

Financial Reporting Council

Minutes of a meeting of the Board of Directors of the Company
held on 14 April 2016 at 8th Floor, 125 London Wall

PRESENT:	Sir Winfried Bischoff	Chairman
	Gay Huey Evans	Deputy Chairman
	Stephen Haddrill	Chief Executive (by phone)
	Mark Armour	Non-Executive Director
	Sir Brian Bender	Non-executive Director
	David Childs	Non-executive Director
	John Coomber	Non-executive Director
	Elizabeth Corley	Non-executive Director
	Olivia Dickson	Non-executive Director
	Paul George	Executive Director, CGR (except minute 11.1)
	Ray King	Non-executive Director
	Nick Land	Non-executive Director
	Roger Marshall	Non-executive Director
	Melanie McLaren	Executive Director, Audit (except minute 11.1)
	Keith Skeoch	Non-executive Director
IN ATTENDANCE:	Anne McArthur	General Counsel and Company Secretary (except minute 11.1)
	Tracy Vegro	Executive Director of Strategy & Resources (Except minute 11.1)
	Rossella Pagano	Board Secretary
	Hanif Barma	Independent Audit (Item 3a)
	Clare Chalmers	Independent Audit (Item 3a)
	David Andrews	Head of Organisational Development (Item 6a)
	Mark Babington	Deputy Director of Audit Policy (Item 7b)
	Graham Clarke	Finance Director (Item 6a)
	Robert Inglis	Project Director (Item 7a)
	Anne Muldoon	Director of Actuarial Policy (Item 7a)
	Gareth Rees	Executive Director, Enforcement (Item 4)
	David Styles	Director of Corporate Governance (Item 7b)
	Marian Williams	Director, Codes & Standards (Item 8a)

1 QUORUM AND OPENING OF MEETING

- 1.1 The Chairman noted that the meeting was quorate. He welcomed Ms Vegro, to her first Board meeting.

2 DECLARATION OF INTERESTS

The Chairman noted that, as previously notified, Mr King had become Chairman of Rothesay Holdco UK Limited and Rothesay Life Plc.

3 MINUTES

- 3.1 The Board approved the minutes of the meeting held on 3 March 2016 for publication.

Matters arising

- 3.2 The Board noted the matters arising.

4 CHAIRMAN'S AGENDA

Board Effectiveness Review

- 4.1 Mr Barma and Ms Chalmers introduced this item, summarising their findings and presenting their recommendations. In the ensuing discussions, the following issues were considered: (i) the management of strategic and reputational risks; (ii) the relationship between the Board and the Conduct Committee; (iii) the refinement of the risk framework and risk reporting, including the development of an assurance map, extending the role of the Audit Committee to undertake risk management oversight; (iv) the quality, and process prior to submission to the Board, of papers, in particular in relation to the Codes & Standards papers and consideration to be given on any changes in reporting following the implementation of the ARD; (v) the format and provision to the Board of management information, focus on financial performance and risk; (vi) ad hoc assessment of the value of presentations to Board meetings v. allocating more time for discussion; (vii) the approach and timing to horizon scanning; (viii) the approach to inductions and continuing education of Board and Committee members; (ix) the Board's consideration of the FRC own culture and a review of FRC values as part of the Board's agenda. The Board identified a number of issues to be discussed at a future Board Strategy Day.
- 4.2 Mr Barma and Ms Chalmers agreed to issue the final report. It was agreed that an action plan would be prepared based on the recommendations and be presented at the next Board meeting. The Chairman thanked Ms Chalmers and Mr Barma for their report.

5 CHIEF EXECUTIVE'S REPORT

- 5.1 Mr Haddrill introduced his report, which amongst other things provided some reflections on the previous year and the challenges ahead. The Board was also apprised on the discussions with BIS and the RSBs regarding the implementation of the ARD; Ms McArthur would give the latest position later in the meeting.
- 5.2 Mr Rees, Executive Counsel, reported on the progress of the preliminary enquiry initiated in January under the Accountancy Scheme into KPMG in respect of its work on HBOS for the year ended 31 December 2007, noting that under the Accountancy Scheme the decision on whether or not to investigate rested with the Conduct Committee on the basis of the findings of the Executive Counsel. The Board's discussion focused on its interaction with the Conduct Committee and the process of the preliminary enquiry. It was also noted that an enhanced formal reporting on Conduct activities was being developed. It was agreed that any public statement arising from the preliminary enquiry would be submitted to the Board in a timely manner.

6 COMMITTEE CHAIR REPORTS (Part 1)

a. Report from CSC meeting of 16 March 2016

- 6.1 The minutes of the Codes & Standards Committee (CSC) meeting were taken as read.

b. Report from CC meeting of 17 March 2016

- 6.2 Mr Childs highlighted the significant issues discussed at the Conduct Committee meeting. The Board discussed the reporting of the Conduct activities; it was agreed to discuss the development of the format and frequency of an enhanced form of reporting from each of the function areas, including oversight and enforcement, at the next Board Strategy Day.

7 FOR AGREEMENT

a. Plan & Budget and Levy 2016-2017

- 7.1 Mr Clarke introduced the item. It was reported that, following receipt of the responses to the consultation on the Draft Plan & Budget 2016-2017 published in December 2015, a review was undertaken of the assumptions on which the budget had been based which

led to the revisions of the rebalancing of contributions over the 3 year period, as set out in the paper.

- 7.2 In the discussion that followed, the Board made a number of observations and in particular: (i) suggested that the plan should be more specific about the drivers and the context around the case for increased funding and the building of reserves, including, amongst other things, increased statutory responsibilities; (ii) made some minor drafting points on the press notice; (iii) suggested that consideration be given to developing a model as to how the effectiveness indicators outlined in the paper would be objectively assessed and measured, including by reference to trends on corporate governance, voting at AGMs, for example. In the discussion, the Board made a number of drafting comments.
- 7.3 The Board agreed with the expenditure and funding proposed in the paper, delegating the final sign off of the Press Notice and the FRC 2016-2017 Plan and Budget to the Chairman and Chief Executive Officer, for publication. In addition, the Board confirmed that the target level of reserves at six months of core expenditure remained appropriate and prudent. The Board also affirmed its agreement to seek a renewed commitment from BIS to invoke the reserve powers to introduce a statutory levy should this be necessary.

8 FOR BOARD APPROVAL AND ISSUE

b. Technical actuarial standards: approval of new framework TAS 100 and of consultation on specific TASs

- 8.1 Ms Muldoon introduced this item that had been considered by the Actuarial Council and Codes & Standards Committee. Referring to the paper, Ms Muldoon explained that the TAS 100 would replace the three existing Generic TASs on data, modelling and reporting. The Board's attention was drawn to the two most significant changes to the exposure draft of TAS: (i) changes to the definition of 'actuarial work'; (ii) the change introduced to limit the requirement for a compliance statement to work reserved by regulation to actuaries, work in the scope of Specific TASs and work which is central to a significant decision by the user. The Board discussed instances where a non-actuary states compliance with TAS 100 and how the FRC planned to exercise oversight in this regard.
- 8.2 In addition Ms Muldoon ran through the key highlights of the proposed consultation on Specific TASs on Insurance, Pensions and Funeral Plans. She drew the Board's attention to the key changes to the scope of the Specific TASs that had been determined through a risk assessment process, developed to identify work that affected the public interest that was also part of consultation.
- 8.3 The Board, on the recommendation of the Codes and Standards Committee and on the advice of Actuarial Council, agreed to issue:
 - (i) a feedback statement in response to our November 2014 consultation *A new framework for Technical Actuarial Standards*, that includes review drafts of the *Framework for FRC technical actuarial standards* and the new generic technical actuarial standard TAS 100; and
 - (ii) a consultation on revised Specific Technical Actuarial Standards (Specific TASs) for work where there is a high degree of public interest; the consultation is supported by a risk assessment of areas of technical actuarial work following a process previously agreed by the CSC.

c. Final Standards – Auditor ethics standards/Corporate Governance Code/Auditing Reporting Standards/Guidance to Audit Committees

- 8.4 Mr Babington introduced this item which comprised the final versions of the Ethical and Auditing Standards, the UK Corporate Governance Code and Guidance to the Audit Committees for the Board’s consideration and approval. He ran through the extensive consultation and outreach exercise conducted to ensure that all stakeholders had an opportunity to express their views. In addition, a through process of sign off had been followed which entailed submission and review of the proposed standards to the CSC, Audit & Assurance Council as well as to the Board Steering Group.
- 8.5 Mr Babington reported that the Auditing Standards had been uncontroversial given that the changes addressed the requirement of EU and UK (proposed) legislation. He reported that there had been more discussions surrounding the changes to the Ethical Standards, in particular to the revised Standard dealing with auditor’s independence.
- 8.6 Mr Babington described the process of revisions and iterations with the Audit and Assurance Council in response to the feedback received from the consultations. He drew the Board’s attention to the fact that the most contentious areas had been dealt with in the revised Standards, in particular in respect of the prohibition of advocacy in respect of tax services, the prohibition on contingent fees for tax services, on the relief proposed for smaller and medium sized entities and on the assessment of independence of a network firm in a group engagement. The Board considered the risks associated with adopting a principle-based approach in developing the Standards and ways to mitigate or deal with those risks. Mr Land emphasised the work done by Mr Billing in revising the ethical standards and taking forward the FRC wider work on ethics over the last 3 years.
- 8.7 After consideration, the Board, on the recommendation of the Codes and Standards Committee, approved the revised Corporate Governance Code and Guidance on Audit Committees.
- 8.8 Following the advice of the Audit and Assurance Council and the recommendation of the Codes and Standards Committee, the Board approved: (i) the draft Feedback Statement and Impact Assessment, (ii) the revised International Standards on Auditing (UK and Ireland) and (iii) the revised FRC Ethical Standard.

9 FOR DISCUSSION

a. Update: Audit Regulation and Directive Implementation

- 9.1 Ms McArthur introduced this item, providing an update on the progress of each of the main work-streams and identifying the significant issues and challenges. The Board noted that the consultation document on the new Audit Enforcement Procedure had been issued. The Board was informed that work continued on developing the legislation with BIS. With regard to the delegations arrangements, the Board noted that discussions were ongoing with the professional bodies and steady progress was being made. The Board discussed the timetable in view of the EU referendum in June and the potential implications of a Brexit.

10 COMMITTEE CHAIR REPORTS (Part 2)

a. Report from Remuneration Committee meeting of 16 March 2016

- 10.1 Ms Corley summarised the discussions of the Remuneration Committee regarding the pay review 2016-2017 and the bonus awards for 2015-2016.

b. Report from Nominations Committee meeting of 2 March 2016

10.2 Having received a briefing by the Chairman at the last meeting, the minutes of the Nominations Committee meeting were noted.

11 OUTLINE BOARD CALENDAR 2016

11.1 The Board noted the outline Board calendar.

12 ANY OTHER BUSINESS

12.1 Ms McLaren informed the Board that a new AQR Director had been appointed.

12.2 Mr George informed the Board on how he proposed to deal with the on-going consultation regarding the disclosure of climate risk on businesses; he would bring back a proposal following the first round of consultation.

12.3 Ms Huey-Evans confirmed that she would lead the Chairman's performance assessment would report back to the next Board meeting.

13 NEXT MEETING

13.1 Thursday, 19 May 2016 at 9.00 am.