

Financial Reporting Council

Minutes of a meeting of the Board of Directors of the Company
held on 3 March 2016 at 8th Floor, 125 London Wall

PRESENT:	Sir Winfried Bischoff Gay Huey Evans Mark Armour Stephen Haddrill Sir Brian Bender David Childs John Coomber Elizabeth Corley Olivia Dickson Paul George Ray King Nick Land Roger Marshall Melanie McLaren Keith Skeoch	Chairman Deputy Chairman Non-Executive Director (by phone) Chief Executive Non-executive Director Non-executive Director Non-executive Director Non-executive Director (except for minute 4.2) Non-executive Director Executive Director, Conduct Non-executive Director Non-executive Director Non-executive Director Executive Director, Codes & Standards Non-executive Director (except for minute 4.2)
IN ATTENDANCE:	Anne McArthur Rossella Pagano Jennifer Walmsley Hanif Barma Clare Chalmers Anna Colban Anthony Appleton Jenny Carter Gareth Rees John Grewe Marian Williams Dawn Bardwell Dilip Varma	General Counsel and Company Secretary Board Secretary Director, Investor Engagement Independent Audit Independent Audit Project Manager, Codes & Standards (Item 8b) Director, ARPT (Item 8c) Director, UK Accounting Standards (Item 8c) Executive Director, Enforcement (Item 8d) Audit Directive Implementation (Item 9a) Director, Codes & Standards (Item 9a) Director, Oversight (Item 10a) Project Manager, Professional Oversight (Item 10a)

1 DECLARATION OF INTERESTS

There were none. The Chairman informed the Board that the Nominations Committee had reviewed the directors' register of interests; this was being updated and would be circulated to members for confirmation.

2 MINUTES

2.1 The Board approved the minutes of the meeting held on 27 January 2016 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 Brexit, a paper would be presented in May outlining the long term implications on the FRC of a potential Brexit;
- On current market volatility, the FRC had reached out to the audit profession and market preparers of report and accounts to encourage a thoughtful process around the viability statement disclosures;
- On the draft consultation of the new enforcement process, the Board was informed of the recent discussion with the professional bodies, in particular regarding disciplinary arrangements;
- On funding, a board paper will be submitted next month to the Audit Committee and Board, following the conclusion of the consultation with the professional bodies; and
- On cyber risk, the Board was informed that the executive continued to monitor the internal controls for enhancing preventative and mitigating measures. In addition, the Audit Committee received a comprehensive presentation on cyber risk.

4 COMMITTEE CHAIR REPORTS

a. Report from CSC meeting of 9 February 2016

4.1 The minutes of the CSC meeting were taken as read. In response to a query, Ms McLaren commented that further consideration was being given to retaining the requirement for a member of an audit committee to have 'financial experience' as opposed to 'competence in accounting and/or auditing' or provide a better definition of 'competency'.

b. Report from CC meeting of 16 February 2016

4.2 Mr Childs highlighted the significant issues discussed at the Conduct Committee meeting. The Board noted the issues surrounding specific cases under investigation.

c. Report from Audit Committee meeting of 10 February 2015

4.3 Mr Land reported on the matters considered by the Audit Committee at its last meeting in particular: (i) receiving a presentation on cyber risk; (ii) the approval of the external auditor plan for the year ending 31 March 2016; (iii) the discussion on the enhancements to the risk management framework; (iv) the receipt of a draft procedure for the prevention of fraud. With regard to the effectiveness of controls to mitigate the risks, the Committee sought clarification from management on how risks were measured and tested and assurances provided to the Board.

d. Report from Nominations Committee meeting of 2 March 2016

4.4 The Chairman gave an oral update on the Nominations Committee's meeting held the previous day, reporting that the Committee had considered, and would recommend to the Board, the re-appointment of Liz Murrall to the Codes & Standards Committee for a second term of three years (subject to the approval of Codes & Standards Committee to reappoint her as a Council member) and the reappointment of Martin Slack to the Conduct Committee for a second term of three years.

4.5 In addition, the Chairman reported that the Committee agreed: (i) the selection process proposed for the appointment of up to two members to the Case Management Committee (CMC) and Monitoring Committee; (ii) that Hedley May be instructed to conduct a search for at least two retired auditors for appointment to the CMC and at least two retired auditors to the AQR Committee; (iii) that Governance & Legal form an Appointments Committee to appoint three to four Legal Chairs to the FRC's Tribunal Panel and to re-

appoint one of the Accountant Members; (iv) a standardized approach for the selection process of Councils' and Committees' members.

4.6 The Board noted the reports.

5 ED CONDUCT REFLECTIONS AND QUARTERLY THEMES

5.1 Mr George introduced the item. He drew the Board's attention to four suggestions that would facilitate the information flow between the Board and the Conduct Committee for better reporting of the Conduct division's operations, including the processes underpinning the Conduct Committee's decisions. There followed a discussion on the Conduct division's decision making process and the identification and management of the financial as well as reputational risks within the current risk management framework. It was agreed to arrange a half day session to enable the Board to understand better and debate the operations and risks arising from the discipline/enforcement division's activities.

5.2 The Board indicated that it continued to be comfortable with the delegation of the investigative and disciplinary powers to the Conduct Committee and went on to discuss the different aspects of the Conduct division's operations, the procedures, controls and documentary evidence of how decisions were reached, the role of the FRC to act in the public interest and maintain the public's confidence in the decisions taken.

5.3 As requested in the previous meeting, Mr George had provided an updated heat map; the Board welcomed the suggestion that a detailed heat map be given to the Board on a regular basis, and emphasised the need to bear in mind actual or potential conflicts of interest that Board members may have. The Board also asked management to explore options for providing more comprehensive reporting on Conduct division's activities.

5.4 The Board noted Mr George's views on proposed steps to take to foster more 'joining up' across divisions and the impact resulting from the development of the new enforcement procedures for audit vis-à-vis the disciplinary schemes for accountants and actuaries.

6 ED CODES & STANDARDS REFLECTIONS

6.1 Ms McLaren introduced this item, drawing the Board's attention to the key achievements of the Codes & Standards divisions since she joined the FRC. Ms McLaren ran through the reasons that contributed to the division's success: the adoption of a broader consultative approach and seeking more engagement with stakeholders in circumstances when adverse feedback to proposals for changes had been received, for example at the time of the introduction of changes of the UK Corporate Governance Code on reporting on risk and internal controls following the Sharman recommendations. In response to a query, Ms McLaren commented that it was anticipated that the re-organisation would facilitate drawing on wider input and expertise across the Conduct and Codes & Standards divisions to achieve a more comprehensive 'joining up' across the FRC.

6.2 The Board commented favourably that both reports had provided an insightful and informative overview of the work done by the two divisions, and suggested that they be provided more frequently, perhaps at a Strategy Day.

7 CHAIRMAN'S AGENDA

a. FRC Committees - Appointments

7.1 Following the recommendations of the Nominations Committee, the Board approved the re-appointment of Liz Murrall to the Codes & Standards Committee for a second term of three years (subject to the approval of Codes & Standards Committee to reappoint her as a Council member) and the reappointment of Martin Slack to the Conduct Committee for a second term of three years.

8 FOR BOARD APPROVAL AND ISSUE

a. FRC Governance – Amendments to the FRC Governance Bible

- 8.1 Ms McArthur introduced this item, explaining that minimal changes had been made to the Governance Bible, including the Articles of Association of the Company to reflect the new Executive structure agreed by the Board, effective 1 April 2016. It was pointed that further amendments would be required for the implementation of the ARD on 17 June 2016; those changes together with any update to reflect best practices would be brought to the Board meeting in May.
- 8.2 Ms McArthur explained that the revisions took into account the principle of the separation of duties between the standard setters and enforcers and the need for regulators to designate different personnel to perform each role; the ensuing discussion focused on the role of the ED Audit and ED Corporate Governance and Reporting (CGR) vis-à-vis the Codes & Standards Committee and Conduct Committee. It was agreed that this issue would be addressed in the next revision in May; in the interim, it was expected that the ED Audit and ED CGR respectively would exercise their role robustly and their views would be actively sought by the chairs of Councils and Committees.
- 8.3 The Board suggested amendments and it was agreed to circulate a revised Governance Bible and Articles of Association to the Board by way of email, together with the written resolution, for approval.

b. Framework for the external development of Statements of Practice

- 8.4 Ms Colban introduced the paper, explaining that the Policy set out in the Appendix: (i) sought to extend the SORP regime to auditing and actuarial standards; (ii) allowed designated external bodies to develop and issue SORPs under the oversight of the FRC; (iii) allowed the FRC to influence the content and development of SORPs; and (iv) supported the FRC’s deregulatory approach. After a discussion on the outcome of the consultation process, the Board, on the recommendation of the Codes and Standards Committee, approved the Policy on the Development of Statements of Recommended Practice.

c. Amendments to FRS 102 – Fair value hierarchy disclosures (Response to FRED 62)

- 8.5 Ms Carter and Mr Appleton introduced this item. The consultation on the proposals concluded in January and it was reported that the responses had been positive. The changes were intended to make FRS 102 more cost-effective by simplifying the preparation of disclosures about financial instruments held at fair value for financial institutions and retirement benefit plans. Considering that the changes affected a limited group of entities, were deregulatory and would reduce the cost of compliance, the Board approved the ‘Amendments to FRS 102 – Fair value hierarchy disclosures’ for issue.

c. ARD – Audit Enforcement Procedure Consultation Document

Ms McArthur introduced the paper, tabling supporting slides that illustrated the current and new audit enforcement procedure. In the ensuing discussions the Board raised the following points and observations: (i) in the Consultation Document, clarify and explain in greater detail the respective roles of the Enforcement Committee and of the Conduct Committee vis-à-vis investigations; (ii) consider and document the manner, mode and timing of the external communications in respect of investigations; (iii) clarify and provide a comprehensive explanation of the new powers; (iv) address the funding aspect of the new enforcement procedure. The Board approved in principle for publication the Consultation Document to include the Framework Enforcement Procedure and supporting documentation; and delegated authority to the Board Steering Group to approve further changes to the Consultation Document and draft documentation.

9 FOR AGREEMENT TO PROCEED***a. Update: Audit Regulation and Directive Implementation***

- 9.1 Ms McArthur updated the Board, reporting on the recent talks with BIS and the professional bodies on the arrangements for delegating tasks to the bodies and the draft on the new enforcement procedure. The Board discussed the potential impact of the referendum 'purdah' on the timetable for the ARD implementation. It was also reported that the chairman had written to the Minister; a copy of the letter was included in the paper. The Board noted the progress.

10 FOR DISCUSSION***b. FRC response to consultation on guidance on aspects of the ICAEW Code of Ethics***

- 10.1 Ms Bardwell introduced the paper. The Board was invited to comment on the consultation paper and draft guidance and on the considerations set out in this paper, with a view incorporating the Board's comments into the consultation response to be reviewed and approved by the Codes and Standards Committee and the Conduct Committee at their meetings on 16 March and 17 March respectively.
- 10.2 In the ensuing discussion, the Board recognised the difficulty in defining public interest; nevertheless, it pointed out that the factors to be considered in public interest matters should be expanded. In addition, the Board considered it helpful to include in the guidance examples on how the threats to the fundamental principles arise in public interest matters and the type of safeguards that could be put in place.

11 OUTLINE BOARD CALENDAR 2016

- 11.1 The Board noted the outline Board calendar. The Board agreed that Board meetings would start at 9am on a trial basis

12 ANY OTHER BUSINESS

- 12.1 There was none.

13 NEXT MEETING

- 13.1 Thursday, 14 April 2016 at 9.00 am.

Chairman