HOUSE OF COMMONS

Business, Energy and Industrial Strategy Committee

Oral evidence: Pre-appointment Hearing with the Government's Preferred Candidate for Chair of the FRC, HC 2531

Wednesday 17 July 2019

Ordered by the House of Commons to be published on 17 July 2019.

Watch the meeting

Members present: Rachel Reeves (Chair); Vernon Coaker; Stephen Kerr; Peter Kyle; Mark Pawsey; Anna Turley.

Questions 1 – 80

Witnesses

I: Simon Dingemans, Government's preferred candidate for the post of Chair of the Financial Reporting Council (FRC).

Examination of Witness

Witness: Simon Dingemans.

Q1 **Chair:** Thank you very much, Simon Dingemans, for coming in today, for your pre-appointment hearing to be chair of the Financial Reporting Council. The review by Sir John Kingman made 83 recommendations for reforming the Financial Reporting Council. How would you assess the scale of the challenge ahead?

Simon Dingemans: As this Committee is well aware, there has been a lot of focus on the state of financial reporting and governance in the UK over many years, but what is really interesting and different in the current environment is that, through the work of this Committee, Sir John's review, the ongoing Brydon review and the CMA, there is a very different appetite for change—and very fundamental change. I assess and think about the recommendations in Sir John's report against that background.

It is why I am excited to be considered for this role, because there is an opportunity that has not existed before, to make very radical change, to address the fundamentals that the various reports that have been put together are trying to get out, to build a very different regulator, a very different organisation with skills and capabilities, and most importantly powers and teeth that it is prepared to use, to change its focus to really drive towards serving the end users of accounts as opposed to the preparers of accounts, but most importantly to change the culture of the organisation, to make it more proactive, energetic and challenging. That, put together, is how I think about the recommendations and the sort of direction that those recommendations would take us.

Q2 **Chair:** Why do you think that the Financial Reporting Council is in the place it is in today and in need of this reform?

Simon Dingemans: As Sir John identified, it has been built up over time with many changing purposes along the way, but it has also been built up through quite a narrow skillset and a narrow choice of people working for the organisation. We need to really broaden that out and bring some different perspectives.

Q3 **Chair:** What do you mean by "too narrow"?

Simon Dingemans: In particular, I mean a heavy reliance on the profession. While the FRC clearly needs technical input, it needs much more than that, and it rightly has been surfaced in these various commentaries that there needs to be some challenge to that. As part of building the very different organisation that I have just refereed to, I would be looking for the team to build a very different range of skills, capabilities and backgrounds.

Q4 **Chair:** The chair role was advertised for the between one to three days a week. Have you already indicated to the Department how many days a week you plan to devote to the job?

Simon Dingemans: At the beginning, it will take a significant amount of time. Then I will have to judge exactly what the right input will be going forward. I am making this my top priority. It is an important job that needs doing well, and I will give it the time that it needs.

Q5 **Chair:** Have you given any indication to the Department of how many days a week you think it will take?

Simon Dingemans: I discussed the same indication that they gave me that you have just described, which is one to three days a week. If it needs more in a particular moment, clearly it would deserve that. If it needs less, there is going to be an executive team running the organisation, which I would expect to work closely with, and there will be a board supporting me in setting the direction of the organisation.

Q6 **Chair:** You said in the questionnaire that you are considering a number of other roles in the private sector. What other roles are you considering and is that consistent with having the time you need to devote to this role?

Simon Dingemans: It is consistent in that it brings some of those different perspectives that we were just talking about. The sort of roles I am talking about to other people would include, as I said in the questionnaire, investing roles and maybe some work with private equity and other public companies. First and foremost, this is the main priority and anything else that I take on would need to fit around that and be complementary to it. Having this role in place allows me to make those judgments with full transparency.

Q7 **Chair:** Are you applying for those other sorts of roles at the moment?

Simon Dingemans: I am talking to other people at the moment, but nothing is firm at this stage.

Q8 **Chair:** Would there be a period, if you were successful in taking up this role at the Financial Reporting Council, that you would be working just at the Financial Reporting Council, or do you think you will be soon taking up other roles?

Simon Dingemans: Over the next few months the FRC role will be my main focus and I will continue to make sure that nothing else I consider creates a perceived or real conflict, but also that it does not create an imposition on the time that I need to get this process up and running. In the short term, I may take on another thing or two but they will be relatively small time commitments.

Q9 **Chair:** What would those time commitments be?

Simon Dingemans: It is hard to say at this stage until I know exactly what those opportunities are, but I am very clear on what the priority is.

Q10 **Chair:** Would you commit to writing to the Committee to notify us of any other roles you take on, as well as explaining how they will not conflict with the commitments at the FRC?

Simon Dingemans: I would be happy to do that.

Q11 **Anna Turley:** Good morning. You mentioned in your introductory comments, in terms of your vision for ARGA, that the strategic objective will be about the end users and trying to restore that confidence with the public. How crucial is this to rebuilding trust and confidence, and how do you intend to go about that and measure it?

Simon Dingemans: It is absolutely essential to rebuilding trust that we have full engagement from all the stakeholders. What has perhaps been missing in the past is engagement, especially from investors, as ultimately they are a big group of those who use the accounts that we are talking about. There needs to be quite a lot of focus on how we get them engaged, whether it is through the stewardship code or through direct engagement.

It is quite interesting when you compare the level of engagement there is between the investor community and corporate boards on remuneration, for instance. Why is there not the same on audit matters, and should the chair of audit committees adopt the same outreach programmes that the chairs of remuneration committees very often do? That is just one small example. Just having representation on the bodies of the FRC is not enough. We need to provoke much more of a debate with the portfolio managers as well as with the governance experts within those institutions.

Q12 **Anna Turley:** What about the wider public? How do you see a new relationship with them and restoring that confidence and interest?

Simon Dingemans: Being clear on the goals is important. In that sense the Brydon review, which is ongoing, is a key missing piece of the jigsaw at this stage, because one of the issues this Committee identified is the clear expectation gap out there as to what an audit is, what it is for and the role it plays in the broader assurance around the state of a company or an institution that the public and investors might be looking at. If we can lay out a much clearer contract as to what should be expected, that needs to engage the public as much as the specialist investors. That is going to require some publicity and some engagement with those who report on these issues so that, whether it is personal financial columns or whatever the route is, there is a broader understanding of what should be expected from audit and from the financial statements.

Q13 **Anna Turley:** One of the key areas to make an impact that we have looked at a lot in this Committee is regulation. I think that has been a key driver of dissatisfaction and distrust of consumers. There are big challenges coming down the line, which I think you have identified in your submission, around changes in technology and power of enforcement to major corporations. What role can regulation play in managing this? Do we need a change of approach, and how do you intend to oversee that?

Simon Dingemans: We do need a change of approach in that we need to be clearer about what is regulated and what is a judgment or sits around that regulatory framework. We also need to be much clearer about enforcing that regulation, and the FRC in the past has been accused of a certain amount of timidity or hesitation in going after some of those issues. As part of that culture change, I would certainly like to see the willingness to challenge being much more out there and up front. To do that with confidence, you have to have a clearer regulatory framework.

That is why the changes being proposed to create the ARGA and the statutory underpinning to it are critical, because part of the problem the FRC has today is that it has been built up piecemeal. That is not very effective, so it makes it very hesitant to use powers that it is not sure it can deploy. There is a great chance for a clean break.

Q14 **Chair:** One of the key tasks as chair would be to implement the different reforms recommended by the different people and groups that you mentioned at the beginning. At the same time, the regulator is also going to be undergoing significant change. How would you ensure that we saw change both at the FRC and at the successor body, ARGA, at the same time as the changes we need to see in the market are delivered?

Simon Dingemans: There is not a simple answer to that, but it is quite important that we run and embark on a number of the reforms proposed in parallel. You could wait for the statutory framework and the new body to be formally established. It is very unclear exactly when the parliamentary time for that will arrive. In the meantime, there is a lot we can do to start changing the culture in the organisation, to start changing the people who are recruited, to build up the skills and capabilities to start pushing on, in particular, areas such as the audit quality reviews and the corporate reporting reviews, and making them more active, covering more ground, but also more transparent. That clearly needs some more debate as to exactly how far you want to go and how quickly, but you do not need the statutory frameworks to start doing that. I would certainly want to see very rapid progress from the executive in driving a much more prominent set of reviews and feedback to the users and preparers of accounts, and those who audit them, from those quality reviews and corporate reporting reviews. That does not need to wait.

Q15 **Chair:** There is going to be a lot of resistance to the changes recommended by the Competition and Markets Authority, by this Committee, and potentially to the recommendations of Sir Donald Brydon. As chair of the FRC and of ARGA, you will have to engage with the audit sector but you will have to avoid the risk that Sir John Kingman spoke about of becoming little more than a trade association. How would you get that balance right?

Simon Dingemans: The independence of the regulator is absolutely key, and the direction laid out in Sir John's recommendations and the consultations put out already by the Department make it clear that that is going to be central part of how the ARGA is established and operates. The visibility of that is quite important to then be able to take a position with the profession, corporates and other stakeholders that, while their views will be important and we need to make sure that the solutions are practical, ultimately there is going to be change. That is the point I made at the very beginning. That is very different from what has gone before, in that there is much greater alignment that these things have to be different. That gives a lot of momentum to pushing forward some of those changes. They clearly need to be consulted on properly. When there is an answer, that is part of the challenge but also the excitement and opportunity for ARGA, to implement those very different changes.

Q16 **Chair:** What experience do you have in delivering something like that? You have had senior jobs at GSK and Goldman Sachs, but what experience have you had in delivering change in an organisation that you do not have direct managerial oversight of?

Simon Dingemans: Even in an organisation like GSK, where you have executive line authority, GSK employs 100,000 people, and you do not turn that type of organisation by just directing it from the top. You have to influence and bring along the stakeholders; you have to engage with employees; you have to work the matrix of other players who influence and participate, and are part of the mission of a company like GSK. That would include the broader science community in the UK and globally. That is just one example of a big supply chain that a company like GSK would have.

I am very used to managing those different groups and bringing them and influencing them to the objective that we have laid out. That is not very different from what I used to do as an adviser, where to deliver a big transaction you are often working with hundreds of people from different firms with different motivations. Clearly, that needs to be translated but I am very comfortable that that is not such a different challenge from what I have done before.

Q17 **Chair:** You were chief financial officer at GSK, and between 2014 and 2016 you chaired the 100 Group of CFOs. They have been very critical of many of the recommendations of the Competition and Markets Authority and of this Select Committee. Are you committed to these reforms? If so, would you have been committed to them in your previous role?

Simon Dingemans: The 100 Group represents 100 or so of the biggest companies. Inevitably, therefore, there is a range of views, and I respect the opinions that they have offered as to the different reviews that have gone on. In terms of the specifics, consultation is due to happen on some of the proposals from the CMA. We will have to wait and see what specific reactions we get to those much more specific proposals when they come out. It is a bit early to say exactly how we will deal with those until they have been through that process/

Q18 **Chair:** Do you support the recommendations of the Competition and Markets Authority?

Simon Dingemans: Again, I have obviously read them and I will wait and see how the consultation responses come in and what overall set of views they propose. You would expect the FRC to be participating in that process.

Q19 **Chair:** What is your view?

Simon Dingemans: It is a bit early to give you a view on those at this stage. I would like to be able to take up the role, talk to the FRC and benefit from some of their input.

Q20 **Chair:** Surely part of our view on whether you are the appropriate person to take on this role depends on your views on the biggest reforms that we are ever likely to see in the audit sector. It is a perfectly valid question to ask whether you support the recommendations of the Competition and Markets Authority.

Simon Dingemans: The proposals put forward by the CMA were just that, proposals. As their own report highlighted at the end, they had made recommendations to the Secretary of State rather than referring it into a review so that they could be integrated with the recommendations of this Committee, of the Kingman report and the recommendations-to-be from Sir Donald. That is quite important and is one of the reasons it is a bit early to land on one piece of that puzzle when it all needs to fit together in a coherent whole. I said at the beginning I am very clear there needs to be very radical reform.

Q21 **Chair:** What do you mean, then? If you are clear that there needs to be radical reform, what does that mean?

Simon Dingemans: In the first instance it means creating a very different regulator—when I approached this process, it was to be the chair of ARGA rather than the chair of the FRC, even though technically that is where things will start—and then engaging in the CMA review and Sir Donald's review, to really help the regulator create an environment in which it can deliver the real change that we need, in terms of improvements in quality.

Q22 **Chair:** Do you think change to regulation is sufficient?

Simon Dingemans: I would be surprised if it was sufficient.

Q23 **Chair:** Do you have a view on the recommendation, for example, by the Competition and Markets Authority on joint audits?

Simon Dingemans: It is a topic with a lot of different views.

Q24 **Chair:** With all respect, we know that, Simon. I am asking you for your view because you are going to be a key player in whether this happens or not.

Simon Dingemans: I am saying at this stage I am still listening to the different perspectives on whether it is joint, shared or no change at all. I have given you a reasonable sense that I do not think no change at all is probably the answer. There are a number of quite complex issues in which way you go, but we quite clearly need to find a way to build a stronger range of audit firms, a greater capability and a wider range of audit firms. I am not ready to commit at this stage as to which I think the best answer to deliver that is.

Q25 **Chair:** Should there be an operational split between the audit and non-audit services of the big four?

Simon Dingemans: I think a number of the firms are already starting to move in that direction.

Q26 **Chair:** Is that sufficient, what they are already doing?

Simon Dingemans: You have to judge it alongside whether it is actually delivering the benefits, in terms of ultimately higher-quality financial statements and a reduction in the number of issues that this Committee and others have focused on over the last few years. It is hard to pick one piece of this jigsaw out in isolation.

Chair: Originally I did not, Simon. I asked you about it as a whole. As I did not get much of an answer to that, I then started to unpick the CMA recommendations, to see whether within its recommendations there were parts that you supported. I do not seem to be making much progress there either.

Simon Dingemans: When a consultation is out there and underway, it is a bit hard to jump in too early to prejudge that process. That is all I am saying.

Q27 **Chair:** Do you think that the number of audit firms operating in this space matters?

Simon Dingemans: I think it does. As I just said, I certainly would be looking to develop more capacity and capability in the marketplace. As for exactly how many you need, I am not sure I know the answer.

Q28 **Chair:** Why do you think it matters?

Simon Dingemans: Ultimately, it is a question of choice, capability, innovation and dynamism in the sector. There is a role for some of the smaller firms to take on parts of the market, but they have to invest and to be able to invest. Exactly how that works needs testing.

Q29 **Chair:** Do they not also need to have the opportunity to win work, which is why the Competition and Markets Authority made its recommendations about joint audits, and why we made our recommendations about having a market share cap? You need some sort of reform like that, and from the answers you have given I am not sure that you are really committed to the reform that is needed. Can you give us any further assurance?

Simon Dingemans: I am committed to developing a very different audit market. What I am not ready to do today is to jump on to a particular outcome, because there are obviously a number.

Q30 **Chair:** With all respect, I am not asking you to commit today. I would have thought this was something you would already have given quite a lot of thought to in, first, applying for this job and since you are the preferred candidate. This is something that you could be taking up in a matter of days or weeks and you seem to be on the fence on some of the key issues that you are going to be facing into in this role.

Simon Dingemans: I clearly have thought quite a lot about it but I am waiting to also see what other input there is into quite a complicated decision. You have obviously made your recommendations; the CMA has made its recommendations. They do not necessarily fit together. I am very clear that we need to do something quite different but something that is sustainable as well. In the past, some of the reforms that have been put forward have been diluted away over time, which is why the statutory framework matters and why we need to look at a coherent whole of the recommendations, with Brydon in hand and the consultations that have gone out, to make sure that the solutions proposed are practical. Then we can land with more security on an answer. It is not that I do not have a view.

Q31 **Chair:** You do have a view but you do not want to tell us.

Simon Dingemans: No. I have said that I expect and would encourage more radical reform in terms of the shape of the market. Personally, at this stage I am just not convinced on whether joint audit, for instance, is the answer. Shared audit has a lot to commend it, but there are other possible solutions that ought to be considered as well.

Q32 **Chair:** Do you think there is any degree of urgency about these reforms or can we wait for another year or two before they are put in place?

Simon Dingemans: No, they are extremely urgent, which is why the consultations and the timelines that run into them have been quite a focus for me in going through this process, and why I am focused on what you can do without the statutory framework, as indeed BEIS identified in its consultation.

Q33 **Chair:** Let me raise one more specific issue before we move on. How would you prioritise issues such as compliance with the capital maintenance regime, more prudent use of good will and professional scepticism of auditors?

Simon Dingemans: Those are all important issues. The bigger priority is to establish the broader framework for the ARGA so it then has the power to go after those specific issues. There has obviously been guidance from the FRC on the capital maintenance regime in the past. It is not very clear. There are a number of different views but, if you embark on that without having put the backstop in place, you could just end up in the same place. It is clearly an important issue that needs clarification, but from a regulator that has a different set of powers.

Q34 **Chair:** What is your view on the capital maintenance regime as it is at the moment?

Simon Dingemans: It is not very clear. That has led to some of the issues that people have identified. The way in which companies publish and provide detail on the distributable reserves versus non-distributable reserves, in my view, needs looking at. A bit more clarity there could be very helpful in allowing investors to understand what capacity for paying dividends companies actually have. Equally, a number of solutions have been proposed that I think are not very practical and/or could skew the issue further. There are some very specific things there, but I agree that it needs improvement.

Q35 **Mark Pawsey:** You spoke a great deal about the need for transformation and change, and the Chair has worked very hard to try to get some detail on your view of what that change might be. You have equivocated rather there. What would you do if the change required by Government was something you did not agree with?

Simon Dingemans: To amplify that point, the change I had prevaricated on, to use your words, is around the CMA specifically, because there is a consultation ongoing and I do not think that is an unreasonable place to be while that consultation is ongoing. I am not prevaricating about the need to reform the FRC. I was clear at the beginning that we need to build a very different organisation, culture and focus. That is ultimately what I can get at.

Q36 **Mark Pawsey:** You have not been terribly specific with us on how you would like to see the FRC reformed. My question to you is this. If you have views, what would you do if there was a change required that you did not agree with?

Simon Dingemans: If there is a change required and that is what the Government have decided, it is ARGA's job to implement it and implement it in the most effective way, if that is what the legislation tells us to do. That does not mean the ARGA is not going to engage, as many other stakeholders would, in how those views come to land on a conclusion. Ultimately we would be there to deliver the statutory framework and the regulations that have been laid out.

Q37 **Mark Pawsey:** One area where you will have the budget to create change is in developing a new board. Tell us a bit about how you would ensure that the board would be fit for purpose and more effective than the organisation we have seen up to now.

Simon Dingemans: I agree with Sir John's recommendation that the board as a first step should be smaller. Clearly, the existing board has to help deliver the transformation into the ARGA but also deliver its own transformation to a smaller one, and one that is not just a group of representatives of the different stakeholders, but one that by being smaller is bound into delivering the strategy and the objectives to deliver the changes that we have talked about. I would expect to see a broader range of skills around the table, a broader mix of particularly transformational experience, because changing an organisation like this is not a simple exercise. That needs to be complemented by the executive.

Q38 **Mark Pawsey:** How would you ensure that those skills were represented on the board?

Simon Dingemans: It is important that we properly advertise for the roles. We have clear job specs, which I would expect to be developing as a matter of urgency, for each of the seats around the table. That needs to be matched by a simplification of the committee structure that sits underneath the board because that is currently creating some lack of clarity in terms of where the accountability sits.

Q39 **Mark Pawsey:** Kingman spoke about a rigorous annual evaluation of the performance of the board. Is that something that you are used to carrying out?

Simon Dingemans: Yes. That is very common in the private sector and something I would absolutely expect to be doing, and them to do of me.

Q40 **Mark Pawsey:** Does it surprise you that it has not been undertaken up to now on the FRC?

Simon Dingemans: Yes.

Q41 **Mark Pawsey:** Are there any other measures that you would like to see? Would you, for example, want to see time limits on the service of a board member?

Simon Dingemans: That would be well worth considering. It is a very good idea to make sure the board stays fresh. As for exactly how long, we need to work through the detail of that. That is what exists in the private sector and works reasonably well.

Q42 **Mark Pawsey:** You would see a much more private sector-type model for the board that you would be chair of?

Simon Dingemans: Yes, in terms of accountability, but it needs to have the right expertise around the table, which would be different from a plc board, for instance. In terms of being transparent and accountable, yes.

Peter Kyle: You have said to us in your testimony so far that you want to see a radical change moving from the FRC to ARGA; that you want to use your powers to the full; and that you want to create a regulator with teeth. You said you want a culture that is proactive. All this talk of a quite muscular regulator and a muscular approach to it is music to my ears, but what I have witnessed in the specific answers is actually very, very conservative.

If you take some of the answers to the Chair’s questioning a moment ago, particularly about the specifics of the reforms that are being proposed, what I heard was extraordinarily conservative. If you take the split between audit and non-audit work, when we had the big four come to give evidence before us, every one of them said they were going to end non-audit work and make the split themselves. Yet you, as a regulator that says you are going to be a radical regulator, are being more conservative than the people you are regulating. Is it not true that you do not have a radical bone in your body?

Simon Dingemans: I do not accept that characterisation. I am laying out for you a very clear view of how I want to change the FRC into the ARGA, its powers and what it might do with those.

Q43 **Peter Kyle:** What is radical so far in what you are proposing?

Simon Dingemans: If you go through the history of the FRC to look at the organisation with a more empowered board, a simpler committee structure, a proactive and challenging approach to the reviews in quality and corporate reporting that it is going to do in the future, with a lot more transparency, that is very different from where it has been before.

Q44 **Peter Kyle:** With every respect in the world, having a more empowered board should not be radical; that should be the norm.

Simon Dingemans: It should be the norm but it is quite a radical change from where it has been before. It is almost by comparison to where you have started. Where I am just a bit more circumspect at this point is where processes are underway, which need to be respected and ultimately worked through to make sure, if you are going to make significant change to either the organisation or the industry and the advisers around it, that it sticks. The problem in the past has been that some of those changes have not done that and therefore have not stuck.

Q45 **Peter Kyle:** One of the other problems of the past is people coming in from the private sector thinking that they can change the public sector and that they can be radical, and when they get inside they go native. How are you going to translate this radical talk of yours into radical action?

Simon Dingemans: Bringing some of the private sector experience to bear brings a different perspective on how that change might be achieved but, as part of thinking about who the executive team is and who the board is, I will want to have some deep knowledge of public sector reform alongside that. Hopefully then we can pick the best. It is going to be a complement of the two.

Q46 **Peter Kyle:** We have called for the FRC, and ARGA, when it transitions, to become a much more proactive organisation, to pre-empt failure before we see failure. You have said already today you want to achieve this. Specifically, how are you going to achieve that?

Simon Dingemans: As part of the building of skills and capability within the FRC, we need to up-weight and add to the teams currently looking for signals but with a lack of resource to follow through on them, and bring in more expertise, whether it is economics or market expertise, or from other stakeholders—I am particularly thinking about the investment community, which we talked about earlier—to allow the signal to then be turned into action. A number of examples have been identified where perhaps the FRC has seen the signal but has not been able or willing, or both, to follow through on that. It is about creating the right dedicated resource to do that together.

Q47 **Peter Kyle:** Is it a resource or cultural issue? Take Carillion and some of the other examples we have looked into. The FRC knew. We had very frank, candid and well-appreciated testimony that said they saw some of the foundational problems that led to the failure but did not act. Presumably that is cultural. Specifically, what can you change in a culture that will enable the FRC to act pre-emptively before failure?

Simon Dingemans: I agree it is cultural. It is both. This is what I identified at the beginning about changing the culture and giving the team permission to go after the signals they are seeing and the resources to back them up. In the past there has been hesitancy over whether their mission allows them to do that. Is the mission as clear as it needs to be? That has all been addressed in some of the reports that have been written. With the right framework and that changing culture, which is going to come from different people with different permissions, and the support from me, the board, the chief executive and his or her team, you could release quite a lot of energy to go after this issue.

Q48 **Peter Kyle:** You can do that from one to three days a week. You can change a culture that needs that profound a change?

Simon Dingemans: No culture change is a one-person job. You can change a culture but only if the whole organisation from the top down is aligned to what you are trying to achieve. It will require time from me, the board and the chief executive.

Q49 **Peter Kyle:** Have you led organisations through change that has led to a more diverse workforce before? Is diversity an issue to you—not just diversity issues that would often make it to the top of national discourse but things about diversifying workforces by socioeconomic background? Is social mobility an issue for you?

Simon Dingemans: Absolutely. At GSK it was a very big priority and it would be a big priority for me, in building this very different organisation, that we use that as a fantastic opportunity to increase the diversity of the organisation.

Q50 **Peter Kyle:** What did you achieve at GSK?

Simon Dingemans: We had a very specific focus on gender diversity but also broadly in terms of the different types of people we had, a mix of skills, different nationalities. There was a big focus on bringing, in a global company, talent from new markets across the group and giving them opportunities.

Q51 **Peter Kyle:** Can you give any specific examples? They are quite general. You mentioned gender equality. Can you give us any specifics, any percentage increases towards achieving parity?

Simon Dingemans: Yes. The current targets at GSK are for nearly a third of women in senior positions up from the mid-20s, and I think we made very good progress. Obviously it takes some time but we are moving forward on that. In the manufacturing businesses, we have put a big push on bringing younger talent into the organisation. In the pharmaceutical business, we did not have a specific numerical target but we had a number of programmes to develop emerging market talent, with some of those from different backgrounds, and bring them into head office or into the leadership positions and the rest.

Q52 **Peter Kyle:** Finally for me on this subject, what specific initiatives that have worked in your previous roles would you think about bringing into ARGA and the FRC in order to improve diversity in the workplace? For example, would you specifically think of taking part in a social mobility employer index?

Simon Dingemans: What I have seen work well in the past is looking very specifically at how your talent pipelines are made up, in terms of the different criteria you might have for diversity, particularly in the case I just gave you on the gender front, trying to accelerate and create opportunity to move those forward. Whether that is in recruiting for roles and making sure that you have properly mixed selection lists or panels, that is a very active way to intervene without putting people into a position where they then are not going to succeed. You have to do both. If you are going to pull talent of different kinds forward, you have to support that talent alongside it.

Q53 **Stephen Kerr:** I want to build on what Peter was talking about, in relation to culture, because the language you use in the way you describe your role at GSK, both in the testimony you are giving now and in what you wrote on LinkedIn, is very much about operations and structure. What culture change have you led personally?

Simon Dingemans: When I joined GSK, the organisations I was directly responsible for—finance, technology and real estate procurement—were very much in support of the corporate objectives and very much on the edge. They were not involved; they were not driving the change. By recruiting, by developing, by changing the mix of the people involved, by the time I left, finance was very, very central and engaged with the business, and had become a partner to the business.

Q54 **Stephen Kerr:** What specific cultural change did that involve, from one culture to another culture?

Simon Dingemans: Probably the best way of looking at it is from a reporting culture to one which is proactive, engaged, a partner to the business. That requires training and development, it requires different people, and it requires changing people's roles. When I got to GSK, there were a lot of people in the finance organisation who had been in the same role or vertical for decades. That does not exactly promote a breadth of perspective. I moved a lot of people around and brought in fresh blood, but also gave them the capability in training them to do something differently.

Q55 **Stephen Kerr:** You are ready to do that at the FRC? Changing the management of the FRC is something you are prepared to do in order to get this change of culture?

Simon Dingemans: Absolutely.

Stephen Kerr: Culture eats strategy, right?

Simon Dingemans: Yes.

Stephen Kerr: If you do not get the culture right—

Simon Dingemans: The rest of it is going to stall.

Q56 **Stephen Kerr:** We have identified that part of the problem with the FRC is the culture. You accept that changing the senior leadership team at the FRC may be something that you need to do very quickly.

Simon Dingemans: That has to start from the top, and there is a process already underway for a new chief executive, which is obviously going to be a central appointment in that mission. Yes, there will need to be some significant change in the senior ranks at the FRC to deliver what we are talking about. That might mean people in different roles from where they are today, it might mean new people or it might mean both.

Q57 **Stephen Kerr:** You have spent your entire career in the private sector. Are you ready, personally, to take up a public appointment? Having spent 30 years in the private and become an MP, I can tell you it is different. You are going to be exposed to far greater scrutiny, not just professionally but personally. Have you really thought this through? Do you understand what it implies, in terms of you personally?

Simon Dingemans: I am ready; I have thought it through. Being the CFO of a company like GSK is not short of scrutiny and press interest, and certainly being a banker at Goldman Sachs is not short of press interest from time to time. I recognise this is a very different league.

Q58 **Stephen Kerr:** When you start taking the public's penny, I can assure you that level of scrutiny intensifies. In terms of the cultural differences between the private and public sectors, what do you expect to discover?

Simon Dingemans: As Mr Kyle identified earlier, things happen at occasionally a different pace. I would like to believe that I can bring some energy to improving that as part of the change journey and the urgency that the Chair asked about earlier. I will need, as part of the board and the executive team, to have skills and experiences within the mix that can help me make sure that what I think as chair should be done lands appropriately and effectively in a public sector organisation.

Q59 **Stephen Kerr:** I have one final question. In the written submission you made, in answer to the questions the Chair posed to you, did I understand that you said you felt you had all the skills you needed to do this job?

Simon Dingemans: I said I think that I have the skills that can translate into setting the leadership agenda, and the second part of my answer was also to build in the team around me those specific skills, of which the public sector experience would be one, that I have less of. I have had some exposure to the public sector in advising companies, and GSK obviously deals with the Government as a major customer. I have some exposure in that sense. I do not have everything 100%. I have the foundations to set the direction that we have talked about, and I think I have the leadership skills to drive that and bring the right people along with me to fill in those gaps.

Q60 **Peter Kyle:** The Kingman review and this Committee have both been quite critical about this stewardship code. Do you believe that the revised code sets higher expectations of stewardship? It makes reference to the environment, for example, and some of the social and governance factors. How are you expecting this to go down with the sector?

Simon Dingemans: From the feedback I have had so far, I think there is an appetite for it. Part of the problem in the past was that investors engaged individually but also sometimes through groups and sometimes not through groups. There is a piece of work to do to help understand how they want to engage, but also direct outreach, frankly, because it is not just about ESG issues. They are clearly important, but it is also about engaging the portfolio managers and the broader institutions.

That is why, as I said earlier, I would like to see audit chairs doing what remuneration committee chairs do as a matter of course, and going out there and engaging once a year, if not more frequently, to say, "Here are the issues; here is what we have done with them; here is how we have reviewed the audit and the auditors, and why we are comfortable or not comfortable." That does not happen today. The FRC is in a great position to encourage that from both sides, because it takes two of them to play.

Peter Kyle: Bearing in mind that the stewardship code has not been revised since 2012, what you are talking about is a living document.

Simon Dingemans: There is that opportunity, but as you say it has not been revised for a long time. I would certainly want a fairly wholesale look at it. I would like to see what Sir Donald is going to add into the mix and then do it comprehensively. The stewardship code by itself is not going to fix this problem. We need to build the expectation from investors that this is something they engage with and they do not just leave to audit committees.

Q61 **Peter Kyle:** Do you think that the code should go further, as this Committee has recommend, and include environmental factors?

Simon Dingemans: I think so, possibly. That is a quite fast-moving environment, but ESG issues are definitely front and centre, and we should look at them in revising the stewardship code.

Q62 **Peter Kyle:** Do you think that the FRC, and ARGA, when it transitions, has the powers it needs to enforce the code?

Simon Dingemans: No, not today, but the new statutory framework should allow it to. It is broader than the powers. You have to change a mindset as to the expectation that investors care about audit and ESG issues in that context.

Q63 **Peter Kyle:** As you have been approaching this job of becoming a regulator, is there a regulator that you have looked to as a lodestar, as a model regulator, where you think, "That is the kind of regulator I want to be"?

Simon Dingemans: It is always invidious to pick on individuals, but the transformation of the CMA would be quite a good example of a regulator that is setting the agenda. That is really what the ARGA should be doing as well. That is just one example. There is plenty of good work from lots of other regulators but that is obviously quite high profile at the moment.

Peter Kyle: I say this because this is the final contribution from me in this session. When I hear you using words such as "having teeth", "radical change", giving the impression you want to use powers assertively, these things, having sat on this Committee for almost four years, are music to my ears because we have had so many regulators come to us apologising for not using their powers soon enough, and apologising to either consumers or the market that they regulate for not delivering change soon enough or using the powers to protect people and the market. I understand the need for you to be cautious through a selection process. I hope, if you are selected and confirmed for this, that you really live up to your opening statement here, because right now the sector needs robustness and assertiveness from a regulator. If a regulator comes before us to apologise in the future, it would be really nice if we had the apology for going too far for the right reasons rather than not going far enough for the wrong ones. Thank you

Q64 **Chair:** Our Committee has previously expressed disappointment that the FRC's revisions to the corporate governance code relating to remuneration did not include anything about the gender pay cap. Will you pledge to look again at that?

Simon Dingemans: I will.

Q65 **Chair:** In your view, what is the FRC's role in exerting influence, both over the gender pay gap and in the gap between executive pay and those people on middle and lower incomes?

Simon Dingemans: The FRC, and the ARGA as its successor, has a duty and role to enforce whatever we decide is the reporting framework around that. That reporting framework can in turn drive different behaviour, and publicity has certainly been a helpful factor in the gender pay gap, to pick an example, but it is not for the ARGA to change the specific remuneration policies. It is ultimately for the investors to engage with the companies, back to the point we were just talking about, but you can set a much clearer framework and give more information to investors about how those issues are thought about inside the company, and how the answer that was produced was developed and signed off. That is really where the ARGA could focus—bringing more transparency to the discussion to help there be a better discussion.

Q66 **Chair:** I agree that transparency is very important in these areas. What was the gender pay gap at GSK?

Simon Dingemans: I will have to get back to you on that, in terms of the specifics, rather than give you a wrong answer.

Q67 **Chair:** What was the gap between the chief executive pay at GSK and that of the median worker or, indeed, the lowest-paid worker?

Simon Dingemans: I am going to give you the same answer, I am afraid, as I am not so current.

Q68 **Chair:** This would be my challenge to you. In the first part of that question, you said that transparency is very important and these issues really matter, but then I ask you about the organisation at which you were CFO and you do not know the data. It suggests that it did not really matter to you in your previous role.

Simon Dingemans: I do not agree with that. I am just two or three months out of GSK with a lot of other things going on, including focusing on getting myself into the right level of preparation for this particular role. I am sorry; I just do not recall the numbers off the top of my head.

Q69 **Chair:** At GSK, what challenge did you give to the board about addressing those issues of the gender pay gap and, indeed, the gap between the executive pay and workers at the middle and bottom of the workforce?

Simon Dingemans: Not just at the board but at the executive team, we had very extensive discussions as to where we were today, where we had come from and what we can do to improve, particularly in the diversity context that we talked about earlier. Clearly, the stats by themselves are just an output of many different factors. I was the CFO and a key voice around the table, so I absolutely participated in those discussions.

Q70 **Chair:** Did you ever take a lead role in any of those areas?

Simon Dingemans: In what respect?

Chair: In tackling the gender pay gap, for example.

Simon Dingemans: I took a role as part of the executive team and of the board, but ultimately the implementation of the measures we decided is down to individual businesses. Yes, I was part of it but the specific decisions are collective.

Q71 **Stephen Kerr:** The FRC has also been criticised for its handling of whistleblowers. I should make it clear that I am the co-chair of the All-Party Parliamentary Group on Whistleblowing. I have to say that, as part of our deliberations, this Committee has been surprised at how few cases of whistleblowing have been investigated and acted upon. How would you ensure that whistleblowers can feel confident that they will be taken seriously and that you would act if appropriate?

Simon Dingemans: This is absolutely critical to changing the culture but also enforcing regulatory standards that people, ex the organisation and in the organisation, have the confidence to report. I do not know the specifics of how exactly the whistleblowing systems inside the FRC work today as I have obviously not been there yet, but at GSK we spent a lot of time in creating secure systems and procedures that people had confidence in, and backing it up culturally with the right messaging that no whistleblower was ever going to be challenged and they would be protected and supported while their complaints were investigated.

Q72 **Stephen Kerr:** They are not necessarily complaints; they are often insights and warnings. It is wrong to characterise whistleblowers as complainers. In 10 years, the FRC investigated only 25 whistleblowing cases, and of the 25 only three resulted in anything happening. That is appalling. How can that be acceptable to us? How much of a priority will this be for you in your role, should you be appointed?

Simon Dingemans: It is a central part of changing the culture because you need people to tell you what is going on.

Q73 **Stephen Kerr:** How will we know, in terms of metrics, whether something has changed at the FRC because of your leadership?

Simon Dingemans: The sort of metrics you just ran through are not difficult to track, and they give you a very clear signal. Are you getting enough incoming? If you are not getting enough incoming, you are not looking hard enough. Then what happens to those? What proportion and what types of issues are coming up? What have you done to follow up on them? Have they merited follow-up at varying different levels? There are reasonably clear KPIs that you could put around that.

Q74 **Vernon Coaker:** You can sense the frustration that the Chair and the rest of us have had with the people we have had in front of us. The system is supposed to be that nationalisation was rejected and we moved to privatisation with regulation. Much of the time, the regulators we have do not seem to have used any of the sanctions or, as Stephen Kerr has just said, maybe used the odd one here and there. It is no wider that our constituents and the public cannot understand it. They ask us, as Peter Kyle very eloquently just said, "What are you doing about it?" That is why we are pressing you. The FRC has been accused of being toothless; the outgoing CEO said they were frightened of legal challenge. We want to know why the FRC, if you were appointed, would be any different.

Simon Dingemans: That starts at the top, ultimately, with the make-up of the board, including me as chair, then with the executive team, where there is a process, well advanced in relation to a chief executive appointment, that allows another signal for change and a different approach to be established. Then, through Sir John's recommendations and the recommendations from this Committee, we need to very rapidly, not taking a lot of time, put in place those we can move on now, those we can move on later and not wait for the perfect solution.

Q75 **Vernon Coaker:** Irrespective of not being that specific about where you go, your message to the audit companies is this: "Change is coming and you had better believe I am going to use the sanctions. You had better believe I am not going to be cowered by threats of legal challenge and I have sanctions". I have them listed in the brief that we get. Auditors can face temporary or permanent bans, and financial penalties. Audit firms can be prohibited from statutory audits, and so on. What is your message to the audit companies? What is your message to the people in the tower blocks and the skyscrapers just down the road?

Simon Dingemans: This is going to change and it is going to change in a very sustainable way. The only hesitation I have about answering the Chair's questions on the CMA specifically is that there is a process underway and, if I jump into the middle of it, there is a danger that some of those very important changes get unpicked. I am trying to be very clear about the direction of travel. I would say to your constituents that this is going to be a very different ARGA going forward. It will not be afraid to use its teeth, and it is important that it is given teeth. The threat of that will allow us to drive a lot of the quality improvements.

Q76 **Vernon Coaker:** The million dollar question is whether they believe that. I am sure every regulator has said, "I have the sanctions and will look into it as appropriate," but, as we saw with Carillion and Patisserie Valerie, people lost fortunes. The audit firms were alerted to the problems. The FRC is supposed to be the regulator and nothing happened.

Simon Dingemans: The proof will be in the delivery. Ultimately, I recognise that there is a journey and a battle to persuade people to have confidence in the regulator. That is going to be how we act, what we do and how we use those powers, which is why I am so focused on what we can do before the statutory framework that Sir John has recommended is put in place. There is a lot that we can do. The nature of this process and the broad buy-in to the imperative for change is incredibly powerful.

Q77 **Vernon Coaker:** Have the Government said anything to you about how this progress is to be measured? If you were to be appointed, how would you measure the progress? How would we know that things had changed, that the FRC—not you personally—had not been cowed, and that there was a different sheriff in town?

Simon Dingemans: Particularly on audit quality reviews and corporate reporting reviews, just to pick two examples, there are already some stats out there that create us a time series and a baseline. I want to see those improve. There should be much more transparency, much more quickly, about what is in those reviews, in the same way as you see in the US today.

Q78 **Vernon Coaker:** Can you give us an example of what that transparency would look like? I am not an expert on this. What would be different in terms of transparency that would shine a light on some of the audit practices? Given what you have just said about greater transparency, what would happen that does not happen now?

Simon Dingemans: At the moment, in an audit quality review, a lot of it is either at a very high level or anonymised, which is not very helpful to the company concerned, or more importantly to other companies, to watch out for factors, new developments and trends. If you look at the US, there is a graduated series of disclosure levels depending on how a company is co-operating and/or changing. There is a power in that to make people change. There is much more visibility. You can see: "Something is going on over here in my sector that I need to be aware of and think about."

Q79 **Vernon Coaker:** That is what you are going to change.

Simon Dingemans: That one small piece of creating—

Q80 **Vernon Coaker:** That is very important. That is what the Chair was trying to get at earlier on. On the transparency, what are you going to say to audit companies? In between this low-level anonymised stuff, where nobody knows what has gone on, and the high level where you have signed off the accounts, there are going to be all sorts of things. "What happened there?" We had someone come in who was talking about hidden accounts. Goodness only knows what that means. I know what it sounds like, and that cannot be right, can it?

Simon Dingemans: I have no idea what they were saying and whether you let them go or not.

Vernon Coaker: I cannot remember who it was. I am right, am I not? I am not misquoting?

Chair: It was Grant Thornton in relation to Patisserie Valerie.

Vernon Coaker: Imagine if I went to my accountant or tax adviser and asked, "Could I have a hidden account?"

Simon Dingemans: There is a good example where Sir Donald is looking specifically at the issues around fraud.

Q81 **Vernon Coaker:** He does not need to look at it; he needs to sort it out. That is your job, if you get it.

Simon Dingemans: We need to have very specific proposals around that, which we can then enforce, whereas at the moment we do not.

Vernon Coaker: You should ban hidden accounts.

Simon Dingemans: Presumably they are hidden for a reason.

Chair: Thank you very much for coming to this pre-appointment hearing today. We will now meet in private to discuss it. Thank you for your time today.

Simon Dingemans: Thank you for the opportunity.