

Financial Reporting Council

Minutes of a meeting of the Board of Directors of the Company held on 1 December 2015 at 8th Floor, 125 London Wall

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| PRESENT: | Sir Winfried Bischoff Gay Huey Evans Stephen Haddrill Sir Brian Bender David Childs John Coomber Elizabeth Corley Olivia Dickson Paul George Ray King Nick Land Melanie McLaren Keith Skeoch | Chairman Deputy Chairman Chief Executive Non-executive Director Non-executive Director Non-executive Director Non-executive Director (by phone) (Item 1 to 6b) Non-executive Director Executive Director, Conduct Non-executive Director Non-executive Director Executive Director, Codes & Standard Non-executive Director |
| IN ATTENDANCE: | Anne McArthur Chris Hodge Rossella Pagano Dawn Bardwell Shazia Ahmad Anthony Appleton Jenny Carter Marian Williams John Grewe David Andrews Graham Clarke Dawn Robey Page Rumble | General Counsel and Company Secretary Executive Director, Strategy Board Secretary Director, Professional Oversight (Item 5b) Project Manager (item 5b) Director, ARP (Item 5d) Director, UK Accounting Standards (Item 5d) Director, C&S (item 5e) Audit Directive Implementation (Item 5e) Head of Organisational Development (Item 6a) Finance Director (Item 6a) Seconded National Expert Case Manager |

Apologies were received from Mark Armour and Roger Marshall.

1 DECLARATION OF INTERESTS

The following declaration of interest were noted: (i) John Coomber joined the board of Tempus Energy Technology Limited; (ii) Ray King would be stepping down as director of Infinis Energy plc.

2 MINUTES

2.1 The Board approved the minutes of the meeting held on 20 October 2015 for publication.

Matters arising

2.2 The Board noted the matters arising.

3 CHIEF EXECUTIVE'S REPORT

3.1 Mr Haddrill introduced his report.

3.2 Discussion included the following points and observations:

- on the draft budget for 2016/2017, Mr Haddrill informed the Board that following the Audit Committee meeting in November, the executive had undertaken a further review. The updated draft 2016/2017 budget would be considered by the Board later in the meeting;
- on 'distributable profits' and correspondence from LAPFF, the Board was updated on the latest developments and noted that a public statement would be made in due course re-confirming the FRC's position; and
- on the PRA, the Board was apprised on the recent discussions with PRA and FCA in respect of governance, in particular with regard to the impact of the senior manager's regime, being introduced in March 2016.

3.3 The Board noted the Chief Executive's report.

4 COMMITTEE CHAIR REPORTS

a. Report from CSC meetings of 11 November 2015

4.1 The report was taken as read. Mr Land drew the Board's attention to the IASB Conceptual Framework underway, reporting that the Accounting Council had made a significant contribution to the FRC's response to the IASB.

b. Report from CC meeting on 13 October and 10 November 2015

4.2 Mr Childs commented that significant issues from the meetings were covered in the Conduct Quarterly report to be considered later in the meeting. Mr George gave an update on the recruitment for the AQR director position.

c. Report from Audit Committee meeting on 18 November 2015

4.3 Mr Land reported that at its November meeting, the Audit Committee had considered, amongst other things, the following: (i) the draft budget 2016/2017; (ii) an update on IT security and data management initiatives; (iii) the revised whistleblowing policies; (iv) a report on FRC payroll and pensions processes. The Board discussed the whistleblowing arrangements, in particular the escalation procedure, and requested that the revised policies be submitted at the Board meeting in January and that the Audit Committee monitor the number and nature of any whistleblowing disclosures, any trends over comparative periods and regularly assess the overall effectiveness of the policies.

d. Report from Remuneration Committee meeting on 30 November 2015

4.4 Ms Corley informed the Board that the Remuneration Committee had considered certain budgetary provisions for 2015/2016 pay and compensation, noting that the proposals would be submitted to the Board for approval in January 2016. In addition, it was reported that the Remuneration Committee had reviewed the FRC Pay Policy and was given an update on leadership and management development programmes, performance management reviews and succession planning.

e. Conduct Committee quarterly report

4.5 The quarterly report from the Conduct Executive Director was taken as read. The Board discussed the FCA/PRA report into the failure of HBOS.

4.6 The Board noted the reports.

5 CHAIRMAN'S AGENDA

a. Corporate Governance Breakfast Meetings with FTSE 100 Chairmen

5.1 The Chairman reported that the meetings held in October and November with FTSE 100 Chairmen had been a useful forum to discuss the Codes and the initiatives of the FRC and to canvas stakeholders' views on various topics. It was noted that the corporate culture project and the project on better engagement with investors had been received well. In addition, it was reported that the discussions on the topics had raised a number of issues to be further considered by the FRC. Drawing from the discussions, it appeared that more guidance from the FRC would be welcome.

6 FOR BOARD APPROVAL AND ISSUE

a. FRC Plan & Budget and Levy Proposals 2016/2017

6.1 Mr Clarke introduced the item. He summarised the considerations made by the executive in preparing the draft budget plan and levy proposals for 2016/2017, taking into account: (i) the additional resources required to assume and discharge the additional statutory responsibilities of the FRC as a single competent authority under the ARD; (ii) the costs associated with undertaking the major activities and projects planned for 2016/2017; (iii) the costs to pursue the regulatory approach as outlined in the 3-year Strategy document published at the end of October 2015.

6.2 The Board approved for publication the plan, budget and funding for 2016/2017, subject to suggested amendments and with final sign off by the Chairman and CEO.

b. FRC Alignment

6.3 On FRC structure, Mr Haddrill introduced the item and explained that, in the light of the feedback from the Board, he had reviewed the options set out in the paper tabled. Whilst the existing structure established following the 2012 reforms had worked well, the new strategy and the role of the FRC as the audit competent authority required an outcomes based approach. He outlined the role of the Board in the new structure and how the functions of audit, reporting and oversight would be organised.

6.4 The Board discussed the options tabled and noted the merits of each option but indicated a preference to refine the existing governance model to accommodate the changes consequent to ARD and the effectiveness review and to review the structure at the Board's strategy day in September.

6.5 The Board agreed in principle to the following changes to the FRC's governance structure:

- the Councils would continue to sit under the CSC together with the Financial Reporting Lab and a CRR committee; it was recognised that there could be some cross-reporting between CSC and Conduct in respect of CRR matters if enforcement was to be pursued;
- the Accounting Council would be renamed Corporate Reporting Council and its membership would be reviewed in the light of its wider role;
- Audit, Oversight, AQR and Supervisory Inquiries would come under Conduct Committee;

- the overarching Monitoring Committee would be abolished but the AQR Committee and the Committee responsible for appointing FRRP Groups would continue to sit under the CC;
- the Case Management Committee (which might be renamed) would sit under the CC and would take on responsibilities under the new enforcement procedure and the ARSP in addition to its continuing role under the Schemes; and
- the Executive Committee would cease to be a committee of the Board.

6.6 Mr Haddrill agreed to do a one page summary of the changes. A note to staff on the changes would be signed off by Sir Win, Mr Land and Mr Childs.

c. UK GAAP Update – Approval of two FREDs

6.7 Mr Appleton and Ms Carter introduced the item. The Board was informed that:

- FRED 63 was proposed to introduce significant disclosure exemptions to IFRS 15; without it entities choosing the report under IFRS would be subject to full disclosure. The Board noted the deregulatory nature of the proposal;
- FRED 64 was proposed to amend FRS 103 in the light of Solvency II becoming effective 1 January 2016. The amendment impacted insurance companies and would allow entities to continue with their existing accounting policies if they chose to do so.

6.8 Noting that the proposals were recommended by the Accounting Council and Codes & Standards Committee, the Board approved FRED 63 and FRED 64 for issue, with a shorter consultation period for the latter.

d. Annual Report to Crown Dependencies

6.9 Ms Bardwell introduced the item, explaining that the Crown Dependencies had each delegated to the FRC statutory powers: (i) for monitoring the performance of statutory audits carried out by the auditors of companies incorporated in the Crown Dependencies and that have securities admitted to a regulated market and (ii) for overseeing the regulation of recognised auditors by the ICAEW. There followed a discussion on the main challenges faced and managed by the FRC in connection with the arrangements.

6.10 The Board approved the report for issue to the relevant authorities in the Crown Dependencies by 31 December 2015.

7 FOR AGREEMENT TO PROCEED

a. Update: Audit Regulation and Directive Implementation

7.1 Ms McArthur apprised the Board on the latest discussions with BIS and the professional bodies following the publication of the consultation document and of a partial draft of the Regulations to implement the Audit Regulation and Directive (ARD) by BIS on 28 October. The Board noted the continuing dialogue with BIS and the professional bodies on various issues and that the BIS consultation period ended on 9 December 2015. The Board agreed with the recommendation from the Board Steering Group that a letter should be sent from the Chairman to the Minister by 9 December. Board members will be invited to send to Ms McArthur any comments on the draft tabled.

b. Enterprise Bill and Deregulation

- 7.2 Mr Hodge introduced the item. The paper outlined the actions proposed to be taken by the FRC in anticipation of the Enterprise Bill introducing a 'Growth Duty' for regulators, such as the FRC; the paper also indicated the proposed steps for placing the FRC in a position to meet the expected reporting requirements under the Bill. Mr Hodge reported on the progress of the internal review underway to identify opportunities on reducing 'red tape' as part of the wider Government's initiative on reducing the regulatory burden on business by £10billion. Initial proposals would be presented to the Board in January.
- 7.3 The Board noted that the paper set out the proposals for reviewing the impact of the EU financial services regulation in response to a consultation by the European Commission on the topic. The Board agreed that the FRC's response would: (i) emphasize the need for improved consistency of reporting thresholds and definitions; (ii) encourage the removal of duplication and overlapping requirements with international standards; (iii) suggest extending the implementation period for EU legislation from 2 to 3 years.

c. Developments in Corporate Governance and Stewardship 2015 - Monitoring Report

- 7.4 Mr Styles introduced the item. The paper comprised an overview and assessment of compliance with the Code, a summary of the main findings and the likely actions to be taken by the FRC the following year. The Board noted that the draft report had taken into account the comments made by the Codes & Standards Committee.
- 7.5 In the ensuing discussions, the Board discussed the due diligence process adopted for gathering the evidence, the findings resulting from the assessment, the key messages and statements on the key areas of focus in the forthcoming year. The Board also emphasised the need: (i) to provide further guidance to stakeholders on how the quality of the 'comply or explain' disclosures would be assessed; (ii) to provide examples of disclosures that were both compliant with the Code's requirements and provided a disclosure or explanation meaningful to shareholders; (iii) to make reference to the work underway on boards' succession planning; (iv) to address how the work of proxy advisors could be more instrumental in facilitating better engagement of shareholders for voting purposes; (iv) to make a few drafting amendments in various paragraphs.
- 7.6 The final draft report would be circulated by way of email to the Board for comments in mid-December with a view to approving it by 6 January 2016, for publication during the week commencing 11 January 2016.

8 OUTLINE BOARD CALENDAR 2016 & 2017 dates

- 8.1 The Board noted the outline Board calendar.

9 ANY OTHER BUSINESS

- 9.1 The Board was informed that following recommendation from the Audit Committee a proposal to open a new deposit account was to be circulated to the Board, together with a formal resolution.

- 9.2 On Audit Firm Governance Code, Mr Haddrill gave an update on progress.

- 9.3 The Chairman noted that the meeting was the last Board meeting to be attended by Mr Hodge. On behalf of the Board, the Chairman thanked Mr Hodge for his contribution and efforts in enhancing the reputation, work and profile of the FRC and wished him all the best for the future.

10 NEXT MEETING

- 10.1 Wednesday, 27 January 2016 at 8.30 am.