

Financial Reporting Council

**Minutes of a meeting of the Board of Directors of the Company
held on 17 October 2018 at the FRC, 8th Floor, 125 London Wall, EC2Y 5AS**

PRESENT:	Sir Winfried Bischoff Gay Huey Evans Mark Armour Sir Brian Bender David Childs Olivia Dickson Paul Druckman Stephen Haddrill Nick Land Roger Marshall Keith Skeoch Julia Unwin Jenny Watson Mark Zinkula	Chairman Deputy Chairman Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director Chief Executive Officer Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director
IN ATTENDANCE:	Elizabeth Barrett Francesca Carter Mario Dunn Paul George Helen Grimshaw Mike Suffield Tracy Vegro Tara Trousdale Marian Williams Anthony Appleton Deepa Ravel Ann Muldoon Dawn Dickson	Executive Counsel Board Secretary Director, Strategic Communications Executive Director, Corporate Governance & Reporting Acting Executive Director, Audit & Actuarial Regulation Executive Director of Strategy & Resources Finance Director (item 5 only) (item 8 only) (item 10 only) (item 10 only) (item 11 only) Director, Professional Oversight (items 12 & 13)
APOLOGIES:	John Coomber	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 Jenny Watson had become an Ambassador for Women on Boards and that Julia Unwin was a member of the independent Panel reviewing Which? Consumer organisation.

3 MINUTES & MATTERS ARISING

3.1 The Board approved the minutes of FRC Board meeting held on 19 September 2018 for publication.

- 3.2 The matters arising log was noted. An update on the revised MoU with the PRA was expected later that month; work on extended auditor reporting would begin before the end of the year.

4 CHIEF EXECUTIVE’S REPORT

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

- *Independent review of the FRC.* The Board noted Sir John Kingman and the secretariat team continue to meet with members of the executive to develop their understanding of the work of the FRC; Sir John has confirmed his intention to publish his report before Christmas. It was agreed a Board Subgroup be established to work with the executive in preparing for the report and responding to the recommendations once known.
- *Audit work programme.* The Board noted the work programme had been launched on 8 October and had been well received. In addition to the post implementation review of the 2016 Audit and Ethical Standards the programme would include workstreams to address the audit expectation gap and key issues arising from business failures.
- *CMA market study into statutory audit markets.* The Board noted the CMA had announced a market study into statutory audit markets on 9 October and a consultation paper would be issued in December. The Board discussed the content of the invitation to comment and the FRC’s own priorities for audit reform. In identifying that significant change in the market would require a mix of competition and regulatory remedies the Board welcomed that the FRC and CMA would work closely to develop potential remedies and that the FRC’s audit work programme would be taken into consideration.
- *Lessons learned from BHS / Taveta.* The Board noted an update on the settlement agreement with Taveta and a report on lessons to be learnt from the investigation and subsequent proceedings.
- *Select Committee Inquiries.* The Board noted the FRC had been called to give evidence in late November on remuneration, including on the recent changes to the Code, gender pay and FRC’s own pay policies. The Board discussed preparations for the session.
- *SORP Policy.* The Board approved the proposed approach to the approval of FRC statements on SORPs.
- *Stewardship Code consultation.* The Board noted a request from BEIS to delay issue of the consultation to align with issue of the Shareholder Rights Directive. The Board agreed to the delay but supported the executive in concluding that it should be delayed for no longer than one month to avoid closing during the peak AGM season.

- 4.3 Update reports from the Acting Executive Director, Audit & Actuarial Regulation and the Executive Director, Corporate Governance & Reporting were noted.

5 OPERATIONS REPORT

- 5.1 Ms Vegro introduced a report on the FRC’s responsibilities as a public body and general operational matters.

- 5.2 The Board noted:

- Further delay was expected in relation to gaining approval for the FRC’s 2018/10 pay review submission. The Chair of the Remuneration Committee noted that, if it is thought necessary, he would contact BEIS.
- The new Values in Practice recognition scheme had been launched and the first round of rewards had been approved and would be paid with the October salaries. Staff reaction had been positive.
- The FRC was on track to implement all the Government Internal Audit Agency recommendations on compliance with the Treasury’s Managing Public Money guidelines by the end of the year.

- BEIS continues to consult with the FRC on draft legislation for EU Exit and the FRC had joined two project boards.
- Cyber security risk: steps were being taken to actively manage that risk; including compulsory re-training where necessary.
- The report from the Finance Director on financial performance to end September 2018.

5.3 The Board considered a quarterly HR dashboard report and discussed headcount, staff turnover and recent exit interview comments. It was noted that, going forward, there would be regular monitoring and analysis of the comments to identify any patterns or emerging issues requiring action.

6 CHAIRMAN'S AGENDA

6.1 The Board noted the term of office for the Deputy Chair was due to expire on 30 April 2019. As a Secretary of State appointment, the recruitment process would be led by BEIS. The Board approved an amended annual fee of £29,950 for the incoming Deputy Chair.

7 REPORT FROM THE EXECUTIVE COUNSEL

7.1 The Board considered a report from the Executive Counsel on her preliminary thoughts and impressions concerning the work of the Enforcement Division since joining the FRC in August. The Board welcomed the report and the insight provided in relation to the strengths of the Division, potential improvements that had been identified and the areas of opportunity and challenge.

8 FRC CONTINGENCY PLAN

8.1 The Board considered a draft FRC Contingency Plan to be actioned in the case of a demise, or significant threat of a demise, of a big 6 audit firm. The Board emphasised the importance of having such a plan. A number of suggestions were made in relation to the potential scenarios that would trigger the enactment of the plan, the likelihood and impact of those scenarios, including the firms' networks, and the triggering process. In relation to the proposed Taskforce the Board suggested consideration be given to identifying appropriate individuals and smaller groups who would respond to specific scenarios, particularly in the early stages before any public announcement had been made, and the need to be flexible in relation to who the members of the Taskforce might be.

8.2 Through discussion the Board highlighted the importance of the firms having agreed recovery and resolution plans and discussed the FRC's role in approving such plans.

8.3 The Board welcomed that discussions with the firms on contingency were scheduled later in the month.

9 AUDIT MARKET CONCENTRATION

9.1 The Board considered a report that invited views on potential options being considered by the CMA to address possible market failures in the audit market, including whether the FRC should have a competition objective.

9.2 The Board discussed the possible measures that had been identified by the CMA, including the pros and cons of each. The Board reiterated its view that a combination of competition and regulatory remedies might be required to enable the change that is sought. If remedies were considered, they would need to be developed through an understanding of the barriers to audit quality and potential causes of market failure. The Board also highlighted the

importance of ensuring that any such remedies that are introduced did not weaken the role of the Board and / or Audit Committee and or have a detrimental impact on stewardship.

- 9.3 The Board discussed the specific suggestion that the FRC might have a competition objective. Following detailed discussion, which included consideration of the FRC's existing responsibilities and priorities in relation to audit, and the potential challenges a competition objective could bring, the Board concluded that the introduction of an objective to "promote competition in the interests of improving audit quality, not for its own sake" could provide clarity on the relationship between audit quality and competition duties and could be beneficial in enabling the FRC to improve audit quality.

10 FUTURE OF CORPORATE REPORTING – PROJECT PLAN

- 10.1 Ms Raval introduced a draft plan for the FRC project on the future of corporate reporting. The Board considered the proposed components of the project and the outline research proposals, noting the objective of the project is to identify opportunities to improve the effectiveness of corporate reporting for investors and other stakeholders and to make specific recommendations for changes to regulation and practice.
- 10.2 The Board discussed the importance of Environmental, Social and Governance (ESG) reporting and encouraged the executive to separate the non-financial reporting and ESG reporting components of the project. Whilst it was noted climate related financial disclosures are high on the public agenda it was not considered appropriate to prioritise work on any one of the ESG areas and that a holistic approach to ESG reporting should be developed.
- 10.3 The Board considered governance of the project and supported the proposal to establish an advisory group formed of different stakeholders who would bring a range of perspectives to the debate.

11 CONSULTATION ON ASORP 1 – FINANCIAL ANALYSIS OF SOCIAL SECURITY PROGRAMMES

- 11.1 The Board considered and approved the Consultation Document: Actuarial Statement of Recommended Practice 1 and the accompanying Exposure Draft, noting the Government Audit Department and the IFoA had been consulted throughout the development process and were supportive.

12 BI-ANNUAL PROFESSIONAL OVERSIGHT REPORT TO THE BOARD

- 12.1 The Board considered a report that provided an update on significant matters dealt with by the Professional Oversight Team since last reporting in March and progress against the Professional Oversight activity plan for 2018/19. Ms Dickson reported that significant focus was being placed on the EU Exit implications for the third country auditor regime, primarily the registration of EU auditors as third country auditors and that, to obtain more direct evidence of the quality of monitoring by Registered Supervisory Bodies' (RSBs) members of the team had been shadowing RSB audit quality monitoring visits. The Board noted there had been a significant increase in the volume of complaints being received concerning the RSBs and the IFoA and discussed how those complaints are handled by the FRC.
- 12.2 The Board noted progress on the RSB governance review and encouraged the executive to expand the scope to include consideration of the culture at the Bodies. In relation to the review of the IFoA, the Board encouraged the executive to progress the review noting the IFoA's public consultation on its proposed framework to monitor actuaries work had closed.

It was also requested the principles underpinning the governance review of the IFoA be shared with the Board.

13 ANNUAL REPORT TO THE CROWN DEPENDENCIES

- 13.1 The Board considered the FRC's Annual Report to the Crown Dependencies for 2017/18 on the FRC's oversight of the regulation of auditors of market traded companies.
- 13.2 On the recommendation of the Conduct Committee the Board approved the Report for issue but requested consideration be given to publishing the names of the firms alongside their audit quality review grades in the interests of transparency.

14 COMMITTEE CHAIR REPORTS

Report from the Conduct Committee

- 14.1 The Board noted minutes of meeting of the Conduct Committee held on 11 September 2018 and an update on matters considered at a meeting of the Conduct Committee held on 9 October 2018.

Report from the Codes & Standards Committee

- 14.2 The Board noted minutes of a meeting of the Codes & Standards Committee held on 25 September 2018.

15 FORWARD PLAN

- 15.1 The forward plan was noted.

16 ANY OTHER BUSINESS

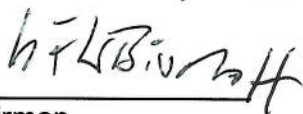
- 16.1 The Board noted an update on the Patisserie Holdings plc matter.

17 PRIVATE MEETING OF THE NON-EXECUTIVE DIRECTORS

- 17.1 The Non-Executive directors met to discuss senior executive succession.

18 DATE OF NEXT MEETING

- 18.1 Wednesday 5 December 2018


Chairman