

Financial Reporting Council

Minutes of a meeting of the Board of Directors of the Company held on 6 June 2018 at the FRC, 8th Floor, 125 London Wall, EC2Y 5AS

PRESENT:	Sir Winfried Bischoff	Chairman
	Gay Huey Evans	Deputy Chairman
	Sir Brian Bender	Non-Executive Director
	David Childs	Non-Executive Director
	Olivia Dickson	Non-Executive Director
	Stephen Haddrill	Chief Executive Officer
	Nick Land	Non-Executive Director
	Roger Marshall	Non-Executive Director
	Keith Skeoch	Non-Executive Director
	Jenny Watson	Non-Executive Director
Mark Zinkula	Non-Executive Director	
IN ATTENDANCE:	Francesca Carter	Board Secretary
	Jenny Carter	Director, UK Accounting Standards
	Mario Dunn	Director, Strategic Communications
	Paul George	Executive Director, Corporate Governance & Reporting
	Melanie Hind	Executive Director, Audit & Actuarial Regulation
	Tara Trousdale	Finance Director
	Tracy Vegro	Executive Director of Strategy & Resources
	Anne McArthur	General Counsel & Company Secretary
	Jenny Chandler	Head of HR (item 6 only)
	Rebecca Smart	Risk and Assurance Manager (item 9 only)
	Mike Suffield	Director, Audit Quality Review (item 10 only)
	Mark Mainwaring	Technical & Quality Manager (item 10 only)
	Sian Barr	Project Director (item 11 only)
	Dawn Dickson	Director, Professional Oversight (item 11 only)
	Catherine Horton	Policy Advisor (item 12 only)
	David Styles	Director, Corporate Governance (items 14 & 15)
James Wates	Wates Group / (item 15 only)	
Cecilia Thorne	Head of International Relations (item 16 only)	
APOLOGIES:	Mark Armour	Non-Executive Director
	John Coomber	Non-Executive Director
	Paul Druckman	Non-Executive Director
	Julia Unwin	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 The Board noted Paul George had been approached to become a non-executive director role of Belvoir Lettings PLC, an AIM quoted company. The proposed role had been considered, and was supported, by the Nominations Committee.

3 MINUTES & MATTERS ARISING

3.1 The Board approved the minutes of FRC Board meetings held on 25 April 2018 and 25 May 2018.

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:

- *Audit Market concentration.* The Board noted an update on CMA considerations in respect of Audit Market concentration and a summary of a meeting between the FRC and the CMA on 31 May 2018.
- *FRC status.* The Board noted an update on discussions with BEIS in respect of pay and recruitment matters.
- *Enforcement.* The Board noted an update on progress on current enforcement cases.
- *Select Committee requests.* The Board noted Mr Haddrill had written to the chair of the BEIS Select Committee, Rachel Reeves, regarding gender pay reporting and Executive pay. An FRC response to the Joint Inquiry on Carillion was due on 4 July and a draft would be shared with the Board.
- *Independent review of the FRC.* The Board agreed the FRC should submit a formal submission to the Call for Evidence. A draft would be prepared for approval at the July Board meeting.
- *Future of Audit.* The Board noted that recruitment consultants had been appointed to identify a chair to lead the project. A potential candidate had been identified.
- *FRC Guidance on the Strategic Report.* The Board noted work on updating the FRC Guidance on the Strategic Report to reflect changes arising from UK implementation of the non-financial reporting Directive was nearing completion. The update would include guidance in response to legislation due to be laid on 12 June to introduce reporting requirements on section 172. Whilst the Board noted the new reporting requirements had not been included in the consultation it agreed with the advice of the Codes & Standards Committee that further consultation was not necessary.

5 OPERATIONS REPORT

5.1 Ms Vegro introduced a new report format that provided an update on meeting the FRC's operational responsibilities as a public body, in particular new thresholds and process for approval of expenditure relating to recruitment, expenses, procurement and consultancy spend. It also covered spend to date against budget and progress with objectives published in the 2018/21 Strategy. The Board noted that the FRC is meeting its commitments as a public body as currently set by the Department for Business, Energy and Industrial Strategy and HM Treasury and is complying with the requirements of Managing Public Money.

5.2 The Board noted that the FRC has been the subject of a number of Parliamentary Questions and it was agreed that future Operations reports would include a summary of new PQs and the FRC response.

5.3 The Board noted the management accounts to 30 April 2018 and approved the format of the new quarterly dashboard report.

6 EMPLOYEE SURVEY

6.1 Ms Chandler introduced a report that set out the results of the 2018 employee survey and responding actions. The Board noted the key results, including how they compare with

previous years and with other bodies and discussed the key areas for improvement. Whilst the Board welcomed the actions the Executive Committee had identified and committed to, the importance of informal engagement and the need to maintain morale, particularly in light of the move to confirmed public body status, was stressed.

7 CHAIRMANS AGENDA

- 7.1 The Board agreed an updated log of actions arising from the 2017/18 Board and Committee Effectiveness review. Comments on the effectiveness review extract to be included in the FRC's Annual Report & Accounts for the year ended 31 March 2018 would be submitted by email.

8 FRC INTERNAL GOVERNANCE REVIEW

- 8.1 Ms McArthur introduced a report that sought agreement on a number of recommendations necessary to implement decisions taken by the Board in December. The Board noted the recommendations had been updated to reflect comments received in response to discussion at the March meeting and subsequent email correspondence.
- 8.2 The Board agreed with the recommendation to proceed with changes designed to enhance the FRC's agility and speed of process in decision making but to defer changes involving amendment to the FRC's Corporate Reporting Review and Enforcement procedures pending the conclusion of the Independent Review of the FRC.
- 8.3 The Board discussed proposed changes to the terms of reference for the advisory Councils and Codes & Standards Committee in detail, noting proposals to limit the remit of the Codes & Standards Committee in relation to standard setting would reinforce the need for relevant technical expertise on the Board and impact the Board agenda going forward. On the advisory Councils, the Board agreed an addition to the proposed terms of reference to include the recommendation for the Council Chair at their discretion to report directly to the Board any material concerns in relation to the performance, terms of reference or effectiveness of the Council which, in his/her judgement, have not been resolved through the annual wider Board effectiveness review process.
- 8.4 The Board considered its role in relation to decisions to investigate under the FRC's enforcement procedures. The Board concluded the Conduct Committee should continue to make the decision to investigate. It was noted that the Board may express views on particular matters which would come to be considered by the Conduct Committee and that that it would be up to the Conduct Committee to decide whether to agree those views. The Board also agreed that its oversight role in respect of the FRC's monitoring activities should be strengthened by requiring the Conduct Committee to report to the Board biannually on those activities.
- 8.5 The Board approved:
- i. Proposed revisions to the Schedule of matters reserved to the Board to take effect on 1 July 2018:
 - ii. Proposed revisions to the terms of reference for the:
 - o Nominations Committee
 - o Codes & Standards Committee
 - o Advisory Councils (subject to the addition set out at 8.3)
 - o Conduct Committee (subject to the addition set out at 8.4)
 - o Audit Quality Review Committee.(all applicable from 1 July 2018)
 - iii. The reappointment of John Coomber and Olivia Dickson as members of the Codes & Standards Committee to 22 July 2021 and 30 June 2020 respectively.

9 RISK MANAGEMENT AND PRINCIPAL RISKS

- 9.1 Ms Smart introduced a draft risk management report for inclusion in the FRC Annual Report & Accounts for the year ended 31 March 2018 as approved by the Audit Committee at its meeting on 9 May.
- 9.2 The Board reviewed the draft report and suggested a small number of drafting amendments. The Board also suggested that the status of Principal Risk 2 - *The quality of audit work by major audit firms falls below the high standards expected because of a failure to comply with auditing standards, shortcomings in firms' governance or culture, or a failure to invest in their audit function* should show as declining.
- 9.3 Subject to the amendments discussed the Board approved the Risk Management report for inclusion in the FRC's Annual Report & Accounts for the year ended 31 March 2018.
- 9.4 The Board noted the report would be submitted to BEIS to inform their assessment of the risks posed by their sponsor bodies.

10 AUDIT QUALITY REVIEW FIRM PUBLIC REPORTS 2018

- 10.1 *Secretary's note – Keith Skeoch declared that KPMG audit Standard Chartered.*
- 10.2 Mr Suffield introduced a report that summarised the outcome of the 2017/18 Audit Quality Review (AQR) inspection round and the key aspects of the AQR's public reports on the eight largest audit firms.
- 10.3 The Board considered the overall inspection results for the year including contributing factors, overall assessments for each firm and the full public report on KPMG, noting all had been considered by the Conduct Committee at its meeting on 22 May.
- 10.4 Through discussion a number of drafting amendments to the overall assessments were suggested, including a clearer FRC conclusion in some cases, and a clearer description of where audit work had fallen short of FRC requirements. On the KPMG report, the Board suggested a strengthening of the language regarding the FRC conclusion and a clearer description of the work that the FRC is doing to hold KPMG to account as a result.
- 10.5 It was agreed that revised draft, the overall assessments summary report and the accompanying press notice would be circulated to the Board for approval by email. The other public firm reports would also be reviewed to ensure consistency.

11 MONITORING THE QUALITY OF ACTUARIAL WORK

- 11.1 Ms Dickson introduced a report that summarised the FRC Executive and Conduct Committee' consideration of the proposed Institute and Faculty of Actuaries (IFoA) public consultation on monitoring actuarial work.
- 11.2 The Board agreed with the conclusion of the Conduct Committee that the IFoA's draft consultation makes a sufficiently persuasive case for a credible and effective monitoring regime in the public interest and, subject to FRC drafting changes, should proceed.

12 COMMITTEE CHAIR REPORTS

Report from the Audit Committee

- 12.1 The Board noted draft minutes of a meeting of the Audit Committee held on 9 May 2018.

Report from the Conduct Committee

- 12.2 The Board noted minutes of a meeting of the Conduct Committee held on 24 April 2018 and noted an oral report of matters considered and decisions taken at a meeting of the Conduct Committee held on 22 May 2018.

Report from the Codes & Standards Committee

- 12.3 The Board noted an oral report of matters considered by the Codes & Standards Committee at a meeting on 29 May 2018.

13 FORWARD PLAN

- 13.1 The forward plan was noted.

14 PROPOSALS REPORTING FROM ANALYSIS OF THE UK CORPORATE GOVERNANCE CODE CONSULTATION

- 14.1 Mr Styles introduced a report that set out proposed revisions to the UK Corporate Governance. The Board noted the proposed revisions had been developed in response to consultation feedback, consideration by the Codes & Standards Committee and input from the Board at its April meeting.
- 14.2 Having regard to detailed consultation feedback and the advice of the Codes & Standards Committee the Committee considered the proposed options on the following areas:

Director independence and tenure

- 14.3 It was agreed that the Code should align the nine year length of service period relating to non-executive directors to now apply to the position of the chair. However, there should be an option for companies to extend tenure for internally appointed chairs beyond nine years for a limited period in order to promote, amongst other things, diversity on the Board subject to a clear explanation.

Workforce engagement

- 14.4 It was agreed that the Code should include the three methods consulted upon, along with the opportunity for a company to adopt an alternative method on the basis that it would report why it considered this effective.
- 14.5 It was also suggested it would be useful to strengthen the guidance that would accompany the Code in relation to the Board's role when considering proposed NED appointments to other NED roles.
- 14.6 A final draft would be presented to the Board for approval at its meeting on 4 July 2018 for publication in mid-July.

15 WATES PRINCIPLES FOR THE GOVERNANCE OF LARGE PRIVATE COMPANIES

- 15.1 The Chairman welcomed James Wates, CBE to the meeting.
- 15.2 Mr Wates introduced the draft consultation paper on the Wates Principles for Corporate Governance and summarised the objective of the principles, the process that had been followed in developing the principles and next steps. The Board welcomed the draft consultation and the supported the objective of building trust in business.

16 INTERNATIONAL STRATEGY

- 16.1 The Board considered a report that invited consideration of whether the FRC's international influencing strategy and priorities for 2018/19 should be updated in light of Brexit and the wider international environment.
- 16.2 Discussion included consideration of uncertainty in respect of a withdrawal agreement with the EU and any future partnership and the need to ensure the FRC is operationally ready to ensure continuity of business on its core functions and any new roles that the FRC may be directed to undertake, including in relation to domestic IFRS adoption.
- 16.3 The Board agreed that the FRC should:
- continue to influence the EU and respond to public consultations in areas relevant to its remit;
 - aim to maintain observer status, if possible, in EU bodies;
 - prioritise the United States and limited Asian jurisdictions including China; and
 - continue with its programme of strong engagement with key international organisations in areas relevant to its remit.

17 ANY OTHER BUSINESS

- 17.1 There was no other business.

18 DATE OF NEXT MEETING

- 18.1 Wednesday 4 July at 9am.

Chairman