

Financial Reporting Council

**Feedback Statement and Impact Assessment:
Third Country Auditors (Fees) Instrument 2021**

30 June 2021

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Introduction

1. On 15 February 2021, we published our Consultation on the Third Country Auditors (Fees) Instrument 2021 ([the Fees Consultation](#)). We set out proposals for a new statutory Instrument which would:
 - Set out the level of registration fees required to be paid by various categories of Third Country Auditor (TCA), where the fee imposed on each TCA in each category would increase by £85 per year;
 - Update certain definitions that were used in the Third Country Auditors (Fees) Instrument 2020 (the 2020 Instrument); and
 - Revoke the 2020 Instrument, replacing it with the Third Country Auditors (Fees) Instrument 2021 (the 2021 Instrument).
2. As set out in the Fees Consultation, the purpose of raising the TCA registration fee is to fund, in part, additional work that the FRC will be undertaking, following the UK's departure from the European Union. In particular, the Secretary of State for the Department for Business, Energy and Industrial Strategy (BEIS) may take into account reports by the FRC for the purposes of determining whether to make 'equivalence' decisions – i.e. where another country is deemed to apply a standard of audit oversight which is consistent with that in the UK. The FRC will need to fund the cost of undertaking these equivalence reports.
3. This Statement sets out the responses received to the Fees Consultation and our decision on whether to make the 2021 Instrument.
4. This Statement also contains our final impact assessment as a result of making the 2021 Instrument.

Responses

5. We did not receive any direct response to the Fees Consultation. However, in parallel with the Fees Consultation, the FRC also ran a consultation regarding its Annual Plan and Budget (the AP&B Consultation). In the AP&B Consultation, we cross-referenced the Fees Consultation, where we proposed that equivalence reports undertaken by the FRC would be partly funded through the TCA registration fee (i.e. 10% of the cost) and partly through the CCAB and Preparer's levy (i.e. 90% of the cost). One of the responses to the AP&B Consultation included a view on the proposed funding arrangements for the equivalence reports.
6. The respondent, a large audit firm based in the UK, stated that, in its view, the benefit accruing to UK audit firms and Preparers from the FRC undertaking equivalence reports was not sufficiently large that they should pay 90% of the costs. Rather, it was submitted that a larger proportion of the costs should be borne by TCAs.
7. The FRC has given careful consideration to the point raised by this respondent. The policy behind the TCA regime is to ensure that appropriate and consistent standards are being applied (together with monitoring where necessary and a register) for overseas auditors who are providing audit opinions on overseas companies listed on the main UK exchange, as their audit

opinions are being relied on by UK investors. The regime aims to establish a level of oversight similar to that required of the audits of listed companies incorporated within the UK. This is intended to enhance and safeguard public confidence in the annual financial statements of companies listed on regulated markets in the UK that are audited by TCAs. UK audit firms and all companies listed on a UK regulated market benefit from the 'level playing field' that the TCA regime brings to the market.

8. Recognising the audit regime of another country as 'equivalent', can make the UK markets more attractive to companies from that country as the regulatory requirements are significantly reduced compared with those that apply if there is no recognition of equivalence. This could increase the likelihood of attracting fast-growing companies - technology and other "new economy" companies, including green economy innovators – to the UK, thus creating growth and new jobs going forward. In his letter to the Chancellor accompanying the findings of the UK Listing Review, Chair Jonathan Hill describes the benefits of attracting companies to list in the UK: "The UK needs strong public markets. Not merely because they are a way of companies funding growth and investment which in turn creates jobs and pays wages across the countries and regions of the UK. But because increasing the opportunities for investors to share in that growth helps spread wealth. Strong and deep capital markets drive the economy, spread risk, and they help people to build up their savings and plan for old age."¹ In our view, the TCA regime therefore brings significant, wider benefits to audit firms and preparers.
9. There is a relatively small population of TCAs, so even a modest increase in costs could result in a relatively high percentage increase in the TCA registration fee. There is a risk that, if a higher proportion of the costs were recovered via the TCA registration fee, this could increase the TCA registration fee sufficiently to deter third country auditors from registering and overseas companies from listing in the UK.
10. We have also considered the relative increase in the CCAB and Preparer's levies as a proportion of the overall annual fees paid by these stakeholders. In the case of CCAB levy-payers, the increase required for equivalence assessments represents 0.6% of the total annual levy paid by this group, and in the case of the Preparers, 0.3% of the total annual levy paid. On that basis, although 90% of the costs of the FRC's equivalence reporting will be funded from the CCAB and Preparer's levy, the additional increase to those levies will be relatively small in real terms and, in our view, unlikely to impose a disproportionate burden on these two groups. It is on this basis that we continue to consider it appropriate to apportion the costs of undertaking equivalence reports between the TCAs, the CCAB and the Preparer's levy, as set out in the Fees Consultation and the AP&B Consultation.
11. For the reasons set out above, we consider it appropriate and proportionate to make the 2021 Instrument, as proposed in the Fees Consultation.
12. A final version of the Third Country Auditors (Fees) Instrument 2021 is set out in Annex 1 to this Statement.

Impact Assessment

- i. The proposals set out in this Consultation, together with those set out in the AP&B Consultation, will impact most directly on:
 - ii. TCAs;
 - iii. the larger UK audit firms who audit other companies on the UK's regulated markets; and
 - iv. the companies listed on UK regulated markets.
13. In order to fund the FRC's work in undertaking equivalence reports, the annual TCA registration fees for TCA audit firms will increase by £85 per year. The remaining costs of this work will be borne equally by the CCAB and the Preparers levy.
14. We consider that there is a direct benefit to TCAs as a result of the FRC undertaking equivalence assessments. Further, as set out in the body of this Statement, we consider that there are benefits to audit firms and companies who have the assurance of operating on a 'level playing field' with respect to applicable regulatory requirements. We therefore consider it fair and appropriate to apportion part of the costs of the reports across the TCA registration fee, the CCAB levy and the Preparer's levy. In doing so, we have carefully considered the likely impact on TCAs, audit firms and companies. We have balanced the imposition of an increase in fees against the risk of imposing a financial burden which might disincentivise TCAs from registering in the UK or deter overseas companies from listing in the UK, thereby undermining the TCA regime and reducing investment opportunities in the UK.
15. In our view, increasing the TCA registration fee by £85 per year, per category of TCA (10% of the total estimated cost of undertaking annual equivalence reports) is a modest increase. The FRC understands that the fee charged is a small proportion of the fees charged by an auditor to a non-UK incorporated client listed on a regulated market in the UK.
16. As set out above, the increase in the CCAB and Preparer's levies is also modest, in terms of the overall amounts paid by these groups annually, and in our view, is unlikely to represent a disproportionate financial burden to these stakeholders.
17. Accordingly, the FRC believes that this Instrument does not lead to any significant impact on business.

ANNEX 1 THE THIRD COUNTRY AUDITORS (FEES) INSTRUMENT 2021

Powers exercised

- A. The Financial Reporting Council (“FRC”) makes this instrument in exercise of the power conferred by section 1251(2) of the Companies Act 2006 (“the Act”)² to make regulations prescribing periodical fees to be paid by, amongst others, every registered third country auditor.
- B. This power was transferred from the Secretary of State to the FRC by Article 7(1) of the Statutory Auditors (Amendment of Companies Act 2006 and Delegation of Functions etc) Order 2012 (“the Delegation Order”)³.
- C. This instrument is made by the FRC in accordance with the relevant provisions of the Delegation Order and section 1252 and Schedule 13 to the Act, and with the approval of the Secretary of State.

1. Citation, commencement and interpretation

- (1) This instrument may be cited as the Third Country Auditors (Fees) Instrument 2021.
- (2) This instrument comes into force on xxx.
- (3) In this instrument:
 - “the 2019 Regulations” means the Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019⁴.
 - “audit client” means a UK-traded third country company to which a registered third country auditor is appointed as auditor on the relevant date.
 - “equivalent third country” means the countries approved as such under Schedule 1 to the 2019 Regulations, or as otherwise approved by the Secretary of State by Regulations made under section 1240A(1) of the Act.
 - “equivalent registration” means the registration of a third country auditor established in an equivalent third country as a registered third country auditor, in accordance with FRC requirements.
 - “full registration” means the registration of a third country auditor established in a country other than an equivalent third country or a transitional third country as a registered third country auditor, in accordance with FRC requirements.
 - “FRC requirements” means the requirements for registration as a registered third country auditor, as set out in the Statutory Auditors and Third Country Auditors

² 2006 c. 46

³ S.I. 2012/1741.

⁴ S.I. 2019/177.

Regulations 2013⁵ and any directions made by the FRC under sections 1239(7) and 1242(4) of the Act⁶.

- “registered third country auditor” has the same meaning as in section 1241(1) of the Act.
- “relevant date” means the date of the registration of a registered third country auditor and each annual recurrence of that date.
- “third country auditor” has the same meaning as in section 1261(1) of the Act.
- “transitional registration” means the registration of a third country auditor established in a transitional third country as a registered third country auditor, in accordance with FRC requirements.
- “transitional third country” means the countries approved as such under Schedule 1 to the 2019 Regulations, or as otherwise approved by the Secretary of State by Regulations made under section 1240A(1) of the Act.
- “UK-traded third country company” has the same meaning as in section 1241(2) of the Act.

2. Fees payable by registered third country auditors

- (1) A registered third country auditor must pay an annual fee to the FRC no later than that auditor’s relevant date.
- (2) The fee payable is that fee specified in the Schedule to this instrument as appropriate to the nature of that auditor’s registration and number of audit clients.

3. Revocation

- (1) The Third Country Auditors (Fees) Instrument 2020 is revoked.

By Order of the FRC Board

17 June 2021

5 S.I. 2013/1672

6 As amended by the Statutory Auditors and Third Country Auditors Regulations 2016 (S.I. 2016/649) and the Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 (S.I. 2019/177).

SCHEDULE

| Annual fee payable by a registered third country auditor | | | |
|---|---|---------------------------|-------------------|
| Number of audit clients | Type of registration as a third country auditor | | |
| | Equivalent registration | Transitional registration | Full registration |
| 0 - 9 | £1,221 | | £2,357 |
| 10+ | £2,925 | | £5,765 |

