Consultation

Financial Reporting Council

December 2016

Draft Plan & Budget and Levy Proposals 2017/18

The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent disciplinary arrangements for accountants and actuaries, and oversee the regulatory activities of the accountancy and actuarial professional bodies.

Contents **Page**

Section One – Overview

Our mission is to promote high quality corporate governance and reporting to foster investment. To support our mission we have two strategies, both designed to support investor and wider public confidence: to encourage companies to produce the trustworthy information necessary for informed investment decisions; and to encourage trustworthy behaviour by directors and professionals and engagement with them by investors. Across all our activities we operate in the public interest.

In consulting on our priorities for 2017/18, we are conscious that there are significant challenges facing society as a whole. Economic and political uncertainties, and the serious public concerns about the behaviour of some businesses, are bad for growth and prosperity. The FRC cannot, of course, address these problems alone, but it can make a contribution through its role in promoting strong corporate governance and encouraging better recognition in business of public perceptions.

In a period when businesses are facing a high degree of uncertainty, regulators need to be wary of creating unnecessary costs for business. The Strategy for 2016/19 that we published in October 2015 was based on a regulatory approach that supports market participants in improving standards, and using our enforcement powers when necessary. This remains a key plank of our work going forward. Through it we will drive high standards of corporate governance and reporting in the UK, and help maintain the UK's standing as a global centre of excellence for accountancy, audit and actuarial work – all of which contribute to confidence in the UK as a destination for investment. We have during 2016 promoted the importance of good corporate culture in delivering long-term business and economic success. Our report on Corporate Culture and the Role of Boards, based on extensive consultation and input from partner organisations, made clear our view that the way companies create and sustain value is directly linked to the debate about the role of business in society.

We recognise that the reputation of business as a whole has been damaged by the behaviour of a few. Better governance needs to be consistently achieved, to help companies take better decisions for their own long-term benefit and that of the economy overall. Against this background, the Government Green Paper on Reforming Corporate Governance, published in November 2016, is seeking views on a number of issues: executive pay; strengthening the employee, customer and wider stakeholder voice; corporate governance in large, privately-held businesses; and whether the current corporate governance framework in the UK is providing the right combination of high standards and low burdens.

In our evidence to the Business, Energy & Industrial Strategy (BEIS) Select Committee Corporate Governance Inquiry we gave views on the strengths of the UK's corporate governance framework. There are core aspects of the current framework which we believe should be retained. These include the unitary board, strong shareholder rights and the comply-or-explain approach. But, equally, there are areas where there is a need to improve the way in which the law, regulation and codes operate and are enforced - including the UK Corporate Governance Code, for which we are responsible. We made a number of recommendations to the Select Committee. In particular, we believe that the interests of all significant stakeholders in a company need to be given due consideration by boards as required by the Companies Act 2006.

Developing and implementing these recommendations will require potentially significant changes to the UK Corporate Governance Code. Any changes need to be subject to thorough consultation with boards and investors, and their professional advisers, to ensure that we do not damage the strengths and credibility of the current Code.

The debate on corporate governance has also shown the importance of our work to many stakeholders. We value the contribution to our work from investor, business and professional groups. Their input is essential if we are to maintain an effective regulatory framework. But we also believe that the continuing success of the UK framework for corporate governance depends on the involvement of a wider range of people and we will be seeking involvement from a wider group of stakeholders next year.

Across all our work, we will continue to engage in an open and informed way through regular meetings and public events. We will consider survey evidence of stakeholders' perceptions of key aspects of corporate governance and reporting in the UK and of our own effectiveness as a regulatory authority. We will also seek to keep abreast of changes in the commercial environment which affect our stakeholders – issues such as cyber-security and the impact of big data.

Section Two of this document sets out our priorities for 2017/18. We will continue to deliver our statutory and other responsibilities, to work closely with fellow regulators and with Government, and to represent UK interests in the EU and internationally. We will continue to use the important new role we have been given by Government as UK Competent Authority for audit to promote continuous improvement in audit quality, underpinned by effective and timely enforcement. We will refresh our approach to actuarial oversight to take account of the changing risks to the quality of actuarial work.

Our proposed priorities for 2017/18 are:

- **In the light of concerns about trust in business, updating the Corporate Governance Code and associated guidance, and promoting effective investor stewardship.**
- **Playing an active role with other regulators in helping address the challenges and opportunities of Brexit, and remaining influential internationally.**
- **Enhancing the speed and effectiveness of our enforcement role.**
- **Promoting clear and concise corporate reporting.**

- **Promoting justifiable confidence in auditing.**
- **Promoting high quality actuarial work.**
- **Ensuring that the FRC is effective and efficient, and has a corporate culture that supports our mission and regulatory role.**

On our current forecast, we will spend £0.5m less that we budgeted for in 2016/17 as a result of efficiency savings; and will seek further efficiency savings in the final quarter of 2016/17. We will use the savings we achieve to accelerate some of the planned build-up in our reserves that would otherwise be made in 2017/18.

Our proposed budget for 2017/18 for expenditure and funding is set out in Section Three with additional information compared to prior years on the types of expenditures and the functional activities to which they relate. Overall, our funding requirement is budgeted to increase by 4% from £34.6m to £36.0m. This includes an addition of £0.7m to our general reserves, compared to £1.1m in 2016/17, and an unchanged budget of £5m for audit and accountancy case costs, which are directly reimbursed by the professional bodies. Excluding these, our costs budget increases by 6.3% - with staff costs, which represent over two-thirds of our operating costs, increasing by 7.5%, in part mitigated by further efficiency savings.

In our Plan & Budget 2016/17, we noted that assuming that in future we were not given additional responsibilities we would aim to limit any increase in our annual budgets for the remainder of the 2016/19 strategy period to no more than the average increase in salaries across the sectors from which we recruit. The 7.5% increase in staff costs in 2017/18 largely reflects: (a) the flow through of the additional resources necessary to fulfil our obligations following our appointment as the Competent Authority in the UK for audit; (b) our ongoing efforts to accelerate the speed of investigations in our Enforcement activities; and (c) the development of the UK's corporate governance framework following publication of the Government's Green Paper and BEIS Select Committee Inquiry.

We propose to raise the 4% increase in funding principally through a 2.5% increase in levies on the professional bodies and an overall 5% increase in the levies on preparers - ranging from 2.5% increase for those with a market capitalisation below £1bn and up to 9.5% for market capitalisations greater than £1bn. For a company with a market capitalisation of £25bn, this would represent an increase of £3,113 to £42,124.

We would welcome your responses to the questions we have included in this consultation document, and any more general comments, by 17 February 2017. We will continue to consult on specific aspects of our work.

Sir Winfried Bischoff **Stephen Haddrill**

Chairman **Chief Executive Officer**

Section Two - Priorities for 2017/18

This section sets out the FRC's proposed projects and activities in 2017/18.

Across all our work we will continue to play an active role with other regulators in helping address the challenges and opportunities of Brexit; and will seek to remaining influential internationally.

We include in the work programme a set of indicators, quantified where possible, that help underpin our assessment of the state of key aspects of corporate governance and reporting in the UK. Some of these are activity measures, others relate to outcomes which are influenced by a range of factors, including the impact of the UK regulatory framework.

We will take these indicators, and other evidence, into account in publishing our annual assessments of the state of corporate governance and investor stewardship, corporate reporting, and auditing in the UK, and our consideration of the risks associated with actuarial work.

Promoting high quality corporate governance and effective investor stewardship

The FRC sets the UK Corporate Governance Code ("the Code"). The Code is based on the underlying principles of good governance including the exercise of judgement, accountability, transparency, probity and a focus on the sustainable success of an entity over the long-term. It includes a clear principle that boards should provide annual reports and accounts that present a fair, balanced and understandable assessment of the company's position and prospects.

We will shortly publish the latest annual review of the application of the Code by UK listed companies and our assessment of the quality of explanations where companies have chosen not to meet particular provisions.

In July 2016 we published our report on Corporate Culture and the Role of Boards, which highlighted that stakeholders and society in general have a legitimate interest in healthy corporate values, attitudes and behaviours that lead to sustainable growth and long term economic success.

During 2017/18, we will:

- Respond to the Government's consultation on Corporate Governance Reform, including action to update the Code and supporting guidance.
- Follow-up our Corporate Culture report by monitoring and reporting on culture by companies and investors.
- Update the FRC's Guidance on Board Effectiveness to incorporate our observations about corporate culture and the role of boards.

Indicators:

The proportion of listed companies providing a clear, broad and longer term view of risk management, internal control and viability in line with the changes to the Code introduced in 2014.

The headline figure for female directorships and other measures of diversity for the boards of FTSE 350 companies.

The quality of reporting by audit committees on corporate reporting and audit quality matters and on FRC regulatory interventions.

Relevant evidence of greater focus on the importance of company culture from surveys by market commentators.

We would welcome stakeholders' views on these and any additional indicators we should use to assess the quality of corporate governance in the UK.

The FRC also sets the UK Stewardship Code. This Stewardship Code sets out the principles of effective stewardship by institutional investors, which help build confidence in the system and give force to the comply-or-explain approach on which the Corporate Governance Code is based - as well as increasing accountability to clients and beneficiaries. The UK Stewardship Code is complementary to the Corporate Governance Code and, like that Code, it should be applied on a comply-or-explain basis.

In November 2016, the FRC published its findings on the impact of the Stewardship Code. We categorised signatories into three tiers according to how well they had reported and displayed their commitment to stewardship. The overall assessment demonstrated improved reporting against the Code and greater transparency in the UK market. The assessment focussed on the quality of descriptions of signatories' approach to stewardship and their explanations in accordance with the 'comply or explain' basis of the Code.

During 2017/18, we will:

- Scrutinise and report on the quality of reporting against the Stewardship Code, subject to giving signatories time to consider and take action where necessary; and delist signatories that fall in tier 3.
- In the light of the Government consultation on Corporate Governance Reform, consider what further actions are necessary to ensure asset owners and managers are meeting their responsibilities as stewards and in driving good corporate governance.

Indicators:

Survey evidence of the extent to which asset owners are satisfied with the standard of reporting from asset managers.

FRC assessment of compliance by UK Stewardship Code signatories.

Survey evidence of the extent and effectiveness of companies' engagement with investors.

Enhancing the speed and effectiveness of our enforcement role

The Enforcement Division of the FRC is responsible for the investigation and the prosecution of misconduct affecting the UK public interest by all accountants and, following the appointment of the FRC as Competent Authority in June 2016, for breaches of relevant requirements in the audits of public interest entities (PIEs).

During 2016/17, the Enforcement Division has successfully concluded some important cases involving audits by the large accounting firms and has continued to reduce the length of time of investigation. The team has expanded since 2013, reflecting the importance we attach to our enforcement role. We plan further to expand the Team in 2017/18.

The FRC is reviewing its procedures to ensure that it undertakes reviews and prosecutions as speedily as possible and to ensure that it has sufficient resources to accomplish its responsibilities. We are also reviewing the effectiveness of our sanctions. We will complete both reviews in 2017/18.

Promoting high quality corporate reporting

Our goal is to deliver a framework for corporate reporting that fosters and supports continuous improvement in the quality of reporting by those we regulate and which provides investors and other stakeholders with information they can understand and rely on.

In October 2016 the FRC published its first annual Review of Corporate Reporting, for 2015/16. The FRC Corporate Reporting Review team reviewed 192 annual and interim reports and accounts as part of its 2015/16 monitoring activities. Two thirds of those reviews were closed without follow-up action. The rest resulted in substantive queries being raised. Almost all the companies were able to resolve these queries, reflecting the generally positive responses of companies. All our queries resulted in some degree of improvement in the quality of companies' reporting.

In October 2016, The FRC's Financial Reporting Lab has published a report on Business Model Reporting which provides valuable insight for companies on the importance of business model information to investors, and the type of information they are seeking. This report forms part of the FRC's Clear & Concise reporting initiative that promotes transparent and accessible reporting.

We will continue our work to influence the development of International Financial Reporting Standards (IFRS). Brexit could have significant implications for the adoption of IFRS, depending on the exit arrangements negotiated by the Government. The FRC continues to support the application of a single set of high quality global financial reporting standards for all listed companies. Investors have told us they want comparability when reading company accounts. The extent to which the framework for accounting and reporting will need to change will depend to a large degree on the outcome of the UK Government's negotiations with the EU.

During 2017/18:

- We will produce our second annual assessment of the quality of corporate reporting in the UK.
- Our corporate reporting review work will focus on the following priority sectors:
    - Property
    - Travel & leisure
    - Support services.
- We will conduct thematic studies in the following areas:
    - Disclosures of judgements and estimates
    - Pension disclosures
    - Alternative performance measures.
- We will also monitor companies' disclosures relating to:
    - New accounting standard disclosures (IAS 8)
    - Principal Risks and Uncertainties: Effect of decision to leave the EU and low interest rate environment on risk disclosures.
- The Financial Reporting Lab will focus on:
    - Initiating and completing the next projects on reporting of Principal Risks and Viability statements
    - The Digital Future: Data project
    - Further Clear & Concise Case Studies.
- We will influence the development and endorsement of IFRS.
- We will update the FRC's Guidance on the Strategic Report.
- And we will continue to evaluate the impact of the new UK GAAP and progress the triennial review of FRS 102.

Indicators:

Evidence from our corporate reporting reviews, including (a) the quality of reporting by large public companies and (b) by smaller listed and AIM quoted companies.

Our assessment of the impact of the Lab's initiatives on corporate reporting.

Our views on the development and impact of international standards.

The outcome of our thematic reviews.

Evidence on the quality of reporting from surveys by market commentators.

Promoting justifiable confidence in auditing

Audit underpins public confidence in corporate governance and reporting. Our vision for audit is that it is trusted to provide reliable assurance on the public reporting of financial information, and in doing so, promotes good governance and facilitates the efficient allocation of capital. The FRC's strategy is to promote continuous improvement in audit quality, and we do this through our engagement with investors, preparers, auditors, audit committee chairs, the professional bodies, and other regulators.

Our aim is that by the end of the FRC's 2016/19 strategy period at least 90% of FTSE 350 audits will require no more than limited improvements as assessed by our monitoring programme.

In June 2016, the FRC was designated the Competent Authority for audit in the UK under legislation implementing the EU Audit Regulation and Directive 2014 (ARD). As the Competent Authority we are responsible for the regulation and oversight statutory audit in the UK. The regulatory tasks falling under this responsibility are either carried out by the FRC or, where permitted, are delegated to the Recognised Supervisory Bodies (RSBs). Accordingly, in 2017/18 the work of the RSBs, as well as the Recognised Qualifying Bodies (RQBs) will continue to be integral to achieving our strategic objective.

In July 2016 we published our first report on Developments in Audit, for 2015/16.

During 2017/18 we will:

- Fulfil our responsibilities as the Competent Authority for audit in the UK, exercising the regulatory tasks retained by the FRC and overseeing the regulatory tasks to the RSBs through regular monitoring visits to the RSBs combined with ongoing liaison and reporting under the terms of the delegation agreements.

- Publish our second report on Developments in Audit, for 2016/17, to report the outcome of our programme of work to monitor and report upon the quality of firms' audit work, with detailed work including reviewing around 155 individual audit engagements (a 15% increase on the previous year following the implementation of the ARD), and reviews of firms' wider arrangements in support of audit quality. Each year we assess which sectors of the economy to which we should give priority. For each sector, we base our assessment on its size, and any change in its risk profile, and the length of time since the sector was last reviewed. In addition we agree areas on which we should focus. In 2017/18:
    - Priority sectors will be Property, Travel & Leisure, Financial Services, and Support Services; and
    - Areas of focus will be changes in auditor appointment, audit of pension balances and disclosures, and impact of currency fluctuations - which have been selected based on the level of tendering activity, the low interest rate environment and the devaluation of sterling following the Brexit vote respectively.

  The planned number of reviews also includes an increased number of unlisted insurers (around 20) following the broadening of the definition of PIEs to include insurance undertakings.
- Conduct thematic reviews in the following areas:
    - Auditors' responsibilities for areas of the annual report beyond the financial statements, including the audit of directors' remuneration, and auditors' reporting by exception on other matters such as risk management and viability statements;
    - Audit firm culture and governance, following the recent report on Corporate Culture; and
    - Materiality – to provide an update and explain developments in the last four years since our previous thematic review in this area.
- Promote justifiable confidence in audit through our work with the audit profession and with preparers and audit committee chairs. We plan to pilot an 'audit lab' project to further continuous improvement.
- Work with the Department of Communities and Local Government (DCLG) to ensure successful implementation of the new Local Audit regime. We will commence oversight of the responsibilities of the newly recognised RSBs and RQBs for regulating auditors of local bodies in England, under the Local Audit and Accountability Act (LAAA), including introducing monitoring of the audit of major public bodies.

- Continue to register non-EU auditors of non-EU issuers listed on regulated UK exchanges in compliance with the requirements of the EU Statutory Audit Directive 2006. Continue to undertake inspections of those registered non-EU audit firms from countries where the European Commission has determined that the system of auditor oversight is not “Equivalent” or “Transitional” to that required within the EU.
- Oversee the RQBs’ compliance with the requirements of Schedule 11 of the Companies Act 2006 in respect of recognition of professional qualifications for statutory audit through annual monitoring visits to the RQBs and ongoing liaison.
- Influence the work of the International Auditing and Assurance Standards Board (IAASB) and other standard-setting bodies.
- Use our role in international bodies, including the International Forum of Independent Audit Regulators (IFIAR) and Committee of European Auditing Oversight Bodies (CEAOB), to help drive improvement in audit quality across global audit firm networks.
- Continue to revise and update standards and guidance material to reflect international developments, feedback from stakeholders, including estimates and non-compliance with laws and regulations, and in response to findings from our inspection and monitoring work.
- Support consideration of how the transformative use of data analytics and technology can improve the effectiveness and efficiency of audit.

Indicators:

The findings from the FRC’s annual audit quality review activities.

Progress towards our aim that by the end of the strategy period at least 90% of FTSE 350 audits will require no more than limited improvements, as assessed by our monitoring programme.

A survey of audit committee chairs’ views of audit quality.

Assessment of data from the monitoring of audit quality by the RSBs in respect of audits that are not within the audit monitoring scope of the FRC.

Survey evidence of the impact of auditor retendering; of enhanced and extended auditor and audit committee reporting; and of increased transparency of the results of the FRC’s audit quality inspections.

Pilot an ‘audit-lab’ report on audit.

Promoting high quality actuarial work

Actuarial work is central to many financial decisions in insurance and pensions and is an important element in other areas requiring the evaluation of risk and financial returns. High-quality actuarial work promotes well-informed decision-making and mitigates risks to users and the public. The FRC sets technical actuarial standards (TASs) and oversees the regulatory activities of the Institute and Faculty of Actuaries (IFoA).

The FRC began a consultation on a revision to the overall framework for the TASs in November 2014. In May 2016, we published a near final draft of the Framework and TAS 100, a new generic TAS applying to all technical actuarial work, and exposure drafts of the revised specific TASs. We published the new framework and related standards in December 2016, with an effective date of 1 July 2017.

In October 2016 the FRC published a revised version of Actuarial Standard Technical Memorandum 1 (AS TM1) which sets out the basis on which annual statutory money purchase illustrations (SMPIs) should be determined. It included two amendments following changes by the IFoA Continuous Mortality Investigation (CMI) concerning the mortality tables specified in AS TM1. The changes to AS TM1 were the same as those made by the Financial Conduct Authority (FCA) for point of sale and in-force business projections in PS16/12: Pension reforms – feedback on CP15/30 and final rules and guidance.

The Joint Forum on Actuarial Regulation (JFAR) was established in 2013 by the FRC, the IFoA, the FCA, the Prudential Regulation Authority (PRA) and the Pensions Regulator (tPR) to coordinate the identification of, and response to, public interest risks to which actuarial work is relevant.

During 2016, we have worked with the JFAR and published a DB and DC scheme transfer survey on its behalf. We will publish the JFAR's annual update to the Risk Perspective in December 2016. It will include observations on TAS compliance arising from a review of a small sample of general insurance reserving reports, which we completed on behalf of JFAR.

During 2017/18, we will:

- Influence the IFoA's development of an effective monitoring framework in relation to actuaries' behaviour and their work.
- Take forward and implement enhanced procedures for oversight of the IFoA in respect of their regulation of the actuarial profession.
- Promote the new framework of Technical Actuarial Standards and influence the development of international model standards.

- Continue to work with the JFAR in assessing areas of public interest where actuarial work is central.

Indicators:
Feedback on the new TASs and the updated JFAR Risk Perspective.
The quality of the monitoring proposals that are agreed by the IFoA.
The impact that our oversight procedures have on the actuarial profession.

Ensuring that the FRC is effective and efficient, and has a corporate culture that supports our mission and regulatory role.

Delivering our regulatory role in a challenging environment, while continuing to achieve efficiencies in the way we operate, will require a strong focus on our own corporate culture and effectiveness. We will continue to invest in our people. Their skills and experience underpin the quality of our work and ensure that we can work constructively with our fellow regulators, with those we regulate, and with those who represent the wider public interest.

Consultation questions

1) **Do you have any comments on our proposed priorities and work programme for 2017/18?**

2) **Do you have any comments on our proposed effectiveness indicators?**

3) **Are there any areas where the FRC could reduce its proposed activities without reducing the overall impact of FRC regulation?**

4) **Are there any significant risks to the quality of corporate governance and reporting in the UK which are not addressed in the proposed work programme?**

Section Three – Proposed Budget 2017/18

As explained in the Overview, this Section sets out how much we expect to spend and how much we propose to request from each funding group in 2017/18.

Our Budget (Table 1) sets out our planned expenditure on each area of our regulatory activities. The costs of our governance and legal functions and our overheads are allocated pro rata.

Table 1: Budget – Regulatory activities	**2016/17 Budget**	**Proposed 2017/18 Budget**
	£m	**£m**
Corporate Governance & Reporting		
Corporate Governance	0.8	1.1
Accounting and Reporting	2.8	2.9
Corporate Reporting Review	3.7	4.0
Financial Reporting Lab	1.0	1.0
XBRL	0.2	0.2
Increase/ (decrease) in CRR fund	0	0
Central costs	1.9	1.8
Audit and Assurance Regulation		
Audit Quality Review	7.3	7.7
Audit & Assurance Standards	1.9	1.9
Professional Oversight	1.8	1.9
Central Costs	1.8	1.8
Actuarial Standards & Regulation		
Technical actuarial standards	1.8	1.9
Professional oversight	0.1	0.2
Actuarial case costs	0.5	0.5
Increase/(decrease) in case costs Fund	0	0
Enforcement		
Enforcement core costs	2.9	3.4
Audit and accountancy case costs	5.0	5.0
Total	**33.5**	**35.3**
Increase/(Decrease) in reserves	1.1	0.7
Overall total	**34.6**	**36.0**

The following table analyses our budget by type of expenditure:

Table 2: Budget - Expenditure type	2016/17 Budget	Proposed 2017/18 Budget
	£m	£m
Staff costs	20.0	21.5
Directors Fees	1.5	1.6
Facility costs	1.9	2.0
IT & Website	0.6	0.7
Travel	0.6	0.6
Conferences	0.2	0.2
Recruitment	0.5	0.2
Training	0.4	0.3
Legal / professional / audit	1.0	1.2
Research	0.2	0.2
Actuarial case costs	0.5	0.5
All others	1.1	1.3
Total	**28.5**	**30.3**
Audit/ and accountancy case costs	5.0	5.0
Total	**33.5**	**35.3**

Our budget for 2017/18 takes account of our enhanced responsibilities as Competent Authority for audit. We have made provision for some limited additional work in relation to corporate governance and to enhance the effectiveness of our monitoring and enforcement work. In finalising the budget we will take account of any known changes to our responsibilities in relation to corporate governance.

So far in 2016/17, we have made efficiency savings – of £0.5m on current forecast - in the following areas: recruitment (where we have successfully made use of on-line recruitment and achieved substantial savings); automated payroll and expenses systems; securing greater value for money for expenditure on travel; and using inexpensive but effective communication and engagement tools for stakeholder meetings and conferences.

We will continue to build on these initiatives in the final quarter of 2016/17 and develop them further in 2017/18. We will further invest in our IT capability with a view to enhanced cyber-security and more flexible and efficient working arrangements. We will aim to support staff in their professional development to the same degree as at present but more efficiently. Subject to the need to deliver our statutory responsibilities and other regulatory objectives, we aim to achieve further efficiency savings of £0.5m in 2017/18.

Reserves

Given the voluntary nature of much of our funding, and our role as Competent Authority for audit regulation, we believe that we need to maintain an appropriate level of general reserves to ensure that we can deliver our regulatory responsibilities effectively. There is a reserve power in company legislation for the Government to introduce a statutory levy, but this would require Government action and time to put in place.

Our current aim remains to establish reserves equivalent to six months operating costs; but we will continue to consult each year on the level of our reserves. We propose to add £0.7m to our general reserves in 2017/18.

We maintain a Conduct Committee reserve of £2m and an actuarial case costs reserve of £2m – both allocated to specific regulatory functions.

The following table illustrates the current level of reserves, the forecast increase during 2016/17, and what we are proposing to raise during 2017/18.

Table 3: FRC reserves	**Conduct Committee fund**	**Actuarial case cost fund**	**General reserve**	**Total**
	£m	**£m**	**£m**	**£m**
Opening balance (1 April 2016)	2.0	2.0	3.5	7.5
Forecast addition during 2016/17			1.1	1.1
Forecast balance (end March 2017)	2.0	2.0	4.6	8.6
Proposed addition during 2017/18			0.7	0.7
Forecast balance (end March 2018)	2.0	2.0	5.3	9.3

Consultation question

5) Do you have any comments on our proposed budget?

Section Four – Proposed Levies 2017/18

Sources of Funding

The following table sets out how we are proposing to allocate the funding between the various funding groups during 2017/18.

	2016/17 Funding requirement	Proposed 2017/18 Budget
	£m	£m
FRC total expenditure	33.5	35.3
Proposed additions to reserves	1.1	0.7
Total funding requirement	**34.6**	**36.0**
Funded by:		
Audit and accountancy funding groups		
RSB contribution to AQR funding	6.3	6.9
Other AQR income	1.1	0.8
Contribution to standards & oversight	4.1	4.2
CIMA	0.8	0.8
Case costs	5.0	5.0
Preparers levy	14.1	14.8
Actuarial funding groups		
Insurance levy	1.4	1.4
Pension levy	1.2	1.4
IFoA	0.2	0.2
Unspent prior year		
Publications and other income	0.4	0.5
Total	**34.6**	**36.0**

Accountancy profession

The accountancy profession's funding of the FRC is paid by the Consultative Committee of Accountancy Bodies (CCAB), whose members are ACCA, CAI, CIPFA, ICAEW, and ICAS. CIMA contributes funding under the terms of a separate agreement with the FRC.

The ICAEW, ICAS, ACCA and CAI are Recognised Supervisory Bodies (RSB) for audit under Schedule 10 of the Companies Act 2006. The FRC, as the audit competent authority, delegates certain audit regulatory tasks to each RSB under a Delegation Agreement. Schedule 10 of the Companies Act 2006 and each Delegation Agreement also places an obligation on a RSB to fund the FRC's performance of any tasks that have not been delegated where these relate to the regulation of auditors registered with that RSB. This covers the costs of the FRC's audit inspection activities, audit enforcement activities and standard-setting procedures.

The activities of our Audit Quality Review team are also funded through the Audit Commission, the National Audit Office and fees levied on Recognised Auditors registered in the Crown Dependencies.

Levies

The FRC's funding requirement for 2017/18 is £36m, of which £17.6m will come from our three levies: a preparers levy that applies to the preparers of accounts; an insurance levy that applies to life and general insurance companies; and a pension levy that applies to pension schemes with 1,000 or more members.

Preparers levy

The preparers levy is the annual levy that we charge to:

- Companies listed on the London Stock Exchange with a Premium or Standard listing.
- UK companies quoted on AIM and listed on ISDX (previously known as PLUS) Market group.
- Large private entities with a turnover of £500m or more.
- Global Depository Receipts issuers.
- Government Departments, local authorities and other public sector organisations.

The amounts payable under the preparers levy are determined through a minimum levy and further amounts for organisations above a certain size, with the rate per £m declining in five levy bands, aligned with the FCA levy arrangements.

The total amount of the preparers levy for 2017/18 will be £14.8m. In addition the FRC will collect the UK contribution to the funding of the International Accounting Standards Board, totalling £0.9m in 2017/18.

We are proposing to increase the minimum fee and the rates for levy bands one and two by 2.5% for listed and other companies with a market capitalisation/turnover of less than £1bn; and increase the levy rates for bands three, four and five by 9.5%. The amounts finally charged to individual levy payers will be affected by changes in their market capitalisation (for listed companies), turnover (for other companies) or annual expenditure (for public sector organisations).

We are proposing the following preparers levy rates:

	Organisation size per £m*	**2017/18 Proposed Preparers levy rate**	**2016/17 Preparers levy rate**
Minimum fee	Up to 100m	£1,070	£1,044
Band		**Per £m***	**Per £m***
1	100m - 250m	£10.49	£10.23
2	250m - 1,000m	£8.00	£7.80
3	1,000m - 5,000m	£7.74	£7.07
4	5,000m - 25,000m	£0.1260	£0.1151
5	> 25,000m	£0.0239	£0.0218

**determined by market capitalisation for listed companies; and turnover or annual expenditure for other entities*

Discounts: Main market companies with a Premium listing pay the full levy; companies with a Standard listing receive a 20% discount. UK AIM quoted and ISDX listed companies receive a 50% discount. Private entities with a turnover of more than £500m receive a 50% discount. Public sector organisations receive a 75% discount. The following table gives examples of the levy that will be charged to different types of entity:

Organisation	**2016/17 levy**	**Proposed 2017/18 levy**	**% increase**
UK AIM company with £100m market cap	£522	£535	2.5%
Private company with £750m turnover	£3,239	£3,322	2.5%
Premium listed company: £25bn market cap	£39,011	£42,124	8%

We are proposing that Global Depositary Receipt issuers should pay the same levy as in 2016/17: £3,450 for companies that have designated the UK as their home competent authority and £2,750 for other issuers. The FCA's Home Competent Authority list is available at http://www.fsa.gov.uk/ukla/hcaList.do

Insurance levy for 2017/18

The insurance levy will be allocated to insurance companies in the same proportion as the FCA regulatory fees and charged to insurance companies on the same invoice as the FCA fees. We are not proposing to increase the levy rate but will confirm in the light of the proposed annual funding requirement of the FCA and PRA in the first quarter of 2017.

Pension levy for 2017/18

The FRC pension levy normally applies to all Defined Benefit and Defined Contribution schemes with 1,000 members or more. We are proposing to exempt pension schemes with fewer than 5,000 members from paying the levy. This will have the effect of removing around 1,200 small schemes from our funding group.

We will finalise the levy rate to be applied to the schemes that remain in scope informed by the latest available data on scheme membership provided by The Pensions Regulator, and taking into account the smaller levy population. We are proposing an increase in the pension levy rate to £3.12 per 100 members.

IFoA

The Institute and Faculty of Actuaries also contribute a share of our funding for our work on actuarial standards and regulation – currently set at 10%. We are proposing a 2.5% increase to their share.

Third Country Auditors – Registration and renewal fees

A third country auditor seeking registration in the UK must pay to the FRC a fee upon application and an annual fee thereafter for renewal of its registration in accordance with the Third Country Auditors (Fees) Instrument 2011. This fee is based upon our anticipated costs to administer the regime. The amounts payable are determined by the anticipated cost of processing applications from each of the three categories of registration; Equivalent, Transitional or Article 45. Audit firms from countries which have not been assessed as having audit oversight, monitoring and discipline regimes equivalent to those of the European member states or regimes which are moving in that direction involve the greatest amount of processing and therefore incur the highest fees. The FRC therefore generates additional funding from its Audit inspection activities.

From 1 January 2017, we propose to increase the fees by the amounts shown in the table below.

	0-9 relevant clients		10+ relevant clients	
	Equiv/trans	**Art 45**	**Equiv/trans**	**Art 45**
2008 - 2016	1,000	2,000	2,500	5,000
01/01/17	**1,136**	**2,272**	**2,840**	**5,680**

We will review our fee structure on an annual basis.

Other income

The FRC also generates income from its publications, more specifically from electronic rights. HMRC, the Charity Commission and the UK Companies House fund the XBRL project and we also receive some bank interest from our deposits.

Consultation question

6) Do you have any comments on our proposed levy rates?

Contact Details

The consultation will close on 17 February 2017 and comments should be sent by email to plan@frc.org.uk or post to:

Deputy Head of FRC Delivery Unit
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

For general information about the FRC, please visit our website at: www.frc.org.uk

Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

+44 (0)20 7492 2300

www.frc.org.uk