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27 March 2013

Dear Sir/Madam

## **FRC Draft Plan & Budget 2013/14**

We write in response to your invitation to comment on the draft Plan and Budget for 2013/14 (the Budget), issued for consultation in January 2013 by the Financial Reporting Council (FRC). We support the FRC's publication of its budget and the opportunity to comment on it.

### **1. Overall comments**

- 1.1. The FRC plays an essential role in the UK's business and capital markets infrastructure. In this context, it is helpful that the Budget starts by setting out the FRC's mission and then sets out the priority projects and activities in the Work Plan 2013-2016 (Work Plan).
- 1.2. We note that the FRC proposes an increase of 10.8% core operating costs in relation to corporate governance, reporting and auditing costs expected 2012/13. However, it is not clear to us what the reasons are for the increase, or how the costs link to Work Plan, particularly now that the FRC reform has bedded down and the major project to replace UK GAAP is mostly complete.
- 1.3. We note that the FRC proposes to increase the preparer's levy rates by 8.5% and increase the contribution from the accountancy professional bodies by 6.5% compared to the contribution expected for 2012/13. The absence of clarity around the costs associated with the priority projects and activities set out in the Work Plan makes it difficult to see whether and how those increases are justified and how any additional funds would be spent.

- 1.4. We therefore encourage the FRC to provide the underlying detail around the planned increased resources across its priority projects, together with an indication of the timing and duration of those projects.
- 1.5. The Budget does not appear to set out any success measures such as milestones, deliverables or key performance indicators (KPIs). For example, it is not clear to the reader how the '*step increase in the speed and effectiveness of disciplinary processes*'<sup>1</sup> or '*ensure appropriate input to the IASB's standard setter forum*'<sup>2</sup> are going to be measured or success judged. The lack of KPIs will make it difficult to assess whether you are on track towards achieving your objectives.

## **2. Comments on specific activities set out in the Work Plan (consultation question 2)**

- 2.1. We fully support the inclusion of the development of the UK XBRL taxonomies within the Budget to ensure that the ongoing development of UK GAAP includes appropriate consideration of effective digital reporting within the UK.
- 2.2. We welcome the FRC's recommendation that the Competition Commission take into consideration the work undertaken to date on the development of contingency plans to manage any future situations where the continued supply of high quality audits to major listed companies may be at risk.

We fully support the inclusion of plans to mitigate such risks associated with audit market concentration within the Budget and we look forward to continuing with our contribution to the development of these plans.

- 2.3. We acknowledge that the budget for actuarial standards and regulation will be finalised in the light of the FRC's current work with the Institute and Faculty of Actuaries. Deloitte is fully engaged with the programme of work to test whether the framework for actuarial regulation remains appropriate. We welcome the FRC's recognition of the importance of the work of actuaries and we look forward to contributing to the debate to ensure any changes to the framework are proportionate and take into account the rigorous quality assurance processes that firms like ours currently operate.

## **3. Potential impact of the Competition Commission's possible remedies**

- 3.1. In relation to the CC's potential remedies, we agree with the FRC that the cost and benefits need to be fully understood. It is likely that the introduction of certain of the remedies, such as expanded remit and / or frequency of Audit Quality Reporting will further increase the costs of the FRC.

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<sup>1</sup> Page 5, Regulatory activities

<sup>2</sup> Page 7, Corporate reporting

If you have any questions on our comments, please contact David Barnes (020 7303 2888 or [djbarnes@deloitte.co.uk](mailto:djbarnes@deloitte.co.uk)).

Yours faithfully

A handwritten signature in dark ink, appearing to read "David Barnes", followed by the letters "LLP." in a similar script.

Deloitte LLP