

Financial Reporting Council

Minutes of a meeting of the Board of Directors of the Company
held on 24 May 2017 at the FRC, 8th Floor, 125 London Wall, EC2Y 5AS

PRESENT:	Sir Winfried Bischoff	Chairman
	Gay Huey Evans	Deputy Chairman
	Stephen Haddrill	Chief Executive
	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 (to item 8)
	Paul Druckman	Non-executive Director
	Paul George	Executive Director, CGR
	Ray King	Non-Executive Director
	Nick Land	Non-executive Director
	Roger Marshall	Non-executive Director (to item 7)
	Melanie McLaren	Executive Director, Audit
	Keith Skeoch	Non-executive Director
	Mark Zinkula	Non-executive Director
IN ATTENDANCE:	Francesca Carter	Board Secretary
	Anne McArthur	General Counsel and Company Secretary
	Tracy Vegro	Executive Director of Strategy & Resources
	Ufuk Cengiz	Economist (item 5)
	David Andrews	Head of Delivery Unit (item 7)
	Rebecca Smart	Risk Manager (item 7)
	Claire Lindridge	Assistant Director, AQR (item 8a)
	James Ferris	Project Director, Audit Policy (item 8b)
	Dawn Dickson	Director, Professional Oversight (item 9)

QUORUM AND OPENING OF MEETING

The Chairman noted that the meeting was quorate and opened the meeting.

1 DECLARATION OF INTERESTS

- 1.1 Mark Armour declared an interest in Tesco PLC.

2 MINUTES & MATTERS ARISING

- 2.1 The Board approved the minutes of the meeting held on 26 April 2017 for publication subject to two minor drafting amendments.
- 2.2 The Board noted the matters arising log.

3 CHIEF EXECUTIVE'S REPORT ON KEY ISSUES

- 3.1 Mr Haddrill introduced his report. Discussion centred on the following matters:

Post-Brexit IFRS endorsement. The Board noted officials at BEIS had been charged with preparing a Ministerial briefing on the form and content of a post-Brexit IFRS endorsement process; the FRC had been asked to provide analysis in relation to what its role in the process might be, the criteria to be applied in assessing new IFRS and

the timetable for implementing the process. Discussion included consideration of the EU endorsement process and the need for democratic accountability versus a need to preserve the independence of standard setting from politics. On balance, the Board advised that the executive should propose that the FRC be established as the endorsement body. In noting the importance of ensuring the endorsement criteria is appropriate, and take in to account the wider public interest, it was suggested that should the FRC be established as the endorsement body it would consult on the endorsement criteria.

The Local Authority Pension Fund Forum (LAPFF). The Board considered an on-going issue in relation to claims made by the LAPFF with respect to the Bcompass opinion, distributable reserves and other matters and agreed next steps.

FRC Name. The Board considered the adequacy of the name of the current name and agreed the FRC's work is broader than financial reporting and as a unified organisation the word 'council' does not fully reflect the FRC's role as a regulator. The Board supported a proposal for the executive to give further consideration to changing the name.

Executive Committee objectives. The Board reviewed Executive Committee member performance objectives for the 2017/18 year. The Board welcomed the new approach of how individual Executive Committee members would support one another in achieving their objectives. It was agreed the Remuneration Committee would discuss how to assess whether the objectives had been met.

4 CHAIRMAN'S AGENDA

Audit & Assurance Council Chair appointment

- 4.1 The Board approved, on the recommendation of the Nominations Committee, the appointment of Sue Harris as Chair of the Audit & Assurance Council from 6 July 2017. The Board also approved an extension of Sue Harris's term as a member of the Codes & Standards Committee by one month to align with the Chair role.

5 FRC MATTERS

a. FRC Mission

- 5.1 Ufuk Cengiz introduced a paper that invited agreement on the proposal to change the FRC Mission. The Board considered the case for change and the need to broaden the mission statement to better reflect the FRC's wide range of stakeholders and public interest responsibilities. The Board discussed whether a decision on the mission should be deferred to when there would be clarity on the FRC's responsibilities in relation to corporate governance, the FRC's classification and the conclusion of the culture project. It was agreed to update the mission rather than waiting for further clarity on the FRC's future role.
- 5.2 The Board discussed a proposed mission statement and agreed that the executive would prepare a revised mission statement to be considered by staff before consideration at the July Board meeting. The executive would also give consideration as to how FRC would measure its contribution to the mission.

b. FRC Classification

- 5.3 Ms McArthur reported that following Board consideration at its February meeting and further discussions with BEIS a draft report confirming the BEIS view, agreed with HMT, had been issued. The view confirmed that the FRC could not be classified as a Public Non-Financial Corporation. The Board noted that, having sought input from external

solicitors, there is no scope to challenge the current classification or to seek reclassification and consequently considered accepting the 2014 decision.

- 5.4 The Board noted that accepting the 2014 decision would provide clarity and enable the executive to focus on securing the best position possible in terms of our operational independence and discussed the implications of the classification on the retention of fines, operations, staff and the role of the Board.
- 5.5 The Board agreed that the FRC should accept the HMT classification decision and work with BEIS to clarify what changes arise from the classification and with HMT to take forward discussions on the retention of fines.

c. FRC Investigation

- 5.6 The Board noted a report that summarised the findings of the FRC investigation into communications with the media in relation to the Connaught case and the recommended actions identified in response. The Board agreed that the report to be sent to the Tribunal Chairman, and copied to those representing the Respondents, would be approved by the Chairman, Chief Executive and the Conduct Committee Chair.

6 COMMITTEE CHAIR REPORTS

a. Report from the Conduct Committee

- 6.1 The Board noted the minutes of the Conduct Committee meeting held on 25 April 2017 and noted an oral report of the Conduct Committee meeting held on 23 May 2017. Key matters considered by the Committee included an update on the Enforcement Review and recommendations arising from that review and the FRC sanctions review.

b. Report from the Audit Committee

- 6.2 The Board noted an oral report of the Audit Committee meeting held on 10 May 2017. Key matters considered by the Committee included the draft Annual Report & Accounts for the year ended 31 March 2017, including the viability statement and principal risks and an IT update.

7 FRC RISK REPORT

- 7.1 Mr Andrews introduced the Q2 Risk Register and the draft FRC risk universe. The Board noted the Risk Register and the principal risks identified for inclusion in the Annual Report & Accounts which had both been reviewed by the Audit Committee at its meeting on 10 May.
- 7.2 The Board reviewed the Q2 Risk Register and a summary of risk movement since Q1 noting that none of the risks included in the Risk Register were classified as 'Red' and the mitigating actions were considered to be on track in delivering the projects and activities in the 2017/18 Plan. The Board was pleased to note that the recent Cyber-attack that affected the NHS had not affected the FRC's systems and the FRC had been able to respond swiftly and fully to the BEIS continuity procedures for partner organisations. Through discussion the Board suggested the executive, with the Audit Committee, review whether risks outside of the FRC's control, such as fluctuations in the value of sterling, should be included on the Risk Register. The Board also suggested a presentational amendment to the Risk Register summary chart.
- 7.3 The Board discussed the principal risks that had been identified for inclusion in the Annual Report & Accounts. Through discussion a number of small drafting amendments were identified. The Board also suggested that the risk that FRC

regulation fails to meet public expectations should be expanded to include expectations in relation to corporate governance.

8 AUDIT & ASSURANCE POLICY

a. Audit Supervision – Engagement with firms

- 8.1 Ms Lindridge invited the Board to consider a proposed framework for formal engagement with audit firms. Ms Lindridge reported that the framework, which would be put in place with immediate effect, was an essential element of the supervisory approach that was being developed for Board consideration in September.
- 8.2 The Board reviewed the proposed framework and the underpinning principles. Discussion included consideration of the frequency of meetings, the seniority of attendees at meetings and agreement that the new approach should be applied consistently across the FRC.
- 8.3 The Board agreed the framework for engagement with the audit firms for supervisory purposes and agreed that the executive should ensure that all engagement with the firms fits within the framework. The Board requested that, at the September meeting, the executive set out what the process for escalating concerns in respect of firms would be and how those concerns would be communicated.

b. Developments in Audit

- 8.4 Mr Ferris introduced an outline draft of the second annual Developments in Audit report. The Board noted the report provides an opportunity for the FRC to set out its view of the current health of the UK audit market; key market issues; and its evolving role as the Competent Authority for audit.
- 8.5 The Board noted that the draft had been considered by the Conduct Committee who had highlighted the importance of ensuring the key messages are prominent and not lost in the detail. The Board reviewed the draft, identified some amendments and suggested including a forward looking statement which would address the opportunities and challenges facing auditors. The Board discussed the target of achieving a position where 90% of FTSE 350 audits are classified as requiring limited improvements and the importance of ensuring the drafting is such that the message of continuous improvement is promoted and does not suggest that 90% is the end target.
- 8.6 Mr Ferris undertook to reflect on the views expressed in preparing the final report which would be presented to the Board for approval in July.

9. ENFORCEMENT – ACCOUNTANCY SCHEME

- 9.1 The Board received a report that summarised the outcome of discussions with bodies participating in the Accountancy Scheme and subsequent correspondence. The Board considered a recommendation not to agree the proposals put forward by the bodies on the basis that the bodies have proposed an option which is unattractive in its limitations (i.e. with no call in power) and would require the FRC to run entirely separate procedures to deal with matters arising out of the same facts.
- 9.2 The Board discussed the limitations of the proposals that had been put forward by the bodies and associated risks and noted that consideration would have to be given as to whether or not the FRC continues its oversight role. Following detailed consideration the Board concluded that withdrawal from the Scheme would not be in the public interest and agreed that the FRC should formally respond to the bodies to reject the proposals. The response should:

- set out that the FRC would be prepared to agree a scope reduced to members in business cases where the FRC would deal with the audit under the AEP and with a call in power, noting this would be subject to the Scheme being aligned with the AEP procedures and threshold test and;
- set out proposals in relation to the Scheme in so far as it relates to local audit and Crown Dependency audits i.e. that the provisions of the Scheme be aligned to the AEP.

9.3 In addition the Board encouraged the executive to prepare a detailed plan for communicating with relevant Ministers and with the wider public. The plan should clearly set out the risks associated with the proposals that had been put forward by the bodies and reflect that CIMA and the IFoA were not supportive.

10. OTHER INFORMATION

Outline Board calendar 2017 and 2018 dates

10.1 The Board noted the outline calendar for 2017 and the 2018 meeting dates. Mr Haddrill summarised the topics to be discussed at the Board Strategy Day on 13 September.

11 NEXT MEETING

11.1 Wednesday 5 July at 9am.

Chairman