

**Financial Reporting Council**  
**Minutes of a meeting of the FRC Board**  
**held on 4 July 2019, 8.30am at the FRC Office, 125 London Wall, London EC2Y 5AS**

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|----------------|---|---|
| PRESENT:       | Sir Winfried Bischoff<br>Sir Brian Bender<br>David Childs<br>John Coomber<br>Olivia Dickson<br>Nick Land<br>Keith Skeoch<br>Julia Unwin<br>Stephen Haddrill   | Chairman<br>Non-Executive Director (by phone)<br>Non-Executive Director<br>Non-Executive Director<br>Non-Executive Director<br>Non-Executive Director<br>Non-Executive Director<br>Non-Executive Director<br>Non-Executive Director<br>Chief Executive Officer (CEO)  |
| IN ATTENDANCE: | Tracy Vegro<br>Paul George<br>Mike Suffield<br>Anne McArthur<br>Elizabeth Barrett<br>Helen Grimshaw<br>Viki Cooke<br>Hettie Hill<br>Andrew Meek<br>Claire Lindridge<br><br>Bryan Turner<br>Claudia Mortimore<br>Tara Trousdale<br>Jenny Waterman<br>Jenny Carter<br>Dawn Dickson<br>Erica Nicholson<br>Mark Babington<br>James Ferris<br>Mario Dunn<br>Christian Search<br>Noreen Adams | Executive Director, Strategy & Resources<br>Executive Director, Corporate Governance & Reporting<br>Acting Executive Director, Audit & Actuarial Regulation<br>General Counsel and Company Secretary<br>Executive Counsel and Executive Director<br>Senior Economist & Head of Strategy (Item 4)<br>Founding Partner (item 4), BritainThinks<br>Senior Research Executive (item 4), BritainThinks<br>Acting Director, Audit Quality Review (Item 5.1)<br>Acting Audit Firm Monitoring & Supervision Director<br>(Item 5.1.1)<br>Programme Transformation Director (Item 5.3)<br>Interim Deputy Executive Counsel<br>Finance Director (item 7.2)<br>Head of HR (Item 18)<br>Director of UK Accounting Standards (Item 10, 12 & 13)<br>Director of Professional Oversight (Item 11)<br>Deputy Director of Professional Oversight (Item 11)<br>Deputy Director of Audit Policy (Item 14)<br>Project Director (item 14)<br>Director of Strategic Communications<br>Risk Manager (Observer)<br>Interim Board Secretary (minutes) |
| APOLOGIES :    | Jenny Watson  | Non-Executive Director  |

**1 QUORUM AND OPENING OF THE MEETING**

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

**2 DECLARATIONS OF INTEREST**

2.1 The Board noted Nick Land's proposed appointments to IHS Towers Board. No other interests were declared.

**3 MINUTES AND MATTERS ARISING**

3.1 The Board **approved** the minutes of the Board meeting of 15 May 2019 for publication.

3.2 The matters arising log was reviewed and noted.

#### 4 CITIZENS' JURIES REPORT AND PRESENTATION BY BRITAINTHINKS

4.1 Ms Grimshaw introduced the item. The Board was informed that the Citizens' Juries project was concluded and a final report on '*Understanding citizens' views on the regulation of corporate reporting, corporate governance and audit*' had been prepared. BritainThinks, who facilitated the Citizens' Juries workshops, presented a summary of the findings. The Board noted the key themes raised, including:

- transparency, openness, independence;
- the importance of the wider public interest in how corporate Britain works; and
- the new regulator should promote good behaviour, are high quality and should be prepared to follow up with tough enforcement if that does not work.

4.2 The Board discussed the findings and agreed that the FRC's response along with the final report should be published on the FRC website. The draft response would be circulated to the Board for comments. It was noted that the report findings which emphasised the 'contribution to the wider society' and 'the public good' were consistent with the Kingman recommendations and this would be a key objective for the FRC transition to the new regulatory body, the Audit, Reporting and Governance Authority (ARGA).

4.3 The Board **noted** the report and **agreed** the proposed dissemination approach.

#### 5 CHIEF EXECUTIVE'S REPORT

5.1 Mr Haddrill introduced his report. Discussion included the following points and observations:

- *Staff issues:* The Board noted that the 2018/19 pay settlement had finally been approved by Treasury and Cabinet Office Ministers some 15 months late, and the back pay would be settled in July Payroll; Alongside the news on 2018/19 pay, the 2019/20 Public Sector Pay Guidance has been issued and HR would be engaging BEIS on the process for the 2019/20 pay settlement;
- The FRC Recruitment strategy for 2019/20 was on target so far, but it was noted that there was increasing competition for some technical accounting skills;
- *Kingman recommendations:* Political uncertainties around the new PM and related potential Ministerial changes may impact the legislative timetable. Plans for the recruitment of a pool of '*grey panthers*' (senior executives and experts), as per recommendation 68, would be considered as part of the development of the FRC's broader resourcing strategy;
- *Audit Regulation:* The Board noted international opinion from the IFIAR, CEAOB and US authorities on the range of proposals on audit regulation in the Kingman review, CMA report and potentially Brydon.
- *New FRC Chair:* It was understood that a confirmation hearing with the BEIS Select Committee would be scheduled later in the month.
- *The CMA Review:* The final report had been issued and the Secretary of State had 90 days to respond.
- *AFMAS – the Board approved the proposal from the Executive that the FRC would not publish findings arising from AFMAS work (under both the current voluntary and future statutory approach), aligning the FRC with the practice of other regulators such as the PRA and the FCA.; and*

- *Stress Testing*: The Executive was encouraged as part of AFMAS work to review any 'reverse stress testing' carried out by the audit firms as part of their broader contingency planning arrangements.

- 5.2 The Board considered the paper presented by Mr Suffield on the proposal for taking forward the FRC's public target for audit quality, in terms of firms' AQR results, for 2019-20 onwards. The Board affirmed the FRC's expectation of high-quality audit from firms, and that any audits graded 2B or 3 were not considered acceptable. The Board agreed for 2019/20 to retain the 90% target for FTSE 350 audits and to extend that 90% to all audits inspected by AQR. For 2020/21 the Board agreed to set a new target of 100%.
- 5.3 The AQR Press Notice would be updated to reflect the Board comments.
- 5.4 Mr Turner presented the paper on the implementation of the Independent Review of the FRC. The Board considered the paper and noted that political uncertainty could slow the implementation of the Kingman recommendations.
- 5.5 The Board reviewed the Joint Board/ExCo Working Group terms of reference (ToR) and agreed the ToR, subject to some amendment. It was suggested that a summary of the key issues being developed or consulted on with BEIS be provided to the Board.
- 5.6 The Board **noted** the reports from the Acting Executive Director, Audit and Actuarial Regulation, Executive Director, Corporate Governance and Reporting, and the progress on the Project and Activity report 2019/20.

## 6. QUARTERLY ENFORCEMENT REPORT

- 6.1 Ms Barrett and Ms Mortimore introduced the Enforcement paper. The Board noted that the recruitment of further legal and forensic resource was underway, with BEIS approvals obtained where necessary.
- 6.2 In relation to the Annual Enforcement Review (the AER), it was noted that since the draft had been circulated to the Board for comments there had been further changes. The Board agreed to delegate authority to Stephen Hadrill (CEO) and David Childs (NED and Chair of the Conduct Committee) to review and approve the final amendments to the AER for publication on 31 July 2019.

## 7. OPERATIONS REPORT

- 7.1 Ms Vegro introduced the Operations paper. She reported there had been positive progress on recruitment notwithstanding the competitive market. To accommodate new staff, the FRC was moving to hot-desking and a more flexible IT approach and was preparing a major realignment of the London Wall workspace.
- 7.2 The Board **noted** the Operations report and positive Financial Performance for March 2019, and that the FRC had gone out to tender for the Collection of Levy contract.

## 8. CHAIRMAN'S AGENDA

- 8.1 The Chairman informed the Board of the Nominations Committee consideration of Nick Land's proposed appointment as a Non-Executive Director of IHS Towers and had agreed the appointment would not give rise to any conflict of interest and/or risk of reputational damage to the FRC.
- 8.2 The Board **noted** the Chairman's update from the Nominations Committee.
- 8.3 The Board discussed the recommendations from the Nominations Committee meeting on 10 June 2019 and **approved**:

- Anne Whitaker be appointed as a member of the Conduct Committee; the appointment of Liz Murrall as Chair of the Corporate Reporting Council from 23 May 2019;
- Anne Whitaker be appointed as Chair of the Audit Quality Review Committee for a period of three years until 31 August 2022; and
- Liz Murrall be appointed as Chair of the Corporate Reporting Council for a period up to 15 May 2020.

*Governance Bible Amendments*

- 8.4 Ms McArthur introduced her paper which proposed changes to the terms of reference of the Board’s governance committees, the Conduct Committee and the Schedule of Matters Reserved to the Board to take account of the FRC’s confirmed public body classification and the amendments to the Articles in relation to the appointment of the Board.
- 8.5 The Board discussed the paper and provided a number of comments. The Board emphasised that the proposed changes did not cut across any review to be undertaken by the new Chair in accordance with the Independent Review recommendations.
- 8.6 It was agreed that the Governance Bible be further revised to reflect the comments and a draft circulated to the Board for agreement.

**9. FRC AS A COMPETENT AUTHORITY**

- 9.1 Mr Suffield presented the bi-annual review of the FRC’s competent authority responsibilities.
- 9.2 It was noted that the Conduct Committee had reviewed the paper and supported its conclusions and recommended to the Board that it agree that the FRC had complied with applicable legislative requirements and fulfilled its responsibilities as Competent Authority.
- 9.3 Following due consideration the Board **agreed** that the FRC had met its legal responsibilities as Competent Authority.

**10. ANNUAL REPORT AND FINANCIAL STATEMENTS 2018/19**

- 10.1 The Board reviewed the draft FRC Annual Report & Financial Statements for the year ended 31 March 2019. 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.
- 10.2 On the recommendation of the Audit Committee the Board:
  - i. **Approved** the FRC Annual Report and Financial Statements 2018/19 in the form attached at Appendix 1, subject to some drafting suggestions made by the Board and to any final editing of the Report approved by the CEO and Chairman; and
  - ii. **Approved** the Letter of Representation and authorised the Chief Executive Officer and Accounting Officer to sign it on behalf of the Board.
- 10.3 The Board:
  - i. **Authorised** the Chief Executive Officer and Accounting Officer to sign the Strategic Report and the Governance Statement, the Chairman and the Chief Executive Officer to sign the Balance Sheet, and the Company Secretary to sign the Directors’ Report on behalf of the Board;
  - ii. **Authorised** the Executive to submit the FRC Annual Report and Financial Statements 2018/19 to Parliament before the House rises on 25 July 2018; and
  - iii. **noted** the draft Press Notice announcing the publication of the Annual Report.

10.4 The Board **agreed** to recommend to the Company at its Annual General Meeting:

- i. the adoption of the FRC Annual Report and Financial Statements 2018/19;
- ii. the reappointment of the external auditors; and
- iii. the **authorisation** of the determination of their remuneration by the Directors.

## 11. POT APPENDIX TO THE ANNUAL REPORT

11.1 Ms Dickson and Ms Nicholson introduced the paper on the POT appendix to the Annual Report previously circulated for Board comments, reporting that the FRC has a statutory obligation to report annually to the Secretary of State on the way it has discharged its delegated statutory functions in respect of:

- The oversight of the regulation of auditors by Recognised Supervisory Bodies (RSBs) and Recognised Qualifying Bodies (RQBs) under the Companies Act 2006;
- The oversight of the regulation of local auditors by RSBs and RQBs under the Local Audit and Accountability Act 2014;
- Its role as the Independent Supervisor of Auditors General; and
- Its oversight and regulation of Third Country Auditors (TCAs).

11.2 The Board considered the letter received from ICAS on some aspects of the draft report and concluded that the points raised had already been addressed satisfactorily.

11.3 The Board considered and **approved** the FRC'S Oversight Responsibilities 2018/19 - Audit, Actuarial and Accountancy Professions - Appendix to the Annual Report and Financial Statements 2018/19.

## 12. AMENDMENTS TO FRS 101 – 2018/19 CYCLE

12.1 Mrs Carter introduced the paper on the Amendments to the FRS 10.

12.2 The Board reviewed the paper and noted that the *FRED 70 Draft amendments to FRS 101 – 2018/19 cycle* was issued in January 2019 with a consultation period closing on 30 April 2019. The changes arose as a result of the annual review of FRS 101 and was principally concerned with the amendments required in relation to IFRS 17 *Insurance Contracts*. Ms Carter informed the Board that the responses to the amendments were supportive.

12.3 The Board considered the paper and **approved** the *Amendments to FRS 101 – 2018/19 cycle* for issue.

## 13. FRED 72 DRAFT AMENDMENTS TO FRS 102 – INTEREST RATE BENCHMARK REFORM

13.1 Mrs Carter introduced the paper and informed the Board that the proposal was to issue *FRED 72 Draft amendments to FRS 102 – Interest rate benchmark reform* to provide accounting relief, from some of the uncertainties around Interbank Offered Rates reform. It was noted following the consultation process final amendments would be presented to the Board for approval.

13.2 The Board reviewed the paper and **approved** *FRED 72 Draft amendments to FRS 102 – Interest rate benchmark reform* for issue.

## 14. POST IMPLEMENTATION REVIEW (PIR): AUDITING AND ETHICAL STANDARDS

14.1 Mr Babington and Mr Ferris introduced the paper on the Auditing and Ethical Standards.

14.2 The Board discussed the paper and noted that in 2018 the FRC began a PIR of the 2016 UK Ethical and Auditing Standards, which had been revised following the EU Audit Regulation and Directive. The FRC had now completed the review of the Ethical and Auditing Standards and

proposed to publicly consult on various changes. Three key proposals were to:

- i. Re-define the 'Third Party Test'
- ii. Introduce a list of permitted non-audit services
- iii. Further enhance Auditor reports

14.3 The Board discussed the proposed consultation document and, subject to drafting suggestions, **approved** for issue the consultation on revisions to the Ethical and Auditing Standards.

**15. COMMITTEE CHAIR REPORTS**

*Report from the Nominations Committee*

15.1 The Board noted the minutes of the meeting of the Nominations Committee held on 10 June 2019.

*Report from the Remuneration Committee*

15.2 The Board noted the minutes of the meeting of the Remuneration Committee held on 10 June 2019.

*Report from the Conduct Committee*

15.3 The Board noted the minutes of the meeting of the Conduct Committee held on 11 June 2019. It was proposed a point on 'constructive engagement' be revised.

*Report from the Codes & Standards Committee*

15.4 The Board noted the minutes of the meeting of the Codes & Standards Committee held on 12 June 2019.

*Report of the Audit Committee*

15.5 The Board noted the oral feedback from the Audit Committee meeting held on 20 June 2019.

**16. FORWARD PLAN**

16.1 The Board noted the forward plan of actions.

**17. ANY OTHER BUSINESS**

17.1 The Board acknowledged that this may be Sir Win's last Board meeting and thanked him for his commitment and contribution to the work of the FRC.

17.2 The Board was informed of Peter Montagnon's sudden and unexpected death. Mr Montagnon worked for the FRC for a number of years and was passionate about the importance of good corporate governance and investor stewardship. The Board conveyed their condolences to Mr Montagnon's family.

**18. FRC SUCCESSION PLAN - PRIVATE SESSION**

18.1 Following the meeting, the Board held a private session with the Chief Executive on the FRC succession arrangements for senior FRC Executives.

**Date of Next Meeting**

Thursday 26 September 2019 at 9.00am

Signature: .....  
Sir Winfried Bischoff - Chairman

Date:.....