corporation. The Board agreed the FRC should formally confirm a request for consideration as a Public Non-Financial Corporation in writing to BEIS. Should the FRC be unsuccessful in its request the matter would be brought back to the Board for consideration.

f. FRC Risk Report

- 9.15 Mr Andrews introduced the FRC risk register and reported that the register had been updated to reflect views expressed at the December meeting. The Board reviewed the risk register and noted where there had been changes in risk scores and the explanation for those changes.
- 9.16 The Board noted that the Audit Committee would, at its February meeting, review the risk register in detail and confirm the FRC's principal risks. It was agreed that the Board would discuss in detail the risks identified by the Audit Committee at the March Board meeting.

10 FOR INFORMATION

a. Senior Investor Breakfast

- 10.1 The Board noted a minute of the November 2016 Senior Investor Breakfast meeting.

b. Outline Board calendar 2017 and 2018 dates

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

11 ANY OTHER BUSINESS

- 11.1 It was noted that Carl Renner had accepted the role of Chief Executive at the IFIAR Secretariat based in Tokyo. The Board congratulated Carl on his appointment.

12 NEXT MEETING

- 12.1 Thursday 9 March at 9am.

Chairman