

## Financial Reporting Council

**Minutes of a meeting of the Board of Directors of the Company  
held on 6 December 2017 at the FRC, 8<sup>th</sup> Floor, 125 London Wall, EC2Y 5AS**

PRESENT:	Sir Winfried Bischoff Gay Huey Evans Stephen Haddrill Mark Armour Sir Brian Bender David Childs John Coomber Olivia Dickson Paul Druckman Paul George  Nick Land Melanie McLaren Keith Skeoch	Chairman Deputy Chairman (by phone to item 6.5) Chief Executive Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director Executive Director, Corporate Governance & Reporting Non-Executive Director Executive Director, Audit & Actuarial Regulation Non-Executive Director
IN ATTENDANCE:	Francesca Carter Mario Dunn Anne McArthur Tara Trousdale Tracy Vegro Susan Currie Rebecca Smart David Andrews Claudia Mortimore Anthony Appleton Jenny Carter	Board Secretary Director of Strategic Communications General Counsel and Company Secretary Finance Director Executive Director of Strategy & Resources Chief of Staff (item 6.1-6.4) Risk and Assurance Manager (item 6.1-6.4) Relationship Manager for BEIS (item 6.5-6.8) Interim Executive Counsel (item 7) Director, Accounting & Reporting Policy (item 8) Director, UK Accounting Standards (item 8)
APOLOGIES:	Roger Marshall Mark Zinkula	Non-Executive Director Non-Executive Director

### 1. QUORUM AND OPENING OF MEETING

- 1.1 The Chairman noted that the meeting was quorate and opened the meeting. The Board welcomed Mario Dunn and Tara Trousdale.

### 2. DECLARATION OF INTERESTS

- 2.1 The Chairman reported Roger Marshall had been appointed as a non-executive director of Meadow Blue and Nick Land had been appointed as a non-executive director of Astro Lighting Ltd. Both appointments had been considered and approved by the Nominations Committee prior to acceptance.
- 2.2 John Coomber declared that his wife had a financial interest in relation to two of the entities included at agenda Item 7.

- 2.3 The Board noted the Nominations Committee had considered the safeguards that had been put in place by Stephen Hadrill and the FRC in relation to Stephen Hadrill's wife's role at BEIS.

### 3. MINUTES & MATTERS ARISING

- 3.1 The Board approved the minutes of the FRC Board meeting held on 2 November 2017 subject to a minor drafting amendment. The matters arising log was noted.
- 3.2 The Deputy Chairman provided an update on the work of the Board Group established to review concerns raised by the LAPFF.

### 4. CHIEF EXECUTIVE'S REPORT

- 4.1 Mr Hadrill introduced his report. Discussion included the following reports, points and observations:

- *Joint Forum of Actuarial Regulation.* The Board noted the JFAR had met on 4 December and had agreed an updated risk perspective. The Board welcomed that the meeting had been positive and noted greater collaboration between the PRA, FRC and other regulatory bodies.
- *Public trust.* The Board noted that the Executive would develop a plan for building public trust for consideration by the Board in the New Year.
- *ComRes report on the results of the annual FRC stakeholder survey.* The Board noted the findings of the survey and that the full report would be published in due course.
- *Audit Firm Monitoring.* The Board noted feedback from the firms on the proposed approach to monitoring had been largely positive: the firms had committed to full transparency with the FRC. Ms McLaren confirmed that at least some of the firms were likely to accept at this early stage the proposals in relation to FRC engagement in advance of key appointments.
- *Developments in Audit.* The Board noted that workstreams to progress areas identified as requiring further work in the CEOs speech at the Developments in Audit event on 25 October would be established and that the progress of those work streams would be routinely reported to the Board. On the need to work with government and the profession on the future of audit the FRC would co-ordinate with interested parties.
- *FRC classification:* The Board noted a joint FRC / BEIS working group had been established to take forward the practical aspects of the FRC's status as a public body. The Board discussed the implications of the classification and the possible impact on FRC operations.
- *FRC powers.* The Board agreed to delegate authority to the Executive Committee to update the Memorandums of Understanding (MoUs) between the FRC and the PRA and the FRC and the FCA in relation to FRC powers and functions and, potentially in relation to a proposed a new information request process (intended to help streamline the sharing of regulatory information) as well as staff secondments. The Board also delegated approval to the Executive Committee, and signature by the CEO, to finalise a letter of understanding with the Insolvency Service at working level.
- *Accountancy Scheme.* The Board noted that, following its discussion in November, the executive had continued discussions with the participating accountancy bodies and confirmed that the FRC's view is that the Scheme should be amended to align with the processes and tests set out in the Audit Enforcement Procedure. The bodies wished to deal with the scope of the Scheme first and then deal with any alignment issues rather than, in effect, delay the scoping amendments. Discussions on these points would continue. The issue of the misconduct test had been referenced in the FRC letter to the Treasury Select Committee.

- 4.2 The Board noted the management accounts to end October 2017 and the latest report on the progress of major projects and activities due to be delivered in 2017/18.

## 5. CHAIRMAN'S AGENDA

### *Board Effectiveness Review*

- 5.1 The Board agreed a recommendation to for an internal review of the effectiveness of the Board and its Committees in 2018, noting that an external review would be undertaken in 2019. Through discussion a number of suggestions were made to ensure the effectiveness of the process; the recommendations would be taken in to consideration in developing the review.

### *Code of Conduct Amendment*

- 5.2 On the recommendation of the Nominations Committee the Board approved revised text in the Code of Conduct to clarify what should be disclosed as a financial interest.

### *FRC Governance*

- 5.3 The Board considered a report presented on behalf of the Nominations Committee which set out proposals developed following the first stage review of existing governance arrangements and proposals for a second stage. The Board noted the proposals were intended to enhance public confidence in the FRC's independence and in the regulatory framework and to enhance the diversity and responsiveness of the FRC.

- 5.4 The Board discussed the proposals in detail and welcomed that an independent legal opinion on the separation of the FRC's functions in relation to standards, monitoring and enforcement would be sought. The Board was supportive of the intention underpinning the proposals and agreed a number of detailed recommendations including:

- changes to the composition of the Board and Conduct Committee in order to improve diversity and address concerns raised by some stakeholders in relation to independence;
- changes to the role of the Board and the Codes & Standards Committee with regards to standard setting;
- to review the role of the Conduct Committee and to streamline governance arrangements with respect to Conduct Sub-Committees; and
- consequential amendments to the governance structure.

- 5.5 The Board considered proposals for a second stage review which would be jointly undertaken with BEIS. The Board noted proposed terms of reference for the review and that it would address broader issues such as the FRC's legal status, FRC powers, the Government's decisions on the adoption of IFRS post-Brexit and the consequences of such matters for FRC Governance. Through discussion the Board agreed that the objective of the review should be to increase the FRC's effectiveness in delivering its mission and statutory responsibilities, enhancing public confidence in the quality of FRC decisions and in the organisation as a whole and to ensure the FRC meets the highest standards of governance in regulation.

## 6. FRC MATTERS

### *FRC Risk Management*

- 6.1 Ms Currie introduced the latest six monthly update report to the Board on risk. The Board noted that, since last reporting, a revised risk register had been introduced and had been endorsed by the Audit Committee. A programme of risk 'deep dives' had also been developed and would commence in the New Year.

- 6.2 The Board reviewed the report which set out the list of Principal Risks as agreed in March and considered additional risks that had been identified as part of the risk review process. Through discussion it was agreed that, on the advice of the Audit Committee, the risk that ‘the FRC, its directors and / or staff are perceived to be too close to those it regulates or to be otherwise conflicted’ should be considered as a Principal Risk.
- 6.3 Ms Currie reported the FRC risk management policy was in the process of being updated to reflect the FRC’s classification as a public body, the FRC’s new mission and changes to the FRC Governance Structure. The Board considered and agreed the frequency in which it, the Audit Committee and the Executive Committee should receive reports in relation to risk management and on the findings of the risk ‘deep dives’. Ms Currie undertook to include the agreed programme of reporting in the updated policy and to circulate the updated policy to the Audit Committee before presentation to the Board.
- 6.4 The Board suggested the Executive consider whether the list of Principal Risks as published in the Annual Report should also be published as a standalone item on the FRC website.

#### ***FRC Strategy 2018/21***

- 6.5 Mr Andrews introduced the draft 2018-21 FRC strategy and draft 2018-19 Plan and Budget consultation document. The Board noted the consultation document had been developed following input from across the FRC and seeks to position the FRC as an organisation addressing its new mission and statutory responsibilities in a transparent, cost effective way whilst recognising the external environment is changing.
- 6.6 The Board reviewed the document and made a number of detailed drafting and presentational suggestions including the need to provide more detail on how the ‘FRC works’ and, where appropriate, to include more effectiveness indicators. The Board also suggested the document should make greater reference to the two stage governance review and the impact of classification as a public body. The Board also provided input on the key messages that should be included in the press notice.
- 6.7 The Board reviewed the draft budget and levy proposals noting the factors taken into account. The Board highlighted areas where further explanation was necessary, including on the treatment of case costs and the cost of the new audit firm monitoring activities. The Board welcomed the proposal not to increase the preparers levy for 2018/19 but requested the Audit Committee give further consideration to the proposal to reduce the actuarial funding levies for 2018/19 noting the levy would likely be increased the following year in light of the FRC’s commitment to contribute to the IFOA’s monitoring activities. The Board reaffirmed the decision that general reserves should be held at six months’ operating costs.
- 6.8 The executive undertook to update the consultation document and to recirculate the draft to the Board for approval by email.

## **7. QUARTERLY ENFORCEMENT REPORT**

- 7.1 Ms Mortimore introduced a report on the main activities in the Enforcement division over the last quarter. The Board noted the primary goal remained to undertake investigations and prosecutions in a timely, efficient and carefully budgeted manner and that cases started since May 2016 were on course to meet the published effectiveness indicator.

- 7.2 The Board reviewed the progress of active cases with a focus on those that had been subject to delay and those nearing conclusion. It was noted that ten cases had been opened under the new Audit Enforcement Procedure including five which had been referred via the FRC's Audit Quality Review team.

## 8 CORPORATE REPORTING – AMENDMENTS TO FRS 102

- 8.1 Ms Carter introduced the proposed amendments to FRS 102 and accompanying feedback statement and impact assessment. Ms Carter reported the amendments respond to stakeholder feedback and issues identified by the FRC and include the addition of disclosure requirements for the small companies and micro companies regimes applicable to Ireland. Through discussion it was noted that when considering proposed amendments to standards, the FRC undertakes an impact assessment to assess whether the benefit of introducing amendments outweighs the cost. As a result of the amendments proposed FRS 102 would be clearer and easier to use, some accounting policies would be simpler and as a result would be more cost effective.
- 8.2 Through discussion it was agreed that future papers to the Board would include a description of the process that has been followed in developing a standard (or amendment to a standard) including what outreach has been undertaken.
- 8.3 On the advice of the Corporate Reporting Council and the recommendation of the Codes & Standards Committee, the Board approved the issue of Amendments to FRS 102 – Triennial Review 2017 – Incremental improvements and clarifications.

## 9 COMMITTEE CHAIR REPORTS

### ***a. Report from the Conduct Committee***

- 9.1 The Board noted draft minutes of a meeting of the Conduct Committee held on 14 December 2017.

### ***b. Report from the Remuneration Committee***

- 9.2 The Board noted draft minutes of a meeting of the Remuneration Committee held on 20 November 2017.

### ***c. Report from the Nominations Committee***

- 9.3 The Board noted draft minutes of a meeting of the Nominations Committee held on 20 November 2017.

### ***d. Report from the Codes & Standards Committee***

- 9.4 The Board noted the matters discussed at a meeting of the Codes & Standards Committee held on 21 November 2017 had been covered on the Board agenda.

### ***e. Report from the Audit Committee***

- 9.5 The Board noted draft minutes of a meeting of the Audit Committee held on 24 November 2017. On the recommendation of the Audit Committee the Board approved the Audit Engagement Letter and remuneration set out therein.

## 10 FOR INFORMATION

### ***Forward plan***

- 10.1 The Board noted the 2018 forward plan.

**11 ANY OTHER BUSINESS**

- 11.1 The Chairman reminded the Board of the importance of having regard to information security risks and ensuring that members use their FRC email addresses for all FRC correspondence

**12. DATE OF NEXT MEETING**

- 12.1 Wednesday 7 February 2018.

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Chairman