

Financial Reporting Council**Minutes of a meeting of the Board of Directors of the Company
held on 25 April 2018 at the FRC, 8th Floor, 125 London Wall, EC2Y 5AS**

PRESENT:	Sir Winfried Bischoff	Chairman
	Gay Huey Evans	Deputy Chairman (to minute 9.5)
	Mark Armour	Non-Executive Director
	Sir Brian Bender	Non-Executive Director
	David Childs	Non-Executive Director
	John Coomber	Non-Executive Director
	Olivia Dickson	Non-Executive Director
	Paul Druckman	Non-Executive Director
	Stephen Haddrill	Chief Executive Officer
	Nick Land	Non-Executive Director
	Roger Marshall	Non-Executive Director
	Keith Skeoch	Non-Executive Director (by phone)
	Julia Unwin	Non-Executive Director
	Mark Zinkula	Non-Executive Director
IN ATTENDANCE:	Francesca Carter	Board Secretary
	Jenny Carter	Director, UK Accounting Standards
	Mario Dunn	Director, Strategic Communications
	Paul George	Executive Director, Corporate Governance & Reporting
	Melanie Hind	Executive Director, Audit & Actuarial Regulation
	Tracy Vegro	Executive Director of Strategy & Resources
	Anne McArthur	General Counsel & Company Secretary (by phone to item 8)
	David Styles	Director, Corporate Governance (item 8 only)
	Rob Hammond	AQR Inspector (item 9.1-9.3 only)
	Andrew Meek	Inspections Director (item 9.1-9.3 only)
	Mark Shennan	Policy and Strategy Director (item 9.4-9.5 only)
APOLOGIES:	Jenny Watson	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:

- The Advisory Group on Social Impact Investing, of which Olivia Dickson and Paul Druckman are members, has become a Taskforce on Social Impact Investing.
- Roger Marshall had become a Director of Lock Lane Road Management Limited, a Residents Association.
- A disclosure made by Paul George in respect a member of his family's employment and a summary of the Nominations Committee's consideration of that disclosure.

3 MINUTES & MATTERS ARISING

- 3.1 The Board approved the minutes of the FRC Board meeting held on 14 March 2018.

- 3.2 The matters arising log was noted. The dashboard report requested by the Board was under development and would be presented at the next meeting.

4 CHIEF EXECUTIVE'S REPORT

- 4.1 Mr Haddrill introduced his report. Discussion included the following:
- *FRC status.* The Board noted an update in respect of FRC classification and considered the latest draft Framework Agreement; a small number of comments and queries in relation to the Agreement were identified for further consideration. Whilst the Board noted the possibility that revisions to the Framework may be necessary in response to the external review the Board agreed the FRC should seek to conclude discussions by September.
 - *Staff away afternoon.* The Board noted an all staff event would be held on 30 April; a representative from BEIS would attend to discuss the implications of public body status. The agenda would also include discussion on the staff survey findings and actions to be taken in response. The Board had a discussion on the staff survey headlines and noted a detailed report would be presented at the June meeting.
 - *Carillion.* The Board noted an update in respect of the FRC's investigations in to KPMGs audit of Carillion and two of its directors. The Board noted regulatory co-operation had been good and requested further detail on broader contextual issues at the next meeting.
 - *2018/19 Project & Activities Tracker.* The Board noted a report on the progress of 2018/19 priority projects. On the 'Future of Audit' project, the project would be led by an independent chair and resourced by the Audit Quality Forum, the terms of reference to be finalised once the Chair had been appointed.
- 4.2 The Board noted the annual review of FRS 101 (2017/18 cycle) had concluded and no changes were recommended. The Board agreed the recommendation and approved for issue Amendments to the Basis for Conclusions FRS 101 Reduced Disclosure Framework (2017/18 cycle) and the Feedback statement - FRED 69 FRS 101 Reduced Disclosure Framework (2017/18 cycle).

5 OPERATIONAL REPORT

- 5.1 Ms Vegro introduced a report that provided an update on meeting the FRC's operational responsibilities as a public body and the objectives published in the 2018/21 Strategy. The Board noted that, whilst the FRC is operating its budget and funding arrangements in in line with the 2018/21 Strategy, which was notified to BEIS before it was published in March, further work to ensure FRC policies are fully aligned with the detailed requirements of Managing Public Money was necessary.
- 5.2 The Board welcomed that good relationships had been established with HR and Finance at BEIS and that the FRC would further build on these, including where the FRC could draw on BEIS resource.
- 5.3 The Board also welcomed that a representative from BEIS had attended the March meeting of the Audit Committee and that good progress was being made in respect of appointing the Government Internal Audit Agency.

6 CHAIRMANS AGENDA

Discussion on the independent review of the FRC

- 6.1 The Board discussed the review and agreed a special Board meeting be scheduled in May to agree a submission to Sir John Kingman in addition to the letter by the Chairman already sent to him.

FRC Annual Report & Accounts 2017/18: Draft Chairman's statement and CEO report

- 6.3 The Board considered a first draft of the Chairman's statement and CEO report for inclusion in the 2017/18 Annual Report & Accounts. A number of suggested drafting amendments were made including in relation to a more balanced tone in the Chairman's statement and the need to make reference to, and report consistently with, the annual report on Audit Quality due to be published in June.

7 COMMUNICATIONS STRATEGY

- 7.1 The Board considered a report on the FRC's communications strategy in response to the LAPFF and its criticism of the FRC.
- 7.2 The Board welcomed the proposed approach and objective of achieving a constructive level of engagement with BEIS. However, it was agreed the FRC must continue to carefully consider legitimate criticism and also correct ill-founded views. It was also agreed that the pillars underpinning the strategy in relation to enforcement and continuous improvement must be strengthened and the FRC would seek a meeting with Baroness Bowles.
- 7.3 The Board discussed a letter from Mr Miller that had been published in the Financial Times that morning and noted the FRC intended to publish the findings of an independent review in to the allegations raised by Mr Miller the following week.

8 CORPORATE GOVERNANCE & STEWARDSHIP CODE CONSULTATION UPDATE

- 8.1 Mr Styles introduced a report that key that summarised responses to Governance Code consultation and set out issues arising from the consultation on which Board input was sought. The Board noted 275 responses to the consultation had been received; the response was generally positive with respondents welcoming the streamlined structure, the focus of reporting on the application of the Principles, the broadening of the scope to wider stakeholders and the approach to diversity.
- *On a challenge that the proposed Code reads as 'comply or else'.* The Board strongly reaffirmed the position that the 'comply or explain' approach should be retained but suggested greater emphasis be placed on the quality of explanation that is provided. The Board discussed the challenge to the role of proxy advisor, whilst the concern was not a new one, to address the concern more fully it would be necessary to consider the FRC's overall approach to corporate governance reporting monitoring and enforcement and to build on the interaction between the Corporate Governance and Stewardship Codes. The Board suggested that, in the first instance, the FRC should organise round table discussions with proxy advisor agencies to encourage agencies to look at the quality of explanations in relation to non-compliance – a letter to this effect should also be issued to the major proxy firm agencies from the FRC.
 - *On the independence of the Chair.* The Board noted a number of options were under consideration and supported that further consideration be given to the possibility of a 'transitional period' in relation to succession arrangements.
 - *On the approach to wider society and other stakeholders.* The Code sets out good practice and as a result may go beyond the requirements of the law – it was suggested to make reference to the 'safe harbour provisions' of the Strategic Report. The accompanying Guidance should make reference to the UN Sustainability and Development Goals as an example.

- *On diversity.* The Board discussed the extent to which gender pay gaps were a structural issue linked to the proportion of women at different levels within a company. It was agreed that further consideration be given to how the Code and guidance address a range of workforce policies and practices including gender pay, pay ratio and flexible working.
- *On workforce engagement.* The three options should be retained but that greater emphasis be placed on the flexibility that is available in the 'comply or explain' approach.

8.2 Mr Styles undertook to reflect the suggestions and decisions taken in preparing a further draft for consideration by the Codes & Standards Committee in May and the Board in June. A final draft would be presented to the Board for approval in July.

9 AUDIT

Thematic review: Audit culture

- 9.1 Mr Meek introduced the draft FRC thematic review on Audit culture in the firms and summarised the objective of the review, the field work that had been undertaken and the high level findings. The Board welcomed the draft review and the finding that firms are investing time and effort to integrate their firm-wide cultural design. A number of drafting amendments were suggested. It was agreed that greater emphasis would be placed on the cultural requirements of the audit business of the firms as distinct from the wider business and that the review would set out what the FRC considers to be the most important elements of audit culture.
- 9.2 The Committee discussed the timing of publication noting the FRC's annual report on Audit Quality Review was due to be published in June, and the Developments in Audit in July. Following detailed consideration the Board agreed the thematic review should be published in May as proposed and would make reference to the later reports and set out that the thematic is the start of FRC engagement in audit culture, not the end of it.
- 9.3 The Board agreed the report be by finalised by Melanie Hind in consultation with David Childs and Nick Land.

Audit Market concentration

- 9.4 Mr Shennan introduced a report that provided information on audit market concentration in the UK and CMA considerations thereof.
- 9.5 The Board made a number of observations including that international leadership was possible and that independence and quality are key. An update would be reported to the Board at its July meeting.

10 COMMITTEE CHAIR REPORTS

Report from the Conduct Committee

- 10.1 The Board noted draft minutes of a meeting of the Conduct Committee held on 13 March 2018 and an oral report of a meeting of the Conduct Committee held on 24 April 2018.

Report from the Codes & Standards Committee

- 10.2 The Board noted the draft minutes of a meeting of the Codes & Standards Committee held on 20 March 2018.

Report from the Audit Committee

- 10.3 The Board noted draft minutes of an additional meeting of the Audit Committee held on 26 March 2018.

Report from the Nominations Committee

- 10.4 The Board noted minutes of an additional meeting of the Remuneration Committee meeting held on 13 March 2018.

11 FORWARD PLAN

- 11.1 The forward plan was noted.

12 ANY OTHER BUSINESS

- 12.1 The Board noted that Olivia Dickson had indicated her intention to stand down as Chair of the Actuarial Council and that, following consideration by the Nominations Committee, John Coomber had agreed to be her successor. The Board supported the recommendation of the Nominations Committee and approved the appointment of John Coomber as Chair of the Actuarial Council with effect from 1 July 2018 to 22 July 2021.

- 12.2 There was no other business.

13 DATE OF NEXT MEETING

- 13.1 Wednesday 6 June at 9am.

14 TRAINING

- 14.1 Following the close of the formal meeting the Board received training on the new General Data Protection Regulations and managing unconscious bias.

Chairman