

**Minutes of a meeting of the Board of Directors of the Company
held on 20 October 2015 at 8th Floor, 125 London Wall**

PRESENT:	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 Roger Marshall Melanie McLaren	Chairman Deputy Chairman Chief Executive Non-executive Director Non-executive Director Chairman, Conduct Committee and non-executive Director Non-executive Director Non-executive Director Chairman, Actuarial Council and non-executive Director Executive Director, Conduct Non-executive Director Chairman, Codes & Standards Committee and Chairman, Audit & Assurance Council and non-executive Director Non-executive Director Executive Director, Codes & Standard
IN ATTENDANCE:	Anne McArthur Chris Hodge Rossella Pagano Mark Babington Marek Grawboski Dawn Bardwell Shazia Ahmad Susan Currie Anthony Appleton Jenny Carter Marian Williams John Grewe David Andrews Phil Fitz-Gerald	General Counsel and Company Secretary Executive Director, Strategy Board Secretary Deputy Director, Audit Policy (item 5a) Director, Audit Policy (item 5a) Director, Professional Oversight (Item 5b) Project Manager (item 5b) Conduct Project Director (item 5c) 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) Head of Supervisory Enquiries

Apologies were received from Keith Skeoch. No conflicts of interest were declared in relation to any of the matters for discussion.

1 MINUTES

1.1 The Board approved the minutes of the meetings held on 1 July and 17 September 2015 for publication.

Matters arising

1.2 The Board noted the matters arising.

2 CHIEF EXECUTIVE'S REPORT

2.1 Mr Hadrill introduced his report.

2.2 Discussion included the following points and observations:

- on IT security, Mr Hadrill informed the Board of a number of measures taken so far to mitigate the risks including: (i) system testing programmes; (ii) training; (iii) increased security measures; (iv) tightening of controls against malware infiltration. In addition, the Board agreed to participate in the IT computer based training planned for staff and to transition over the next few months to Board Pad (or other secure arrangements for accessing board packs) with the intention of phasing out hard copy board packs altogether;
- on the risk register regarding the FRC effectiveness, it was agreed to specify the details of the actions being taken to address the underlying sub-risks, to track progress and to include an appropriate commentary on any material changes;
- on the regular assessment of the health of the audit profession, the Board noted that CEOs and speakers from audit firms had been invited in turn to present their business model to the Board, over the next few months.

2.3 The Board noted the Chief Executive's report.

3 COMMITTEE CHAIR REPORTS

a. Report from CSC meetings of 8 September and 7 October 2015

3.1 The report was taken as read. The Board discussed the impact of BIS and the Government approach to deregulation, the legislative measures being taken and the on-going rationalization of the Government's relationship with partners' organization such as FRC.

b. Report from CC meeting on 14 July and 15 September 2015

3.2 Mr Childs reported on: (i) the progress of cases; (ii) the success in reducing case costs, despite the increase in the number of cases going to Tribunal; (iii) the work under way to improve experts' assistance. In addition, the Board considered the role and jurisdiction of the FRC in insolvency cases, and noted the assessment criteria for initiating an investigation under the current disciplinary processes. On tax schemes and the accountancy profession, it was agreed that a paper would be circulated to the Board.

c. Report from Nominations Committee meeting on 1 July 2015

3.3 The Chairman reported that the Committee had considered and recommended that the fees received by executive directors serving on external boards be retained by them. The Committee had also agreed to amend the FRC policy on maximum length of service so as to have the flexibility to extend non-executive appointments for a further third term of up to 3 years.

d. Report from Remuneration Committee meeting on 1 June 2015

3.4 Ms Corley confirmed that, after the Nominations Committee, a meeting of the Remuneration Committee was convened; the recommendation of the Nominations Committee on the retention of fees by executive directors' fees (referred to in minute 3.3 above) was agreed.

e. Codes & Standards Committee quarterly report

- 3.5 The quarterly report from the Codes & Standards Executive Director was taken as read.
- 3.6 The Board noted the reports.

4 CHAIRMAN'S AGENDA

a. FRC Effectiveness Review programme

- 4.1 The Chairman introduced the item which set out the proposal of the Board's effectiveness review programme for the reporting period 2015-2016. The Board noted the timetable, the proposed methodology and the scope of the programme.
- 4.2 The Board discussed the proposal and agreed: (i) to appoint an external advisor to conduct the effectiveness review of the Board and its Committees, with the review of the Councils, the Monitoring Committee and the Case Management Committee being facilitated by the Governance & Legal team; (ii) to appoint the Chairman, Deputy Chairman, CEO, the Chair of the Codes & Standards Committee and the Chair of the Conduct Committee to select the independent provider; and (iii) to delegate to any one director authority to sign the engagement letter.

5 FOR BOARD APPROVAL AND ISSUE

a. Client Assets Assurance Standard

- 5.1 Ms McLaren introduced the paper. The Board noted the responses from the consultation on Client Assets Assurance Standards and in particular, the main areas of challenge by respondents, namely: (i) whether FRC's approach was proportionate, (ii) quality control review, and (iii) ethical standards requirements. The Board noted the response to each challenge as addressed in the draft assurance standard ('Assurance Standard'). The Board was informed that the Assurance Standard had been aligned to the FCA requirements, following consultation with the FCA and that in addition the Audit & Assurance Council and the Codes & Standards Committee had considered the Assurance Standard and recommended it, in the form produced to the meeting.
- 5.2 The roles of the FCA and FRC were discussed. It was noted that some respondents had wished the IESBA ethical standard to apply rather than the FRC standard which was being expanded to cover audit and public interest assurance such as CASS. In all but one case CASS work is carried out by the auditor. Accordingly the FRC standard would apply in any event. It was suggested that the Board be briefed on the different ethical codes and ethical standards available and the circumstances in which they apply.
- 5.3 The Board resolved to approve the publication of the CASS Standards, feedback statement and impact assessment.

b. Recognition of ICAEW and ICAS as supervisory bodies

- 5.4 Mr George introduced the item. The Board noted: (i) the FRC responsibilities under the Local Audit and Accountability Act 2014; (ii) the applications received by ICAEW and ICAS; and (iii) the considerations given to the issue by the Conduct Committee and its advice. The Board discussed the applications.
- 5.5 On the application of the ICAEW for recognition as a Supervisory Body, it appeared to the Board from the information furnished by the ICAEW and having regard to all

the information in the possession of the FRC that the requirements of Schedule 10 of the Companies Act 2006 as applied by Schedule 5 of the Local Audit and Accountability Act were satisfied. Accordingly, **the Board made an order** declaring the ICAEW to be a Recognised Supervisory Body under the provisions and for the purposes of the Local Audit and Accountability Act, 2014 with effect from 1 November 2015.

- 5.6 On the application of the ICAS for recognition as a Supervisory Body, it appeared to the Board from the information furnished by ICAS and having regard to all the information in the possession of the FRC that the requirements of Schedule 10 of the Companies Act 2006 as applied by Schedule 5 of the Local Audit and Accountability Act were satisfied. Accordingly, **the Board made an order** declaring ICAS to be a Recognised Supervisory Body under the provisions and for the purposes of the Local Audit and Accountability Act, 2014 with effect from 1 November 2015.

c. Review of Audit Firm Governance Code

- 5.7 Mr Haddrill introduced the item. The discussion included the following points:
- the quality of audit and FRC's oversight of AQR;
 - with regard to INE: (i) the type of concerns that INEs were expected to report to the regulator; (ii) the level of reporting by INEs on compliance with the code; (iii) how INEs would discharge their responsibilities; and (iv) guidance regarding the skills needed to fulfill the INE role;
 - how the effectiveness of the code would be measured;
 - how best to facilitate the dialogue between audit firms and investors; and
 - the usefulness of including a list of elements of 'best practice' in the code.
- 5.8 The Board agreed that the code should be amended to reflect the discussion before circulating it for approval by the Board.

d. FRED 62 Draft amendments to FRS 102

- 5.9 Ms Carter introduced the item explaining the rationale for proposing an amendment to 'FRS 102 – Fair Value Hierarchy'. The proposals were aimed at improving reporting standards relating to financial institutions and retirement benefit plans only; they were limited scope improvements to simplify the preparation of disclosures about financial instruments for the entities affected, whilst increasing the consistency with disclosures required by EU-adopted IFRS.
- 5.10 Following the advice of the Accounting Council and the recommendation of the Codes and Standards Committee, the Board approved FRED 62 – Draft amendment to 'FRS 102 – Fair Value Hierarchy', for issue with a consultation period closing on 31 January 2016 noting that representations made by financial institutions and retirement benefit plans had been the trigger for the change.

e. Audit Regulation and Directive – Key Issues and Update

- 5.11 Mr George introduced the item which outlined the options for the AQR public reporting, which had been discussed at the Conduct Committee meeting in September. The Board discussed the options and explored the implications for the stakeholders as well as the potential impact on the FRC's resources. The Board agreed that the FRC would publish an annual public report in respect of audit firms with more than 30 entities in scope with the flexibility to inspect and report more frequently as considered appropriate.

- 5.12 Ms McArthur provided an update on various implementation issues including recent discussions with BIS and the four audit regulatory bodies regarding the regulatory framework and the FRC's role; the summary was noted by the Board.

6 FOR AGREEMENT TO PROCEED

a. Strategy 2016/2019: Public Statement and next steps

- 6.1 Mr Hodge introduced the item. The ensuing discussion included the following points:
- to expand on the financial implications resulting from FRC's pursuing its mission, strategy, objectives and discharging its regulatory role;
 - to outline the measures being taken to contain costs and the transition to being a self-funded organization; and
 - to emphasise more: (i) the continuing efforts to pursue effective investors' stewardship, to improve asset managers' engagement and to remain an influential standard setter in the EU and internationally; (iii) the work on actuarial activities; (vii) the focus on quality of corporate reporting in future; and (viii) the deregulatory approach.
- 6.2 The Board approved the FRC's Strategy 2016/2019 Public Statement, subject to being amended to reflect the amendments suggested in the discussion, and delegated the sign off of the final version for issue to the CEO and the Chairman.

b. Effectiveness Review of FRC's AQR and CRR - Update

- 6.3 Mr George reported good progress against plan. The Board discussed and considered the issues highlighted in the paper, including: (i) efficiency savings, (ii) developing proposals to inform companies and auditors in advance of a planned review; and (iii) references to the FRC in companies' reports.

f. FRC Alignment

- 6.4 Mr Haddrill introduced the item covering developments of proposals in relation to the FRC's executive structure. The Board agreed that this work should be continued and consideration be given to possible changes to the FRC governance structure, with a view to presenting a proposal to the Board in December.

7 OUTLINE BOARD CALENDAR 2015 and 2016

- 7.1 The Board noted the outline Board calendar.

8 ANY OTHER BUSINESS

- 8.1 The Board noted the decision made in writing since the last Board meeting, to approve:
- the appointment of Sean Collins (3 years, effective 1 September 2015), Helen Jones (3 years, effective 1 September 2015) and David Cannon (3 years, effective 1 September 2015) as members of the Conduct Committee; and
 - the appointment of Ashok Gupta (until 31 August 2018) and Sue Harris (until 31 August 2017) as members of the Codes and Standards Committee.
- 8.2 The Board noted the declaration of interests by Sir Brian Bender (regarding his Chairman of Water UK, effective August 2015) and by Roger Marshall (regarding his directorship of Pension Insurance Corporate, effective September 2015).



9 NEXT MEETING

9.1 Tuesday, 1 December 2015 at 8.30 am.