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# Feedback Statement: Consultation Paper: Revised Operating Procedures for reviewing Corporate Reporting

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8th Floor, 125 London Wall, London EC2Y 5AS

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## 1 Introduction

- 1.1 The Consultation Paper “The FRC Conduct Committee: Revised operating procedures for reviewing corporate reporting” (the “Consultation Paper”) set out proposed revisions to both the content and structure of the Conduct Committee’s operating procedures for reviewing corporate reporting (the “Operating Procedures”).
- 1.2 The proposed revisions were prompted by the need to reflect the implementation of FRC Board approved recommendations following an independent review of its Corporate Reporting Review (“CRR”) function and a general demand for enhanced transparency about the review process. The Committee also took the opportunity of considering the content of the Operating Procedures more generally.
- 1.3 This statement summarises key points from the responses to the Consultation Paper and provides our feedback on the comments and suggestions received.

## 2 Responses received

- 2.1 We received 12 responses to the Consultation Paper. Three were from preparer representatives, six were from accountancy firms, two from professional bodies and one from an NGO.
- 2.2 The respondents were:

<b>Respondent</b>	<b>Organisation type</b>
Association of Investment Companies (AIC)	Preparer
The 100 Group	Preparer
Quoted Companies Alliance	Preparer
KPMG LLP	Accountancy firm
Ernst & Young LLP	Accountancy firm
PricewaterhouseCoopers LLP	Accountancy firm
Deloitte LLP	Accountancy firm
Grant Thornton UK LLP	Accountancy firm
BDO LLP	Accountancy firm
Institute of Chartered Accountants in England and Wales (ICAEW)	Accounting Professional body
Association of Accounting Technicians (AAT)	Accounting Professional body
ClientEarth	Non profit environmental law organisation

- 2.3 The responses to the Consultation Paper can be found on the FRC website alongside this feedback statement.

### **3 Summary of responses**

- 3.1 Overall, respondents supported the proposed changes to the content and structure of the Operating Procedures. Several respondents also put forward helpful suggestions about how they could be improved. A number of these suggestions have been incorporated in the revised Operating Procedures. Others have been reflected in an expanded set of Frequently Asked Questions (“FAQs”) or elsewhere in the CRR section of the FRC’s website rather than in the Operating Procedures themselves. This is so that detailed processes and explanations of the principles set out herein can be enhanced and further developed as and when required.
- 3.2 Set out below are the questions posed in the Consultation Paper, along with a summary of the responses received.

#### **Do you consider that the proposed changes to the Operating Procedures are clear and understandable?**

Most respondents broadly agreed that the proposed changes are clear and understandable and would make the Operating Procedures easier to follow. Five respondents identified opportunities for further clarification.

One respondent noted that the FRC’s Guidance on Audit Committees expects the Audit Committee’s section of a company’s annual report to refer to significant issues that it has considered during the year, including the nature and extent of interaction (if any) with CRR. The respondent went on to say that it could be inferred that a letter from CRR informing a company that its accounts had been reviewed, but that no substantive issues had been raised, may not be viewed as a significant issue and might not be referred to by Audit Committees in their reports.

By way of clarification, the FRC encourages any interaction with CRR to be disclosed in the Audit Committee report, including letters of this nature, as it will enhance users’ understanding.

Other respondents drew attention to the fact that the FRC’s Guidance to Audit Committees only applies to premium listed companies subject to the UK’s Corporate Governance Code. There is no specific reference in the Operating Procedures to the reporting expected of other companies – for example, companies quoted on the Alternative Investment Market or private companies.

Guidance on both of these points has been incorporated into an expanded set of FAQs on the FRC’s website.

#### **Do you consider that the changes to the Operating Procedures will promote more efficient and effective processes?**

Several respondents agreed that the proposal to move elements of regulatory decision-making away from the Corporate Reporting Review Committee (“CRRC”) to the Executive will/should promote more efficient and effective processes.

Three specifically supported changes designed to allow for speedier resolution of CRR intervention in view of the time and resources they can require of companies dealing with their questions. One considered that the changes in respect of more executive led decision-making should not be formalised in the Operating Procedures and instead, should be dealt with in FAQs.

The changes are being retained in the Operating Procedures given that all other aspects of the review process are set out therein. Removing the description would be misleading as the Operating Procedures would suggest that all aspects of all reviews are considered by the Conduct Committee, the CRRC or Review Groups which will not be the case.

Other respondents, while broadly supporting the change in responsibility, highlighted the fact that the members of the CRRC are highly experienced individuals who, historically, have ensured high quality output on behalf of the Conduct Committee. They hoped that the CRRC would continue to make a significant contribution to the review process generally, such that quality is maintained and a more compliance based approach avoided.

The Conduct Committee believes that the proposed streamlining of the review process has sufficient safeguards in place to maintain high quality. The Executive are required to consult with CRRC in respect of complex issues or difficult cases and are supported by an enhanced internal reporting structure.

The Conduct Committee agrees, however, that the operation of the revised Operating Procedures should be monitored and have committed to reviewing their effectiveness once there is sufficient experience of their operation.

One respondent did not agree that the proposed changes would increase either the effectiveness or efficiency of the corporate reporting review processes. They suggested that the Operating Procedures should include more information about the basis on which the Conduct Committee assesses the quality of corporate reporting in the UK. The FRC’s assessment of the quality of corporate reporting in the UK is published annually in its ‘Annual Review of Corporate Reporting’ (“Annual Review”). The Conduct Committee notes the interest in having a better understanding of the basis on which the FRC concludes on the quality of reporting and effort will be made to better articulate this in the FRC’s 2017 Annual Review.

The same respondent also made a specific suggestion that, in relation to the strategic report, the FRC should identify the criteria by which it assesses if the report informs how directors have performed their duty under section 172 of the Companies Act 2006 to promote the success of the company. There is no current requirement for directors to disclose this information. The Conduct Committee notes, however, that this aspect of corporate reporting is the subject of some attention by the Department for Business, Energy and Industrial Strategy (“BEIS”) which recently published a Green Paper on the matter. The FRC has published its response on the FRC website.

### **Do you consider that the revised Operating Procedures are fair and transparent?**

Two respondents agreed unequivocally.

Others queried the usefulness of the FRC publishing the names of companies whose reports and accounts it has reviewed only after the company itself has had the opportunity of commenting on any CRR intervention in a subsequent set of report and accounts. They identified an unhelpful delay in this information reaching the public domain.

The FRC gave careful thought as to who should be the primary reporter of the outcomes of its regulatory interventions. On balance, it concluded that, initially, it is for the company to explain its response to regulatory interventions to its shareholders and others. The FRC Board will, however, monitor the quality of the disclosure provided by companies and the extent to which it is fair and balanced. If, after a period, there is evidence to suggest that, in general, disclosures provided are inadequate, decision to give companies the first opportunity to comment will be reconsidered.

Other commentators argued that it would be difficult to identify from the FRC's list of companies the significance of any of its interventions. Paragraph 62 of the Operating Procedures has been amended to clarify that the list of companies published by the FRC will indicate the type of approach made to the company and the specific report and accounts under issue. This will also help to address the concern expressed by another respondent that readers may otherwise assume that significant issues had been raised in each and every report or that the review had been prompted by a complaint.

#### **Do you have any other comments about the revised Operating Procedures?**

Other comments included a suggestion that the Operating Procedures should allude to the practice of pre-informing companies that their next reports and accounts – or aspects thereof – will be subject to review by CRR.

The Conduct Committee reserves the right to change this policy in the light of experience and company behaviour and this is a level of detail not necessary for inclusion in the Operating Procedures themselves. Accordingly, it is not appropriate to adopt a fixed position in the Operating Procedures. One respondent also suggested that the caveats attaching to a 'no issues' letter be included in the Operating Procedures. For the same reasons, the Conduct Committee would prefer that such caveats be referred to in the FAQs.

One respondent suggested that it would be helpful if the Operating Procedures could give an example of when it might be appropriate for the CRRC to report matters raised under the Companies (Audit, Investigations and Community Enterprise) Act 2004 direct to the Conduct Committee without appointing a Review Group where to do otherwise might cause undue delay. An example is now provided in the FAQs.

Another respondent suggested that the proposed changes reduce the degree of transparency afforded to complainants. This impression is given, primarily, by the restructuring of the text. Well informed complaints from users of reports and accounts are welcomed and again, this is highlighted in FAQs. The revised Operating Procedures now also clarify that complainants are provided with a copy of any press notice relevant to their case. Consequently, there is no reduction in transparency for complainants.

One respondent did not believe that the proposed changes significantly enhanced the transparency of the review function. They suggested that the Operating Procedures should include more specific information about the basis on which reports and accounts

are selected for review. It is not considered appropriate to include further information in the Operating Procedures but the relevant section on the FRC's website has been enhanced and will be kept updated as review selection methodology continues to develop. Interested parties are also invited to comment on the FRC's annual draft Plan and Budget which it publishes for consultation and in which it sets out its proposed work programme for the year ahead.

Finally, in response to a suggestion made, paragraph 19 has been amended to clarify that all initial letters to the company Chairman are sent by the CRR Director. This practice is an integral part of the quality control process.



**Financial Reporting Council**

8th Floor  
125 London Wall  
London  
EC2Y 5AS

+44 (0)20 7492 2300

[www.frc.org.uk](http://www.frc.org.uk)