

Financial Reporting Council

Minutes of a meeting of the Board of Directors of the Company
held on 30 June 2016 at 8th Floor, 125 London Wall

PRESENT:	<p>Sir Winfried Bischoff Gay Huey Evans Stephen Haddrill Mark Armour Sir Brian Bender David Childs John Coomber Elizabeth Corley Olivia Dickson Paul George Ray King Nick Land Melanie McLaren Keith Skeoch</p>	<p>Chairman Deputy Chairman Chief Executive Non-Executive Director Non-executive Director Non-executive Director Non-executive Director Non-executive Director Non-executive Director Executive Director, CGR Non-executive Director Non-executive Director Executive Director, Audit Non-executive Director</p>
IN ATTENDANCE:	<p>Anne McArthur Tracy Vegro Rossella Pagano David Andrews</p> <p>Mark Babington Francesca Carter Kate Cobill Susan Currie John Grewe</p> <p>Andrew Meek Tulsee Rughoobur David Styles Marian Williams</p>	<p>General Counsel and Company Secretary Executive Director of Strategy & Resources Board Secretary Head of Organisational Development (Items 8 and 9a) Deputy Director of Audit Policy (Item 9e) Council Secretary (Item 9a) Assistant General Counsel (Item 4) Corporate Programme Manager (Item 9d) Director of Audit Directive Implementation (Item 4) Inspections Director (Item 9c) Policy and Planning Officer (Item 8) Director of Corporate Governance (Item 9b) Director, Codes & Standards (Item 4)</p>
APOLOGIES:	<p>Roger Marshall</p>	<p>Non-executive Director</p>

1 QUORUM AND OPENING OF MEETING

1.1 The Chairman noted that the meeting was quorate.

2 DECLARATION OF INTERESTS

There were none.

3 MINUTES

3.1 The Board approved the minutes of the meeting held on 19 May and 8 June 2016 for publication, subject to a few amendments.

Matters arising

3.2 The Board noted the matters arising.

4 CHIEF EXECUTIVE'S REPORT

- 4.1 Mr Haddrill introduced his report. During the discussion, the following points were made:
- On funding, the Board was informed of the latest development on a series of discussions with ICAEW regarding the FRC's funding request for 2016/2017. The FRC management had been asked to provide additional details in respect of the cost drivers for the first quarter contribution, notwithstanding that the rationale for the increase in reserves, the proposed rebalancing and the additional costs had been covered comprehensively during the consultation process. A response was being drafted.
 - On Brexit, the Board discussed the outcome of the European Referendum, and, in this context, the need to assess: (i) how best to deliver the FRC mission in a changing environment; (ii) the potential impact on the FRC's statutory responsibilities; (iii) the FRC's role as a body acting in the public interest and its current outreach strategy; (iv) any actual or potential misalignment between the interests of the relevant stakeholders; (v) the approach to the influencing strategy; (vi) the FRC's contribution to, and engagement with, Government, other regulators and stakeholders in ensuring that any evolving principles and policies continued to foster investment and stimulated growth in the UK.
 - The Board agreed that a higher level of interaction with professional bodies would be pursued in the forthcoming months. Consideration on 'acting in the public interest' would be a topic on the agenda at the forthcoming Board Strategy Away-Day.

5 UPDATE: AUDIT REGULATION AND DIRECTIVE (ARD) IMPLEMENTATION

- 5.1 Ms McLaren confirmed that the suite of documents agreed at the meeting on 8 June had been published, marking the start of the new arrangements for audit regulation in the UK and establishing the FRC as the Competent Authority under ARD. It was noted that, notwithstanding the outcome of the EU Referendum, compliance under these arrangements continued pending the negotiation and settlement of the UK exit from the EU.
- 5.2 Introducing the paper, Ms McLaren highlighted the outstanding issues, in particular the finalisation of the delegations agreements and the Recognised Supervisory Bodies (RSBs) position vis-à-vis large AIM companies and Lloyd's Syndicates. With regard to the former, Ms McLaren drew attention to the legal issues. The Board was apprised on the on-going discussions regarding the allocation of fines imposed under the Audit Enforcement procedure.
- 5.3 The Board thanked Kate Cobill, John Grewe and Marian Williams for their major effort and work that enabled the FRC to meet the target date for the implementation of the ARD.

6 COMMITTEE CHAIR REPORTS

a. Report from CSC meeting of 14 June 2016

- 6.1 The minutes of the Codes & Standards Committee (CSC) meeting were taken as read.

b. Report from CC meeting of 24 May 2016

- 6.2 Mr Childs highlighted that four major cases had been added to the case workload and the potential demand on resourcing.

c. Report from Audit Committee meeting of 14 June 2016

- 6.3 It was agreed that Mr Land would report later in the meeting.

7 QUARTERLY REPORT – EXECUTIVE DIRECTOR, AUDIT

Ms McLaren introduced her report. During the discussion the following issues were discussed:

- (i) on ARD, Ms McLaren provided some initial thoughts following the outcome of the European Referendum. Exco would be considering the wider issues and opportunities for the FRC in the forthcoming weeks;
- (ii) Ms McLaren reported that the recent ‘wargame’ exercise had highlighted the need to focus on IT security in particular. The conclusions of the exercise were followed up by Mr Haddrill in writing with a letter to the CEOs of the six largest audit firms; the Board suggested that management consider adopting a more formal approach to ensure that appropriate risk management arrangements were in place. Mr Haddrill also reported that the FRC would contribute to any potential policy discussion on corporate reporting requirements on cyber risk. The Board asked to be kept informed; and
- (iii) on a broader context, it was noted that the debate in the media, in particular in relation to recent high profile cases and issues of public interest, had highlighted a potential expectation gap between the FRC’s regulatory powers and the perception by media and public of its powers.

8 CHAIRMAN’S AGENDA

a. Proposal for Board Strategy Away-Day 2016

- 8.1 Ms Vegro introduced a paper that provided a preliminary draft outline of the programme for the Board Strategy Away Day. The Board made a number of observations, including the need for a broader discussion on pension-related matters, on monitoring and oversight of accounting, actuarial and auditing standards and on corporate governance responsibility in this sector.
- 8.2 Moreover, the Board suggested that more time be dedicated to discussing key issues, options and alternatives. Members of the Board were invited to provide suggestions to Ms Vegro on speakers or attendees who could provide constructive feedback to the FRC on key areas of policy.

9 RISK AND ASSURANCE – FORWARD LOOK

- 9.1 Mr Andrews introduced this item reporting that following discussions at the Audit Committee meeting in May, a review of the strategic and emerging risks was underway. Additional risks had been identified, some of which resulted from the increased responsibilities of the FRC as the Competent Authority under the ARD, in particular in relation to funding; others were triggered by more recent events and the changing environment in which the FRC operates. Mr Andrews informed the Board that the risk register was being revised and that an assurance map was being developed; it would be presented at the Board Strategy Away-Day and at an additional Audit Committee meeting to be held in the autumn.
- 9.2 The Board discussed the pension-related risk and enforcement risk in relation to resources required for the investigation of significant and high-profile cases. Following on from the discussion on the ‘expectation’ gap referred to in minute 7 above, the Board suggested to explore providing more clarity around the boundaries of the FRC’s

responsibilities. Mr Andrews undertook to draw up a 'boundaries map' as part of the risk review.

10 COMMITTEE CHAIR REPORT

a. Report from Audit Committee meeting of 14 June 2016

- 10.1 Mr Land reported on the issues considered by the Audit Committee in June, in particular:
- (i) the development of an assurance map;
 - (ii) the continued focus on IT security;
 - (iii) internal audit plan for 2016/2017; and
 - (iv) the update from the Finance Director on the April and May results.
- 10.2 As part of the review of the report and accounts for the year ended 31 March 2016, the Committee considered: (i) a report on internal controls and letter of representations with supporting documentation; (ii) the auditors' findings in the key areas of their audit and management actions in response to these. No internal control issues were brought to the Committee's attention. An additional paper had been circulated to the Board to support the basis of the viability statement. The Committee recommended the report and accounts for the year ended 31 March 2016, the letter of representation and the letter of engagement to the Board, for approval.
- 10.3 In addition, the Committee considered the effectiveness of the auditor; on the basis of the Committee's interaction with the auditors and feedback from management, the Committee remained satisfied with the auditor's effectiveness and would invite the Board to recommend their re-appointment at the next annual general meeting of the FRC.

11 FOR BOARD APPROVAL AND ISSUE

a. Report and Accounts for the year ended 31 March 2016

- 11.1 The Board considered the report and accounts and suggested a number of drafting changes to the various sections, including Chairman's statement, CEO statement, risk section and funding model. References to address the outcome of the EU Referendum would be included as necessary. Following discussion, the Board:
- (i) on the recommendation of the Audit Committee, approved the Annual Report 2015/16, subject to any final editing of the report approved by the CEO and Chairman;
 - (ii) authorised the CEO and/or Chairman to sign the Strategic Report and Balance Sheet and authorised the Company Secretary to sign the Directors' Report on behalf of the Board;
 - (iii) agreed to submit the Annual Report 2015-2016 to Parliament before the House rises on 21 July;
 - (iv) on the recommendation of the Audit Committee, approved the Letter of Representations produced to the meeting and authorised the CEO to sign the Letter on behalf of the Board;
 - (v) agreed to recommend to the Company at its annual general meeting:
 - a. the adoption of the Annual Report 2015/2016;
 - b. the reappointment of the auditors, haysmacintyre, and to authorise the Directors to determine their remuneration; and
 - (vi) approved the draft Press Notice announcing the publication of the Annual Report.

b. Culture Project

- 11.2 Mr Styles introduced this item. Mr George summarised the issues discussed by the Board earlier in the meeting regarding public trust in business insofar as it was relevant to the culture project. In addition to format, drafting and presentational changes, the Board suggested more insightful and powerful messages, in particular in respect of the remuneration issues highlighted in the ‘key observations’ section.
- 11.3 The Board felt that the report should place more emphasis on the alignment between strategy and culture, and in turn between culture, flow of capital and productivity for sustainable growth, encouraging business to balance the interests of all stakeholders in order to improve confidence in business.
- 11.4 Noting the high and wide level of engagement and expectation of the project partners, media and contributors, the Board discussed the timing of the report and noted that a number steps had been planned to promote it. It was agreed that Mr Styles would revise the report and re-circulate it to the Board for information, prior to publication.

c. Reporting on development in Audit Quality

- 11.5 Mr Meek introduced this item. In the ensuing discussions, the Board suggested a number of drafting changes and made the following observations:
 - (i) considering the purpose of the report, regard should be given to: (a) the extent of the narrative vis-à-vis the provision of statistical information on the assessment of audit quality in the UK and overseas; (b) the positioning of the findings from the YouGov survey; and (c) the reporting style; and
 - (ii) on publication, the planned timing for issuing the report and the manner in which it will be promoted.
- 11.6 Subject to making the amendments necessary to address the points and comments made at the meeting, the Board approved the publication of the final documents, subject to the changes being agreed by the Executive.

d. Audit Firm Governance Code

- 11.7 Ms Currie introduced this item. The revised version of the Audit Firm Governance Code included in the paper had been amended following the discussion at the last Board meeting. The Board’s attention was drawn to certain sections of the Code. The Board made a number of suggestions and observations, in particular with regard to audit chair reporting obligations, the reporting line of the ethical partner and to the remuneration policy adopted.
- 11.8 Subject to the changes, the Board approved the publication of the feedback statement and the proposed new Code.

e. In principle consultation of the adoption of ISA800 and ISA805

- 11.9 Mr Babington introduced this item, explaining the background and rationale for the proposed consultation on the adoption of ISAs 800 and 805 in the UK. This was a necessary step to support the auditor’s audit of December 2016 regulatory returns for which the guidance for auditors on the audit of insurers in the UK in the form of a practice note was being revised. It was pointed out that the PRA was expected to finalise the Solvency II assurance rules on this matter during the third quarter and therefore the Board’s approval was sought in principle.

- 11.10 The Board, on the recommendation of the Codes and Standards Committee, and the advice of the Audit and Assurance Council:
- (i) approved in principle a public consultation on the adoption of ISAs 800 and 805 in the UK once PRA Solvency II assurance rules are finalised;
 - (ii) approved the draft consultation documents included as appendices to this paper; and
 - (iii) delegated to the Chair of the Codes and Standards Committee and the Executive Director, Audit, authority to issue the consultation once they are satisfied that the PRA has confirmed its requirements.

12 OUTLINE BOARD CALENDAR 2016

- 12.1 The Board noted the outline Board calendar.

13 ANY OTHER BUSINESS

- 13.1 It was noted that the Board had approved by way of email:
- (i) The amendments to FRS 105-the Financial Reporting Standard applicable to micro-entities regime; and
 - (ii) The amendment to FRS 101 – Reduced Disclosure Framework.

14 NEXT MEETING

- 14.1 Thursday, 22 September 2016 at 9.00 am (Strategy Away Day) and 20 October 2016 at 9am.