

Financial Reporting Council

Minutes of a meeting of the Board of Directors of the Company held on 20 October 2016 at 8th Floor, 125 London Wall

PRESENT:	Sir Winfried Bischoff Gay Huey Evans Stephen Haddrill Mark Armour Sir Brian Bender David Childs John Coomber Olivia Dickson Paul George Ray King Nick Land Roger Marshall Melanie McLaren Keith Skeoch	Chairman Deputy Chairman Chief Executive Non-Executive Director (minute 3 onwards) Non-executive Director Non-executive Director (by phone, until minute 8) Non-executive Director (minute 4.1 onwards) Non-executive Director Executive Director, CGR Non-executive Director Non-executive Director Non-executive Director Executive Director, Audit Non-executive Director
IN ATTENDANCE:	Anne McArthur Tracy Vegro David Andrews Hannah Armitage Francesca Carter James Calder Dawn Dickson James Ferris Robert Inglis Ann Muldoon Rossella Pagano David Styles Gareth Rees	General Counsel and Company Secretary Executive Director of Strategy & Resources Head of Organisational Development (minute 8c) Policy Advisor (minute 9a) Committee Secretary Project Director (minute 9b to d) Director of Professional Oversight (minute 9b to d) Project Director (minute 9e) Project Director (minute 9f) Director of Actuarial Policy (minute 9f) Board Secretary Director of Corporate Governance (minute 8.4 & 9) Executive Director, Enforcement (minute 6b)
APOLOGIES:	Elizabeth Corley	

1 QUORUM AND OPENING OF MEETING

1.1 The Chairman noted that the meeting was quorate.

2 DECLARATION OF INTERESTS

There were no new declarations.

3 MINUTES

3.1 The Board approved the minutes of the meeting held on 30 June 2016 for publication, subject to a minor amendment.

Matters arising

3.2 The Board noted the matters arising.

3.3 At the invitation of the Chairman, Ms Huey-Evans gave feedback on the points raised during the discussion with staff at the breakfast meeting held prior to the Board meeting.

4 CHIEF EXECUTIVE’S REPORT

4.1 Mr Haddrill introduced his report. In connection with the update on the Audit Firm Governance Code, the Board focused the discussion on the scope of engagement, format and frequency of the meetings held with Independent Non-Executive (INE) directors of major firms. The Board suggested that the Executive consider a more structured and formal approach to the meetings as part of the monitoring and oversight of the major audit firms.

5 COMMITTEE CHAIR REPORTS

a. Report from CSC meeting of 14 September 2016

5.1 The minutes of the Codes & Standards Committee (CSC) meeting were noted. Mr Land reported that most of the matters considered by the Codes & Standards Committee were on the agenda for discussion or approval.

b. Report from CC meeting of 21 June, 19 July and 13 September 2016

5.2 The minutes of the Conduct Committee (CC) meetings held on 21 June, 19 July and 13 September were noted. Mr Childs reported on the matters considered by the Committee at its meeting on 13 October and the Board noted the issues that had been identified.

c. Report from Nominations Committee meeting of 30 June and 14 September 2016

5.3 The minutes of the meetings were noted. The Chairman reported that later in the meeting the Board would be asked to consider recommendations of the Nominations Committee for the re-appointment of certain Board members.

d. Report from the Remuneration Committee meeting of 30 June 2016

5.4 The minutes of the Remuneration Committee meeting held on 30 June were noted.

6 QUARTERLY REPORTS

a. Corporate Governance and Reporting, ED report

6.1 Mr George introduced this item and drew the Board’s attention to the revised Codes & Standard Procedures included in the paper. He explained that the amendments were necessary to bring the procedures in line with current FRC policy and practice. The Board approved the revised procedures with immediate effect, subject to the need in due course to consider prominence being given to impact assessments.

6.2 On the Culture report, the Board considered whether there was an opportunity to develop case studies on the lessons learnt by boards which had been involved in high-profile corporate governance failures.

6.3 The Board noted that whilst there had been no significant shortfall in the standard of narrative reporting, the analysis on risks and uncertainties, tax implications and strategy were areas identified for improvement.

6.4 The Board noted that the Culture report had been shortlisted for ‘Governance Project of the Year’ at the ICSA awards, to be announced at the end of November.

6.5 It was also noted that the Governance & Legal Team had won the ‘Legal 500 Award as the best in-house team in the public sector’. The Board congratulated Ms McArthur and her team for this achievement and recognition.

b. Enforcement quarterly report

6.6 Mr Rees introduced the item and provided an update on the status of cases under investigation or at the prosecution stage.

In addition, Mr Rees reported that an internal review of the time taken to investigate and conclude cases was underway, and would be followed by an external independent review; the Board noted the proposed approach.

- 6.7 The Board noted that significant progress had already been made in improving the timetabling of cases. In addition, the Board suggested that reports include more detailed information on timings and that the Executive consider a standard communications approach in respect of public announcements regarding audit enforcement cases.
- 6.8 The Board noted that a separate review in respect of the adequacy of sanctions, financial and otherwise, was underway, led by the Governance & Legal team.

[Mr Armour, as a director of Tesco PLC, was not present during the discussion on the case concerning PwC/Tesco PLC.]

7 CHAIRMAN'S AGENDA

a. Appointments and re-appointments

- 7.1 The Chairman informed the Board that the Nominations Committee recommended the re-appointments of Sir Brian Bender, Mr Childs and Mr Land whose appointments were due to expire in 2017. After due consideration the Board approved:
 - (i) the reappointment of Sir Brian Bender for a term of 3 years to the Board and as a member of the Conduct Committee, from 1 March 2017;
 - (ii) the reappointment of David Childs for a term of 3 years to the Board, as Chair of the Conduct Committee and as member of the Nominations Committee, with effect from 1 May 2017; and
 - (iii) the re-appointment of Nick Land for a term of 3 years to the Board, as Chair of the Audit Committee and the Codes & Standards Committee, and as a member of the Remuneration and Nominations Committee, from 1 April 2017.
- 7.2 In addition, on the recommendation of the Nominations Committee, the Board re-appointed Mr Marshall as a member of the CSC for a term of 3 years and extended his appointment as chair of the CRC until a successor is appointed; the effective date of the re-appointment would be 1 November 2016.

b. FRC Governance Review 2016

- 7.3 Ms McArthur introduced the item reporting that, after the completion of the 2015 governance review, she consulted various Board members about the FRC governance structure prior to the Strategy Away Day. The paper summarised the full unattributed views of those interviewed and the views of the Board expressed at the Away Day.
- 7.4 The key area of focus at the Strategy Away Day was the status of the Councils; whilst there was a general consensus to retain the Councils, there was an appetite to review their status. It was now proposed that the Councils be retained within the governance structure and that, whilst the Councils would be chaired by a non-executive member, the requirement for the Councils to be chaired by a Board member be dispensed with.
- 7.5 The Board recognised that the Councils were effective, undertook a valuable role in the standards setting process and contributed to the work of the Codes & Standards Committee. In addition, the Councils performed an advisory role to the Board as well as provided support to the Executive. The Board agreed with the proposal, provided that the Chair of the Councils attend Board meetings as required to provide, amongst other things, assurance to the Board on any significant matter.

7.6 In addition, the Board agreed with the recommendations that the Executive take forward a number of initiatives outlined in the paper, including drawing up a detailed scheme of delegations, improved Board papers, more focus on risks and budget in the corporate calendar and the adoption of some of the recommendations of the Committee on Standards in Public Life's report.

8 FOR DISCUSSION

c. FRC Plan & budget 2017/2018

8.1 Mr Andrews introduced the paper, noting that the preparation of the budget this year was more challenging due to current uncertainties, including Brexit and the Government corporate governance agenda.

8.2 The Board discussed the assumptions underlying the plan and budget, the funding arrangements, the targeted increase in reserves, the commitment to limit any future increases to that published in the previous year and on the need for transparency over the FRC's costs and expenditure.

8.3 The Board also acknowledged the challenges ahead for the FRC in terms of its role, the expectations of the public and the focus on the FRC's work, the on-going discussion on the treatment of fines under the audit enforcement procedures and on the classification of the FRC. The Board was comfortable with the working assumptions proposed, subject to prudent management being exercised as appropriate, given the present uncertainties.

d. Future FRC approach to business and governance

8.4 Mr Styles introduced this item, noting that the FRC would be required to submit evidence to the BEIS Select Committee by 26 October and would be called to give oral evidence. The annex to the paper set out a number of measures that could potentially be addressed in the letter and evidence to the Select Committee.

8.5 There followed a discussion. A number of points were raised including:

- (i) in the relation to the 'comply or explain' approach, improved disclosures and/or reporting on the quality of the explanation, evidence on effective challenge and corporate governance arrangements;
- (ii) a review of the enforcement framework and its effectiveness in order to hold directors accountable under the existing provisions of the Companies Act. The Board suggested that a schedule of the current powers of existing public, governmental bodies or agencies be drawn up outlining the powers of enforcement under the relevant legislation, regulations and codes and when these were last enforced;
- (iii) the current governance role of the FRC and the FRC's current mission in the light of the changed political environment;
- (iv) the quality of the UK Corporate Governance Code reporting, with consideration being given to extending its application to large private companies;
- (v) the characteristics of the UK equity market, including the ownership profile of UK corporates, the stewardship model and its implications in terms of alignment between interests of equity owners and consumers;
- (vi) the provision of improved guidance to the remuneration committees, better explanations in the narrative reporting with regard to: the remuneration strategy, performance-linked pay, alignment in the profit-sharing arrangements across all

relevant stakeholders, the role of committee and directors in exercising discretion in relation to awards; and

(vii) a review into the issues raised by quantum of executive pay, disparity and performance-linked pay of senior executives.

8.6 The feedback would be used to formulate a response to the Select Committee. The Board agreed to delegate approval of the final letter to the Select Committee to a group comprising Mr Hadrill, Sir Win, Mr Land and Mr Skeoch.

9 FOR BOARD APPROVAL AND ISSUE

a. Outcome of the Stewardship Code tiering project

9.1 Mr Styles introduced the item, reporting that the approach to tiering had been discussed at the Codes & Standards Committee meetings. The public assessment of reporting and proposed tiering was based on an assessment of the quality of signatories' reporting against the Stewardship Code; in this regard, the paper outlined the results. The Board approved delisting those signatories in Tier 3 which did not improve their reporting within six months of the announcement.

9.2 In addition the Board noted the issues to be taken into account in relation to the public announcement and the next steps, including FRC's response to concerns with regard to trust in business.

9.3 The Board thanked Ms Armitage for her contribution to the successful completion of the project.

b. Revocation of recognition – a supervisory body

9.4 Ms Dickson introduced the paper, explaining the reasons for the proposed revocation of the recognition of the Association of Authorised Public Accountants (AAPA), pursuant to the statutory powers of the FRC under the Companies Act. After consideration and confirmation that the AAPA would announce the revocation to its members, the Board agreed:

- (i) to order under Paragraph 3, Schedule 10 of the Companies Act 2006 that the recognition order of the AAPA is revoked and that the Revocation Order will take effect on 31 December 2016; and
- (ii) to authorise the Executive, on its behalf, to give notice of the Revocation Order to the AAPA and, in order to bring the Revocation Order to the attention of the AAPA members and any other person likely to be affected, to publish the Revocation Order on the FRC website and request that the AAPA post a notice on its website.

c. Third country auditors: proposed public consultation on de-registration procedures

9.5 Ms Dickson introduced this item, reporting that, under the Companies Act 2006, Third Country Auditors (TCAs) are required to register with the FRC and renew their registration on an annual basis. The FRC also had delegated powers from the Secretary of State to remove TCAs from the Register. The draft procedures had been developed to ensure the FRC applied a consistent, efficient and transparent approach to any de-registrations.

9.6 The FRC Board approved: (i) the public consultation document on the Third Country Auditor Register Procedures as set out in Appendix 1 to the paper and authorised the Professional Oversight team to publish same; and (ii) the update to the current Directions to accommodate the recent equivalency decisions given the delegated function.

d. Annual report to Crown Dependencies on oversight of the regulation of auditors of market traded companies

9.7 Ms Dickson introduced the paper. The FRC Board approved the Report for issue to the relevant authorities in the Crown Dependencies by the deadline of 31 December 2016.

e. Approval of ISA 800 and ISA 805 for adoption in the UK

9.8 Mr Ferris introduced this item, explaining that the adoption of ISA 800 and ISA 805 had been developed to support auditors undertaking the audit of Solvency II (Insurance) regulatory returns which the PRA required to be audited in accordance with ISAs; the responses to the consultation document approved by the Board in June had been received and analysed.

9.9 The Board was informed that ISA 800 and ISA 805 had been reviewed by the Codes and Standards Committee and the Audit and Assurance Council; the standards were recommended to the Board for adoption. The Board approved for publication the feedback statement and impact assessment and adopted ISA 800, as modified, and ISA 805 in unmodified form for use in the UK for periods commencing on or after 1 January 2017 allowing for early adoption.

f. Actuarial standards TM1 – Changes to mortality assumptions

9.10 The Board considered the revised version of AS TM1 outlined in the paper.

9.11 On the recommendation of the CSC and advice from the Actuarial Council, the Board agreed to issue the revised AS TM1 with amendments to the mortality basis.

10 OUTLINE BOARD CALENDAR 2016/2017 and 2018 dates

10.1 The Board noted the outline Board calendars for 2016/2017 and the 2018 dates.

11 ANY OTHER BUSINESS

11.1 It was noted that since its last meeting the Board had approved by way of email:

- (i) the re-appointment of Roger Marshall for 3 years at the expiry of his current term;
- (ii) the appointment of Elizabeth Derrington as Independent Complaints Reviewer, with effect from 10 October 2016;
- (iii) the appointment of Richard Jones as Chair of the Enforcement Committee Panel; and
- (iv) the revocation of Graham Clarke’s signing authority for certain bank accounts and delegated signing authority to Tracy Vegro.

12 NEXT MEETING

12.1 Thursday, 7 December 2016 at 9am.

Chairman