

Financial Reporting Council

Minutes of a meeting of the Board of Directors of the Company held on 19 September 2018 at the FRC, 8th Floor, 125 London Wall, EC2Y 5AS

PRESENT:	Sir Winfried Bischoff	Chairman
	Gay Huey Evans	Deputy Chairman
	Mark Armour	Non-Executive Director
	Sir Brian Bender	Non-Executive Director
	David Childs	Non-Executive Director
	John Coomber	Non-Executive Director
	Olivia Dickson	Non-Executive Director
	Paul Druckman	Non-Executive Director
	Stephen Haddrill	Chief Executive Officer
	Nick Land	Non-Executive Director
	Roger Marshall	Non-Executive Director
	Keith Skeoch	Non-Executive Director (from item 5)
	Julia Unwin	Non-Executive Director
	Jenny Watson	Non-Executive Director (to item 9)
Mark Zinkula	Non-Executive Director	
IN ATTENDANCE:	Francesca Carter	Board Secretary
	Mario Dunn	Director, Strategic Communications
	Paul George	Executive Director, Corporate Governance & Reporting
	Anne McArthur	General Counsel & Company Secretary
	Mike Suffield	Acting Executive Director, Audit & Actuarial Regulation
	Tracy Vegro	Executive Director of Strategy & Resources
	Claudia Chapman	Policy Advisor (item 7 only)
	James Ferris	Project Director (item 10 only)
	Mark Babington	Deputy Director of Audit Policy (items 9 & 10)
	Tom Barrett	Technical & Quality Director (item 10 only)
APOLOGIES:	There were no apologies.	

1. QUORUM AND OPENING OF MEETING

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

2. DECLARATION OF INTERESTS

- 2.1 The Board noted Jenny Watson had been appointed as Chair of the National Online Self-Exclusion Scheme and would be taking on an appointment as a Non-Executive Director of the Reclaim Fund in October. Both appointments had been considered and approved by the Nominations Committee.

3 MINUTES & MATTERS ARISING

- 3.1 The Board approved the minutes of FRC Board meeting held on 4 July 2018 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 points and observations:
- *Independent review of the FRC.* The Board noted Sir John Kingman and the advisory team continue to meet with members of the executive to develop their understanding of the work of the FRC and Sir John had attended a meeting of the FRC's People Forum. The call for evidence had received over 100 responses and a report was due before the end of the year.
 - *Public body status.* The Board noted the FRC's exact classification as a public body had been deferred pending the Independent review of the FRC. Whilst some progress had been made in discussion with BEIS and HMT on the FRC's long term pay strategy, there continued to be delays in agreeing pay arrangements for 2018/19.
 - *Audit firm competition.* The Board discussed audit firm competition and whether the FRC should have seek powers in this regard. A paper would be presented to the Board in October for discussion.
 - *Thought leadership.* The Board noted work on two thought leadership projects was underway. A discussion paper on Stewardship was on the agenda for discussion and a project plan on the Future of Corporate Reporting would be presented to the Board in October meeting for consideration.
- 4.2 The Board noted updates from the Acting Executive Director, Audit & Actuarial Regulation and the Executive Director, Corporate Governance & Reporting.

5 OPERATIONS REPORT

- 5.1 Ms Vegro introduced a report on the FRC's operational responsibilities as a public body and general operational matters.
- 5.2 The Board noted the Government Internal Audit Agency had reviewed the FRC's compliance with the requirements of HM Treasury's Managing Public Money guidelines. A small number of recommendations had been made and actions to respond agreed; it was expected the FRC would be fully compliant before the end of the year.
- 5.3 The Board also noted that the FRC continues to work closely with BEIS on the legislative framework for EU exit to ensure the FRC is able to continue to deliver its regulatory responsibilities effectively, and with appropriate resources, post Brexit.

6 AMENDMENTS TO THE CODE OF CONDUCT

- 6.1 The Board considered proposed amendments to the FRC Code of Conduct applicable to Board, Committee and Council Members in relation to the publication of a Gifts & Hospitality Register and the Register of Interests.
- 6.2 A number of queries were raised in relation to the content of the published Gifts & Hospitality Register and disclosure requirements going forward. It was agreed that a clarification note would be circulated in response to the queries raised with the objective of publishing the Gifts & Hospitality Register in October.
- 6.3 The Board supported, in principle, proposed amendments to Code of Conduct in relation to disclosure of interests but requested some further work be undertaken before final approval.

7 STEWARDSHIP

- 7.1 The Board considered a paper inviting discussion on the purpose of stewardship and how the Stewardship Code might be revised to enhance corporate governance in the UK and to enable the UK to regain its position as world-leader in stewardship practice. The Board noted the discussion would inform the development of a consultation paper on changes to the Stewardship Code which would be presented at the October Board meeting.
- 7.2 There followed a detailed discussion on the changing landscape of capital markets, differences between asset managers, owners and shareholders in terms of objectives, responsibilities and rights, the role of the FRC and how stewardship is inextricably linked to corporate governance and the effectiveness of the UK Corporate Governance Code.
- 7.3 To inform the development of the draft consultation it was agreed that further consideration would be given to what 'good' stewardship looks like and what outcome should be expected from a revised Stewardship Code. It was also agreed the consultation should invite comment on whether the revised Stewardship Code should reflect wider public interest and environmental responsibilities.

8 FRC COMMUNICATIONS STRATEGY

- 8.1 The Board considered a report from the Head of Communications on his assessment of the effectiveness of FRC communications and a proposed communication strategy. The Board noted the analysis set out in the report and supported the strategy but requested the strategy be developed into a formal plan with targets against which performance could be tracked.
- 8.2 A small number of amendments and additions were suggested in relation to the proposed key messages and the Board highlighted the need to be sufficiently robust and prompt in responding to criticism and correcting misconceptions and / or errors. The Board also highlighted the need for clarity on what 'tone' should be used for differing communications and the importance of ensuring the communications team is engaged in FRC projects and publications from an early stage in order to successfully promote that work.

9 FRC MONITORING WORK

- 9.1 The Board considered a report that provided an update on key aspects of proposed changes to the FRC's approach to monitoring and a summary of changes that had already been implemented. The Board welcomed that steps to enhance the way in which the FRC's Corporate Reporting and Audit Quality Review (AQR) teams work together had been taken, that the AQR team had intensified its monitoring of the audit firms and consideration was being given to working more effectively with other Regulators. The Board also welcomed that a consistent approach to data gathering, analysis and the selection of companies had been implemented and identified additional sources of economic and financial data to consider.
- 9.2 The Board considered transparency of reporting on the FRC's monitoring activities, whilst it was noted a number of steps had been taken to enhance transparency in response to the 2016 effectiveness review were not considered sufficient. Following discussion the Board supported the proposal to explore the possibility of publishing summaries of CRR and AQR findings in relation to individual reviews at the conclusion of the monitoring work and also requested an opportunity to revisit the 2016 effectiveness review and the decisions taken.

10 DEVELOPMENTS IN AUDIT

- 10.1 The Board considered a draft of the FRC’s third annual Developments in Audit Report. It was noted the purpose of the Report was to highlight key themes and issues in relation to audit matters; the themes would be debated at an external stakeholder outreach event on 18 October.
- 10.2 It was suggested the executive summary could be strengthened by highlighting the importance of audit quality from a public interest perspective, ensuring the language is accessible to non-audit experts and by placing greater emphasis on the key findings and steps being taken by the FRC in response to those findings. A small number of drafting amendments and areas where it would be helpful to provide greater context were also identified.
- 10.3 The Board approved the Report for publication in October subject to the amendments discussed.

11 THE FUTURE OF AUDIT

- 11.1 The Board considered proposed action to take in the short and medium term to respond to FRC and stakeholder concerns in relation to the quality and relevance of audit and auditor independence. Following discussion the Board agreed to bring forward the post-implementation review of changes made to the FRC’s Audit and Ethical standards from 2020 to 2019 including projects on going concern, viability and on extending auditor reporting to include views on any optimism built in to financial judgements.
- 11.2 The Board also agreed that the Future of Audit project and the FRC project on the Future of Corporate Reporting should be driven by changing investor and user needs for information and the extent to which those require assurance.

12 ANNUAL REVIEW OF CORPORATE GOVERNANCE AND REPORTING

- 12.1 Mr George introduced an early draft of the FRC’s Annual Review of Corporate Governance and Reporting. The Board noted the draft brings together findings from external monitoring of corporate governance statements with the findings from CRR monitoring work, outreach and research activities.
- 12.2 The Board made a number of suggestions in relation to the overall structure of the document, including the length of the executive summary, and in relation to the balance of content on corporate governance versus corporate reporting. The Board also suggested the draft should be strengthened by expanding the section on findings beyond financial and to include actions that could be taken in response to the findings.
- 12.3 The Board agreed to delegate approval to publish the report to a small group comprising the CEO, the Executive Director, Corporate Governance & Reporting, the Chair of the Codes & Standards Committee and the Chair of the Conduct Committee.

13 CHARITIES SORP UPDATE BULLETIN 2

- 13.1 The Board approved the issue of the FRC Statement on the Charities SORP (FRS 102) Update Bulletin 2 *Amendments to Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities in preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland.*

14 COMMITTEE CHAIR REPORTS

Report from the Conduct Committee

- 14.1 The Board noted minutes of meetings of the Conduct Committee held on 19 June 2018 and 17 July and received an update on matters considered at a meeting of the Conduct Committee held on 11 September.

Report from the Remuneration Committee

- 14.2 The Board noted draft minutes of a meeting of the Remuneration Committee held on 28 August 2018.

Report from the Codes & Standards Committee

- 14.3 The Board noted minutes of a meeting of the Codes & Standards Committee held on 20 June 2018.

15 FORWARD PLAN

- 15.1 The forward plan was noted.

16 ANY OTHER BUSINESS

- 16.1 The Board approved an editorial correction to paragraph 2.9 of the FRC's Ethical Standard without consultation.

17 DATE OF NEXT MEETING

- 17.1 Wednesday 5 December 2018

Chairman