

## Financial Reporting Council

Minutes of a meeting of the Board of Directors of the Company  
held on Wednesday 8 June 2016 at 8<sup>th</sup> Floor, 125 London Wall

PRESENT:	Sir Winfried Bischoff	Chairman
	Gay Huey Evans	Deputy Chairman
	Stephen Haddrill	Chief Executive
	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, Conduct
	Ray King	Non-executive Director
	Nick Land	Non-executive Director
	Melanie McLaren	Executive Director, Audit
IN ATTENDANCE:	Anne McArthur	General Counsel and Company Secretary
	Tracy Vegro	Executive Director of Strategy & Resources
	Rossella Pagano	Board Secretary
	James Calder	Project Manager (items 2d and 2e)
	Kate Cobill	Assistant General Counsel (items 1 to 3c)
	Fiona Goh	Project Manager (items 2d and 2e)
	Dawn Dickson	Director of Professional Oversight (items 2c to 2e)
	John Grewe	Director of Audit Directive Implementation (items 1 to 3c)
	Marian Williams	Director of Audit (items 1 to 3c)
APOLOGIES:	Roger Marshall	Non-executive Director
	Keith Skeoch	Non-executive Director

### 1 DECLARATION OF INTERESTS

There were none.

### 2 FOR BOARD APPROVAL AND ISSUE

#### ***a. Audit Enforcement Procedure: Post-consultation feedback statement and revised procedure***

- 2.1 Ms McArthur introduced the item reporting on the responses received at the end of the 6-week consultation period for the Audit Enforcement Procedure (APE) and on the Conduct Committee Working Group discussions which had followed the close of the consultation period. Since Board papers had been sent out the CC Working Group had completed a further review of all the documentation and their recommended changes would be put through but there were no substantive changes to the Procedure and supporting documents.

- 2.2 In the ensuing discussion the following issues were considered: the treatment of financial penalties; proposed commitment to review the APE after 18 months of implementation; the concern raised by the bodies with regard to the misalignment of the audit and accountancy schemes. With regard to the latter, it was anticipated that the discussion would continue after 17 June 2016. The Board noted that the AEP was submitted to the Board for approval, subject to the changes identified by the CC Working Group and any changes pursuant to the Parliamentary debates on the implementing legislation scheduled for the following week.
- 2.3 In addition, the Board noted that all ARD-related documents were planned for publication on 17 June 2016 given the requirement for the UK competent authority to have proper arrangements in place by that date.
- 2.4 After due consideration, the Board approved the Audit Enforcement Procedure and Appendices to the Audit Enforcement Procedure in the form outlined in the paper (Appendices 2 and 3) and the Feedback Statement (Appendix 1), for publication on or before 17 June 2016, subject to any minor changes agreed by the Conduct Committee Chairman.

***b. FRC Governance***

- 2.5 Ms McArthur introduced the item, explaining that a number of changes were required to the Governance Bible and Articles of Association to ensure compliance with the provisions of the ARD. The documents had been reviewed and updated to reflect the FRC's own codes and guidance and recommended practices. Ms McArthur also pointed out that a number of points raised by the Board in previous discussions had been addressed in the revisions, in particular the separation of functions and conflicts of interest. Ms McArthur commented that the restriction on audit practitioners would apply not only to the Board but also to the Codes & Standards, Conduct and Case Management Committees and the new Enforcement Committee Panel; the restriction would not apply to the AQR Committee given its intended advisory role.
- 2.6 Ms McArthur pointed out that discussions with BIS and HM Treasury were on-going regarding the classification of the FRC and depending on the outcome of those discussions, further revisions to the Governance Bible might be necessary. Ms McArthur confirmed that she had carried out an assessment of the composition of the Board to ensure compliance with Article 32(3) of the Directive (i.e. that the Board comprised individuals knowledgeable in the areas relevant to statutory audit) and would provide a paper to the Nominations Committee.
- 2.7 In discussion Board members suggested a number of amendments to the draft Governance Bible and it was agreed that amendments to the terms of reference of the Remuneration Committee would be discussed further at a future meeting of the Committee.
- 2.8 The Board challenged the current governance framework structure; it was agreed that the operation, reporting and governance would be reviewed as part of a broader exercise with a view to streamline the governance framework structure and empowering the executive, building in the appropriate safeguards, as appropriate.
- 2.9 The Board approved the Governance Bible subject to the amendments discussed at the meeting to be signed off by the Chairman and Mr Haddrill and agreed to recommend to the Company the adoption of the proposed amended Articles of Association and to convene a general meeting of the Company at short notice at the conclusion of the meeting.

***c. Delegations Arrangements***

- 2.10 Ms McArthur introduced this item and the draft temporary delegation agreement to document the transitional delegation arrangements to be put in place with RSBs, effective 17 June.
- 2.11 Ms McArthur informed the Board of the substantive points of these discussions had hinged mainly on ‘retained matters’. After due consideration, the Board agreed to approve in principle the temporary delegation agreement, subject to any amendments necessary following obtaining the final version of the Secretary of State Direction.
- 2.12 A longer term delegation agreement would be submitted to the Board, following further discussions with the RSBs on the outstanding issues.

***d. The EU Audit Regulation and Directive (ARD) pre-implementation review of Recognised Supervisory Bodies (RSBs) procedures***

- 2.13 Ms Dickson introduced the paper explaining that the approach and methodology adopted by the oversight team sought to ensure that the bodies had practices and procedures in place as required by the revised legislation. Ms Dickson stated that the assessment had considered the practices and procedures contained in the bodies’ own rulebooks and it was noted that the RSBs were expected to adopt necessary changes to their rulebooks in time for implementation and delegation on 17 June.
- 2.14 After due consideration the Board agreed to the continuation of the RSBs Schedule 10 recognition. The Board also noted that the RSBs had not yet paid the FRC’s Q1 funding and that if the funding was not paid then they would revisit the decision.

***e. FRC Eligibility Criteria for statutory auditors***

- 2.15 Ms Dickson introduced the paper explaining that the determination of the eligibility criteria was a regulatory task set out in the ARD and that it had been agreed that the FRC would determine the criteria which would be applied by the RSBs in performing the registration task in accordance with the delegation agreements. The Board approved the Eligibility Criteria for publication.

***f. ARD: Miscellaneous Procedures***

- 2.16 Ms McArthur introduced the paper which tabled for approval various processes and a publication policy in relation to specific decision making responsibilities under the ARD in relation to the audits of PIEs, namely: (i) exemption from 70% non-audit services cap; (ii) extension of the audit engagement by up to 2 years; (iii) determination of start date of an audit engagement; and (iv) application to court for the dismissal of the statutory auditor of a PIE where there are proper grounds.
- 2.17 The paper outlined the process for each decision. It was noted that although there was no obligation within the ARD, for the sake of transparency, it was recommended that decisions would be published; accordingly, a publication policy for each of the first three decisions has been prepared for the Board’s consideration. It was noted that the policy reflected the fact that any publication should not include commercially sensitive information. After discussion, the Board approved the procedures and the publication of the policy, subject to a minor amendment.

***g. Audit Register Instrument***

- 2.18 Ms McArthur introduced the item, referring to the paper that comprised the FRC Legal Instrument which set out the requirements for the maintenance of the Audit Register in the UK, and a short Explanatory Note. The Board noted that whilst there had been no public

consultation on the instrument, substantive changes to the current regime were not involved and the FRC was consulting with the RSBs and with BIS.

- 2.19 The Board approved the FRC Legal instrument subject to final approval and signature by the Chairman following the consultations referred to above.

***h. Approval of licensing agreement for adoption of FRC auditing standards by Irish Competent Authority***

- 2.20 Ms McLaren introduced the paper that summarised previous discussions with the IAASA and DJEI regarding the FRC as standard setter in Ireland and sought the Board's approval to put a licensing agreement in place to allow IAASA (the designated Irish competent authority) to use FRC material and adapt them to suit Irish circumstances as necessary.

- 2.21 The Board discussed the basis of the proposed arrangement, in particular the fee. The Board agreed in principle to setting up a licensing agreement between the FRC and IAASA covering the use of FRC audit-related costs, standards and guidance in Ireland. In addition, the Board agreed to continue with an Irish member on, and IAASA observer to, the Audit and Assurance Council.

**3 FOR DISCUSSION**

***a. Update: Audit and Regulation Directive Implementation***

- 3.1 Ms McArthur provided an update on the main ARD work-streams, challenges and issues still outstanding in connection with the ARD implementation. The Board sought clarification with regard to certain aspects of AQR and in particular noted the intention of establishing a Technical Advisory Group to support the executive in the analysis of technical issues and which would comprise members appointed by the Council.

***b. Update on discussions with HMT and BIS about classification***

- 3.2 Ms Vegro introduced the paper. The Board noted that in reviewing the FRC classification in the light of the ARD, a debate with HM Treasury regarding the FRC status had reopened. It was noted that the discussion on this matter was at an early stage.

***c. Delegations arrangements - Presentation***

- 3.3 Ms McArthur and Ms Cobill gave a presentation on the development of the delegation arrangements with the RSBs.

**4 BREXIT**

- 4.1 Ms Vegro gave an update on the FRC communications strategy depending on the outcome of the referendum. It was agreed that Ms Vegro would circulate the revised drafts to the Board.

**5 REPORT FROM THE REMUNERATION REPORTING SUB-GROUP**

- 5.1 Ms Haddrill reported that following the latest news headlines on executive compensation, a sub-group comprising of FRC and stakeholders/investors was established; although the FRC had no statutory powers the group was formed in response to stakeholders call for the FRC to get involved. The Board suggested to consider the alignment between stakeholders' perceptions of the role of the FRC, the FRC's activities to build trust and confidence in the UK market and the effectiveness of the FRC strategy as topics for the next Away-Day.

**6 ANY OTHER BUSINESS**

- 6.1 Ms Huey-Evans reported that, following the completion of the Chairman's performance assessment and discussion by the Board, a recommendation to the Secretary of State for the re-appointment of Sir Win as Chairman of the Board would be made accordingly.
- 6.2 In response to a query, the Board was informed that the BHS matter would be considered by the Conduct Committee on 21 June 2016.

**7 NEXT MEETING**

- 7.1 Thursday 30 June 2016 at 9am.

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Chairman