

## Financial Reporting Council

### Minutes of a meeting of the Board of Directors of the Company held on 4 July 2018 at the FRC, 8<sup>th</sup> Floor, 125 London Wall, EC2Y 5AS

PRESENT:	Sir Winfried Bischoff Gay Huey Evans Mark Armour Sir Brian Bender David Childs John Coomber Olivia Dickson Paul Druckman Stephen Haddrill Nick Land Roger Marshall Jenny Watson Mark Zinkula	Chairman Deputy Chairman Non-Executive Director Non-Executive Director (to item 11) Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director Chief Executive Officer (to item 14) Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director
IN ATTENDANCE:	Francesca Carter Mario Dunn Paul George  Melanie Hind Anne McArthur Tracy Vegro Catherine Horton David Styles Deepa Raval Debbie Crawshaw Marian Williams Gail Lamb Jenny Carter Dawn Dickson Tara Trousdale Mike Suffield Claudia Mortimore	Board Secretary Director, Strategic Communications Executive Director, Corporate Governance & Reporting Executive Director, Audit & Actuarial Regulation General Counsel & Company Secretary Executive Director of Strategy & Resources Policy Advisor (item 7) Director, Corporate Governance (item 7) Director of Narrative Reporting (item 8) Project Director (item 8) Director, Audit (item 9) Inspections Leader (item 10) Director, UK Accounting Standards (Item 11 only) Director, Professional Oversight (item 11 only) Finance Director (item 11 only) Director, Audit Quality Review (item 12 only) Interim Executive Counsel (items 4 & 13)
APOLOGIES:	Keith Skeoch Julia Unwin	Non-Executive Director Non-Executive Director

#### 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 There were no new declarations of interest.

### 3 MINUTES & MATTERS ARISING

- 3.1 The Board approved the minutes of FRC Board meeting held on 6 June 2018 for publication.
- 3.2 The matters arising log was noted.

### 4 CHIEF EXECUTIVE'S REPORT

- 4.1 Mr Hadrill introduced his report. Discussion included the following points and observations:
- *Publication of the FRC report on the audit of BHS.* The Board noted an update on the ruling of Mr Justice Nicklin and discussed next steps.
  - *Independent Review of the FRC.* The Board considered a draft FRC submission to the call for evidence and made a number of suggested amendments. A further draft would be circulated to the Board.
  - *IFRS Endorsement process post Brexit.* The Board noted an update on Government thinking in relation to the endorsement process and the possible creation of a UK IFRS Endorsement Board that would sit within the FRC. Whilst the Board welcomed the decision for the FRC to have such a significant role, a number of operational matters were identified as needing careful consideration, such as resourcing and questions relating to the appointments process. The Board also commented that, depending on the type of Brexit and related timetable, any arrangements might need to be “transitional” and that the outcome of the Independent Review of the FRC would also need to be considered.
  - *Future of Audit.* The Board noted an update on the Future of Audit Project. Ms Hind explained that the Audit Quality Forum – itself a coalition of the FRC, BEIS and the Profession – would be one of the co-leaders of the project and that the project would be led by an independent chair. The Board noted the update while Mr Land reiterated his concern on the proposed involvement of the Audit Quality Forum, believing that it was preferable that the project should be seen to be independent of the Profession.
  - *Leaks.* The Board discussed recent leaks in relation to FRC enforcement matters and noted steps taken to address the issue, including advice from the Cabinet Office on potential additional measures that could be taken.

### 5 CHAIRMAN'S AGENDA

- 5.1 The Chairman reported on matters considered by the Nominations Committee at its meeting on 13 June 2018. On the recommendation of the Nominations Committee the Board approved:
- i. the reappointment of David Cannon as a member of the Conduct Committee and Chair of the Audit Quality Review Committee for 1 year to 31 August 2019.
  - ii. the reappointment of Helen Jones and Sean Collins as members of the Conduct Committee for 3 years to 31 August 2021.
  - iii. the reappointment of Sue Harris as Chair of the Audit and Assurance Council and Codes & Standards Committee member for 3 years to 31 October 2021.
  - iv. the appointment of Philippa Hardwick as Chair of the Case Management Committee from 1 August 2018 to 31 March 2021 (to align with her membership of the Conduct Committee).
  - v. Amendments to the Terms of Reference for the Conduct Committee and Codes & Standards Committee to remove the requirement for the Executive Director – Audit & Actuarial Regulation and Executive Director – Corporate Governance and Reporting to be members of the respective Committees.

## **6 OPERATIONS REPORT**

- 6.1 Ms Vegro introduced a new report format on the FRC's operational responsibilities as a public body and general operational matters. Ms Vegro reported the Civil Service Pay Guidance had been published on 25 May and the FRC would submit its request for BEIS to approve the FRC's pay arrangements for 2018/19 shortly.
- 6.2 The Board noted a summary of the numerous Parliamentary Questions that had been submitted since last reporting in June and the FRC response to each. In addition, the Board noted an update on complaints received, the quarterly project and activities tracker report and the management accounts to 31 May 2018.

## **7 UK CORPORATE GOVERNANCE CODE AND SUPPORTING GUIDANCE**

- 7.1 Mr Styles introduced an updated draft revised UK Corporate Governance Code (the 'Code'), draft Guidance on Board Effectiveness and a draft Feedback Statement. The Board noted the Code had been updated to reflect feedback from the Board, the Codes & Standards Committee and the Chairman.
- 7.2 The Board welcomed the updated Code and agreed to delegate final sign-off and approval to publish the suite of documents to Sir Win, Stephen Haddrill and Paul George. It was noted the intention was to publish the suite of documents on 16 July; a launch event would be held at the FRC office on 18 July.

## **8 STRATEGIC REPORT GUIDANCE**

- 8.1 The Board reviewed a final draft of the updated Guidance on the Strategic Report and Feedback Statement. The Board noted the documents, including the revised S172 Guidance, had been considered by the Narrative Reporting Advisory Panel, the Corporate Reporting Council and the Codes & Standards Committee.
- 8.2 The Board noted the FRC had considered the objectives of the update and taken into consideration consultation responses and feedback from outreach activities to mitigate a potential risk that the updates would undermine the 2014 Guidance which is held in high regard. The Board also noted the FRC draft presented did not conflict with draft Guidance received from the GC100 on S172.
- 8.3 The Board agreed to proceed with publication of the Guidance and feedback statement attached subject to a review of whether the examples included in the draft Guidance could be strengthened.

## **9 FRC AS COMPETENT AUTHORITY**

- 9.1 The Board considered a report that set out how the FRC had discharged its role as the designated competent authority (CA) since the last report to the Board in January 2018. It was noted that the FRC has complied with the legislative requirements and has continued to perform the regulatory tasks set out in the designating legislation and overseen the Recognised Supervisory Bodies in their performance of the tasks delegated to them by the FRC. The report had been considered by the Conduct Committee who support the conclusion reached.
- 9.2 The Board concluded that the FRC has met its legal responsibilities as Competent Authority for Audit but suggested further consideration be given to whether more could be done to assess the effectiveness of Audit Committees. The Board also made some suggestions for the executive to consider in due course in respect of FRC audit and ethical standards for auditors.

## **10 AUDIT REGULATORY APPROACH: THE PCAOB**

- 10.1 Ms Lamb introduced a report on the FRC's work with the PCAOB and views on what the FRC could learn from the PCAOB. The Board noted that, whilst there is much commonality of approach and outcomes, differences arise from differing legal requirements and differing regulatory stances. The Board noted that the FRC was considering greater use of non-financial sanctions and welcomed the suggestion that the FRC should review its process for communicating with firms when drafting and finalising reports. It was considered that further discussion was desirable on the possibility of extending the FRC's geographical reach to review underlying component work outside the UK, particularly given implications for FRC resources. It was also noted that in several regards the PCAOB is seeking to learn from the FRC.

## **11 FRC ANNUAL REPORT & ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2018**

- 11.1 The Board reviewed the draft FRC Annual Report & Financial Statements for the year ended 31 March 2018 and made a small number of drafting amendments in relation to the Chairman's Statement, CEO report and the Stakeholder Engagement diagram. In relation to the Statutory Oversight Appendix, the Board noted amendments that were to be made to reflect changes since the Appendix had been drafted and noted that the bodies referenced in the Appendix had reviewed and agreed relevant extracts.
- 11.2 The Chairman of the Audit Committee confirmed the draft had been approved for recommendation to the Board by the Audit Committee and provided a report on the end of year audit process. On the recommendation of the Audit Committee the Board:
- i. Approved the FRC Annual Report and Accounts 2017/18 in the form attached at Appendix 1 – including the FRC's Statutory Oversight Responsibilities Statutory Appendix as recommended by the Conduct Committee - subject to any final editing of the Report approved by the CEO and Chairman;
  - ii. Approved the Letter of Representations attached at Appendix 2 and authorised the CEO to sign the Letter of Representations on behalf of the Board;
  - iii. Authorised the CEO to sign the Strategic Report, the Chairman to sign the Balance Sheet and the Company Secretary to sign the Directors' Report on behalf of the Board; and
  - iv. Authorised the Executive to submit the FRC Annual Report and Accounts 2017/18 to Parliament before the House rises on 25 July 2018.
- 11.3 The Board also agreed to recommend to the Company at its Annual General Meeting:
- v. the adoption of the FRC Annual Report and Accounts 2017/18;
  - vi. the reappointment of the external auditors haysmacintyre and to authorise the Directors to determine their remuneration.

## **12 FRC MONITORING WORK – UPDATE**

- 12.1 Mr Suffield introduced a report that provided an update on the FRC's monitoring work. The Board noted proposals for developing more systematic data-gathering across the FRC, to support central monitoring of systemically important companies, was under way. This would support more effective AQR and CRR scrutiny of companies and more effective working with other regulators. The Board welcomed the report and that detailed proposals would be presented to the Board at its meeting in September.

### **13 QUARTERLY ENFORCEMENT REPORT**

13.1 The Board considered a report that provided an update on the main activities of the Enforcement Division, including the status of live cases and concluded cases. There followed a detailed discussion on:

- i) progress in relation to the FRC's investigation of Carillion; the Board supported a programme of publishing regular updates on progress;
- ii) The Board received a report on actions to maintain resourcing levels and was pleased that HMT approval of the new Director of Enforcement had been obtained and that Elizabeth Barratt would be starting shortly.
- iii) the FRC's publication policy; the Board welcomed that the Conduct Committee would consider the FRC publication policy and that a report would be presented to the Board in due course.

### **14 COMMITTEE CHAIR REPORTS**

#### *Report from the Nominations Committee*

14.1 The Board noted draft minutes of a meeting of the Nominations Committee held on 13 June 2018.

#### *Report from the Remuneration Committee*

14.2 The Board noted draft minutes of a meeting of the Remuneration Committee held on 13 June 2018. On the recommendation of the Committee the Board agreed no change to the fees of non-executive directors but that the position would be kept under review.

#### *Report from the Conduct Committee*

14.3 The Board noted minutes of a meeting of the Conduct Committee held on 22 May 2018 and noted an oral report of matters considered and decisions taken at a meeting of the Conduct Committee held on 19 June 2018.

#### *Report from the Codes & Standards Committee*

14.4 The Board noted minutes of a meeting of the Codes & Standards Committee held on 23 May 2018 and noted an oral report of matters considered and decisions taken at a meeting of the Codes & Standards Committee held on 20 June 2018.

#### *Report from the Audit Committee*

14.5 The Board noted draft minutes of a meeting of the Audit Committee held on 18 June 2018.

### **15 FORWARD PLAN**

15.1 The forward plan was noted.

### **16 ANY OTHER BUSINESS**

17.1 The Chairman thanked Melanie Hind for her significant management contributions to the FRC and for input in to the deliberations of the Board since joining in 2012.

### **17 DATE OF NEXT MEETING**

17.1 Wednesday 19 September 2018