

Financial Reporting Council

**Minutes of a meeting of the Board of Directors of the Company
held on 9 March 2017 at the FRC, 8th Floor, 125 London Wall, EC2Y 5AS**

PRESENT:	Sir Winfried Bischoff Gay Huey Evans Stephen Haddrill Mark Armour Sir Brian Bender David Childs John Coomber Elizabeth Corley Olivia Dickson Paul Druckman Paul George Ray King Nick Land Roger Marshall Melanie McLaren Keith Skeoch	Chairman (excluding item 4.3) Deputy Chairman (excluding item 4.3) Chief Executive (to item 10.6) Non-Executive Director Non-Executive Director Non-executive Director Non-executive Director Non-executive Director Non-executive Director Non-executive Director Non-executive Director Executive Director, CGR (to item 10.6) Non-Executive Director Non-executive Director Non-executive Director Executive Director, Audit (to item 10.6) Non-executive Director (to item 5)
IN ATTENDANCE:	Francesca Carter Anne McArthur Tracy Vegro David Andrews Rebecca Smart Jenny Chandler Ufuk Cengiz Marian Williams Claire Lindridge Mark Babington Anthony Appleton Jenny Carter Gareth Rees Emma Stewart Dan Rouse	Board Secretary (to item 10.6) General Counsel & Company Secretary (to item 10.6) Executive Director, Strategy & Resources (to item 10.6) Head of Organisational Development (item 5a) Risk Manager (item 5a) Head of HR (item 5b) Economist (item 5b) Director of Audit (item 5b) Assistant Director, AQR (item 6a) Deputy Director of Audit Policy (item 6b) Director, Accounting & Reporting Policy (item 7) Director of UK Accounting Standards (item 7) Executive Counsel (item 8a) Lawyer (item 8a) Lawyer (item 8a)

QUORUM AND OPENING OF MEETING

The Chairman opened the meeting and noted that the meeting was quorate.

1 DECLARATION OF INTERESTS

- 1.1 The Board noted that Stephen Haddrill had been appointed as a member of a group tasked with taking forward the Baroness McGregor-Smith report on race in the workplace.

2 MINUTES & MATTERS ARISING

- 2.1 The Board approved the minutes of the meeting held on 2 February 2017 for publication.

2.2 The matters arising log was noted.

3 CHIEF EXECUTIVE'S REPORT ON KEY ISSUES

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

- *On the Green paper.* Mr Haddrill reported that he and the Chairman were due to meet with the BEIS Minister, Margot James in April to discuss the proposals and that the BEIS Select Committee continues to seek advice from the FRC on a range of issues.
- *On the review of the Corporate Governance Code.* The announcement of the review had attracted considerable attention and offers of assistance. A phased outreach programme was being developed involving a range of stakeholders including FTSE chairmen, investors, regulators, professional bodies and civil society groups.
- *On powers with respect to directors.* The executive are working with the Insolvency Service and FCA to identify gaps in the regulatory framework.
- *On the proposal for a Code for private companies and associated monitoring.* The Board discussed and supported proposals to work with the IoD to identify a business solution but stressed that other organisations should also be involved. A report considered by the Codes & Standards Committee in respect of the governance of private companies would be brought to the Board for discussion in April.
- *On the requirements of the Stakeholder Rights Directive.* Whilst the Board noted that it had been suggested by some that the FRC should be responsible for monitoring reporting by proxy agents, the Board did not consider that the FRC should seek to take on the responsibility.
- *On Audit Quality.* The Board noted the 2016/17 AQR cycle is drawing to a close. The Board would receive a presentation on the process and its findings at a forthcoming meeting. The Board discussed the preliminary findings and the process for escalating matters within a firm.
- *On Monitoring.* The Board commented on reports in the press in relation to Mitie and received a summary of the FRC's monitoring of Mitie to date.
- *On the draft FRC Plan & Budget 2017/18.* Mr Haddrill reported that 14 responses had been received to the consultation on the draft Plan & Budget for 2017/18 (the 'Plan'). The responses were largely supportive, no significant challenges had been put forward and respondents had highlighted the importance of the FRC's corporate governance agenda. Mr Haddrill reported that one theme that had emerged was the need to review the continuing role of the annual report and this would be reflected in the finalised Plan. On the basis of the consultation feedback, the Board authorised the Chairman, the CEO, the Chairman of the Conduct Committee and the Chairman of the Audit and Codes & Standards Committee to approve the FRC Plan & Budget 2017/18 for publication.

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

4 CHAIRMAN'S AGENDA

a. Board appointments

4.1 The Board considered a nomination put forward by the Independent Assessor and approved the appointment of Mark Zinkula as an FRC Board Member for a 3 year term commencing on 1 April 2017.

4.2 The Chairman answered a number of questions regarding diversity and the considerations of the panel in this respect during the appointment process. Following

discussion it was agreed that future recommendations to the Board in respect of appointments make specific reference to the FRC Board Diversity policy and provide an explanation of any departure from that policy.

b. Secretary of State Appointments

4.3 The Board:

- i. Noted the Secretary of State reappointment of Sir Winfried Bischoff as Chairman of the FRC Board for a second term of three years (to 30 April 2020).
- ii. Noted the Secretary of State reappointment of Gay Huey Evans as Deputy Chairman of the FRC Board for a second term of two years (to 30 April 2019).
- iii. Approved the reappointment of Sir Winfried as a Non-Executive Member of the FRC Board, as Chairman of the FRC Nominations Committee and as a Member of the Remuneration Committee for a second term of three years (to 30 April 2020).
- iv. Approved the reappointment of Gay Huey Evans as a Non-Executive Member of the FRC Board, Nominations Committee Member and Conduct Committee Member (to 30 April 2019).

c. FRC Board Composition

4.4 The Board considered a report that summarised preliminary views reached by the Nominations Committee in relation to the composition of the FRC Board. Through discussion it was agreed that the executive develop a number of recommended options for the Board to consider: the options presented should include consideration of the role and composition of the bodies in the governance structure below Board level.

4.5 The Board discussed the statement published in the FRC's Regulatory Approach relating to the FRC's remit and the public interest. It was suggested the executive review the statement.

d. FRC Board Diversity Policy

4.6 Ms McArthur introduced a draft FRC Board Diversity policy which had been prepared following a review of policies in both the public and private sector and with regard to the recommendations of the Parker and Hampton/Alexander Reviews. The Board considered whether the proposed objectives in relation to gender were sufficiently stretching. Following discussion it was agreed that the policy should include an aspirational target of equal numbers of men and women in Executive Committee and Senior Leadership Group.

4.7 Subject to the addition of the aspirational target the Board approved the draft Policy.

e. 2017 Effectiveness Review Findings

4.8 The Board considered the findings of the 2017 Board, Committee and Council Effectiveness reviews. Whilst the findings of the review were generally positive and suggested the individual bodies were working well, there were some areas of challenge in relation to the overall weight of the governance structure and Board composition and diversity.

4.9 The Board discussed the findings and made a number of suggestions including improving communication between bodies in the governance structure and improving the presentation of material to the Board and other bodies. It was agreed that the work on Board composition and the broader governance review be combined into one project. It was also agreed that, to support directors in fulfilling a more ambassadorial role, a short note summarising the FRC's role and key messages be prepared.

5 FRC MATTERS

a. FRC Risk Report – Principal risks

- 5.1 Mr Andrews introduced the Executive's views on the FRC's most significant risks. Mr Andrews reported that the list had been prepared following discussion with the Audit Committee and the Codes & Standards Committee and with input from external risk consultants.
- 5.2 The Board made the following observations and suggestions:
- Consideration should be given to the sequencing of the risks such to reflect the impact each risk could have on the FRC's ability to fulfil its mission.
 - Whilst the Board supported the broad categories of risk, consideration should be given to the whether the headings of the categories were sufficiently clear and understandable.
 - Further consideration should be given to the risk relating to gaps in the framework for actuarial regulation.
 - The risks relating to audit were too broad and should be redefined to capture market related risks and risks to audit quality including as a result of increased non-audit work.
 - The risk relating to Brexit should be revised to reflect the risks of an economic slowdown.
- 5.3 Subject to the amendments discussed the Board agreed that the risks identified should form the basis of the Statement of Principal Risks to be included in the FRC Annual Report & Accounts for the year ended 31 March 2017.

b. CEO Report on FRC Culture

- 5.4 Mr Haddrill introduced a report that set out the Executive Committee's assessment of the culture of the FRC and proposals for its development. Mr Haddrill reported that there is an appetite for change amongst staff, as evidenced by the recent staff survey and the all staff event, and that to be successful, the programme must be a shared endeavour between the senior executive, staff and those in governance roles.
- 5.5 The Board considered the proposals and supported the overall approach. The Board:
- Welcomed the proposal to develop the vision in consultation with staff and the People Forum and to adopt both a bottom up and top down approach.
 - Commented on the strengths of the existing culture and highlighted the importance of ensuring those strengths are retained and built on.
 - Highlighted the need to ensure the vision is linked to purpose and that there is a clear link across from the vision to day-to-day activities
 - Discussed the need for a greater performance orientated culture and supported proposals to strengthen links between culture and the performance review process.
 - Supported the view that the FRC should seek to be as efficient as possible but cautioned against using efficiency as a key factor in taking forward the culture programme.
 - Highlighted the important role members of the Executive Committee and Senior Leadership Group will play in successfully delivering the change programme in terms of ensuring consistent messaging, demonstrating the desired behaviours and in acknowledging and celebrating changes as they occur.
 - Commented that as leaders of the organisation the Executive Committee and Senior Leadership Group will have a role to play in helping staff negotiate any inherent tensions between the values.
 - Commented on the need to align the governance review with the change programme.

- 5.6 The Board discussed mechanisms for measuring changes to the culture of the FRC and supported the establishment of a Board working group to monitor progress.

6 AUDIT

a. Promoting Justifiable Confidence in Audit – Large PIE Audit Firms

- 6.1 Ms McLaren introduced a report that set out proposals for the development of the FRC's approach to the regulation of large PIE audit firms, taking in to account our legal responsibilities and market risks.
- 6.2 The Board considered the report and the proposed building blocks that would underpin the strategy; the Board supported the proposed approach. The Board asked for a paper that set out the powers available to the FRC and to be taken through an example of how the FRC currently monitors firms and how this would change under the proposed approach.
- 6.3 Through discussion it was suggested the executive draw on the experience of other regulators, for assistance and advice in developing the strategy.
- 6.4 Various drafting suggestions were made in relation to the letter to be issued to larger firms resetting risk reporting expectations: a further draft would be discussed with the Chair of the Conduct Committee.

b. Revising ISA (UK) 250 – Consultation for approval

- 6.5 Mr Babington introduced an exposure draft and draft consultation on revisions to ISA (UK) 250 - Consideration of Laws and Regulations in an audit of financial statements. Mr Babington reported that the consultation responded to a revised version of ISA 250 issued by the IAASB which made limited amendments to the standard to address inconsistencies of approach between the non-compliance with laws and regulations (NOCLAR) provisions in the revised IESBA Code (issued in July 2016) and the ISAs. The Board noted that, as the amendments were limited in their scope and designed to align the UK standard with the IAASB standard a slightly truncated consultation period of 11 weeks was proposed.
- 6.6 The Board considered the documents presented and the proposed outreach and engagement programme. On the advice of the Audit & Assurance Council and the Codes and Standards Committee the Board approved for issue the exposure draft and consultation document for the revised ISA (UK) 250, and the proposed consultation questions.
- 6.7 The Board supported proposals for a review of the handling of technical, non-contentious standards in the future with a view to streamlining processes.

7 CORPORATE REPORTING

a. FRED 67 Draft amendments to FRS 102 Triennial Review – for approval

- 7.1 Ms Carter introduced FRED 67 which set out proposed incremental improvements and clarifications to address the issues raised through the Triennial Review. Ms Carter reported that the proposals are uncontentious. They offer simplification in accounting requirements, improve the usability of the standard and would be more cost-effective than the existing requirements.
- 7.2 The Board reviewed the exposure draft and having regard to the length of the document relative to the limited scope of amendments suggested that the press notice draw

attention to the summary of key changes document and highlight that the amendments are intended to assist preparers.

- 7.3 On the advice of the Corporate Reporting Council, and the recommendation of the Codes and Standards Committee, the Board approved the issue of FRED 67 Draft amendments to FRS 102 – Triennial review 2017 – Incremental improvements and clarifications for consultation.

8 ENFORCEMENT

a. Enforcement Review

- 8.1 Mr Rees introduced a report that set out the findings of a review undertaken to identify specific factors which negatively impact the speed and efficiency of case examination, investigative and disciplinary processes and proposed recommendations for change.
- 8.2 The Board welcomed the report and supported the direction of travel. Through discussion it was noted that a number of the recommendations arising from the review had already been implemented and that, once the full suite of recommendations had been implemented and become embedded, an average global reduction of between 15-20% in time taken to serve an Initial Investigation Report or Formal Complaint could realistically be expected.
- 8.3 The Board discussed a recommendation in relation to settlement arrangements and suggested the matter be considered as part of the Sanctions review.

b. Sanctions Review

- 8.4 Ms McArthur introduced a report that provided an update on progress with the Sanctions Review. The Board reviewed the report and noted there had been some delay in identifying appropriate panel members to support the panel chair.
- 8.5 The Board reviewed the draft announcement and, subject to some drafting suggestions approved the announcement for publication.
- 8.6 The Board noted that the review had been referenced in the consultation on the draft Plan & Budget 2017/18 and requested that an update on the review, to include the timetable, be presented to the Board in April.

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.

10 COMMITTEE CHAIR REPORTS

a. Report from the Conduct Committee

- 10.1 The Board noted draft minutes of the Conduct Committee meeting held on 14 February 2017.

b. Report from the Audit Committee

- 10.2 The Board noted draft minutes of the Audit Committee meeting held on 15 February 2017.

c. Report from the Codes & Standards Committee

- 10.3 The Board noted draft minutes of the Codes & Standards Committee meeting held on 22 February 2017.

d. Report from the Nominations Committee

- 10.4 The Board noted draft minutes of the Remuneration Nomination Committee meeting held on 1 March 2017.
- 10.5 On the recommendation of the Committee the Board approved the appointment of Emmy Labovitch as a Member of the Conduct Committee for a three year term commencing 1 April 2017.

e. Report from the Remuneration Committee

Secretary's note - The Executive left the meeting for this discussion.

- 10.6 The Board noted an oral report of the Remuneration Committee meeting held on 1 March 2017 December.
- 10.7 The Board considered a set of recommendations from the Remuneration Committee relating to the 2016/17 bonus awards and 2017/18 salary review for individual members of the Executive Committee. Following detailed discussion the Board approved the recommendations of the Committee.

11 ANY OTHER BUSINESS

- 11.1 There was no other business.

12 NEXT MEETING

- 12.1 Wednesday 26 April 2017 at 9am.

Approved 26 April 2017