



**Financial  
Reporting  
Council**

Draft Plan  
& Budget  
2013/14

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# Financial Reporting Council

## Draft Plan & Budget 2013/14

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## Section One Overview

### Our mission

The FRC's mission – to promote high quality corporate governance and reporting to foster investment – has strong resonance in today's uncertain business climate. Our core belief, that good governance and reporting support investment and growth, gives us a strong voice in policy debate and links our work directly to economic and capital market outcomes. In the UK, in the EU and internationally we face a common set of concerns about the prospects for economic growth and the regulation and resilience of markets in a globalised economy. The FRC has a distinct contribution to make in shaping the debate around these issues and in articulating a powerful perspective informed by strong stakeholder relationships and independently gathered evidence.

Over the last two years, the FRC has been through a process of internal reform. With those reforms complete, the FRC now has the organisational structure and more of the legal powers it needs to continue to be an effective regulator and influencer. In this plan, we set out how we propose to develop our core activities to take advantage of the benefits of reform in ways which meet demands we face both existing and new; and to deepen our understanding of and engagement with the economic, business and policy context, in the UK and internationally.

This consultation document sets out proposals for the FRC in meeting its mission. We welcome stakeholder views on our priority projects, budget and levies.

### The FRC's approach

The FRC will be guided by three main aims over the plan period. We will seek to **maintain and grow our influence** by improving the quality and relevance of what we do, and by investing in engagement and communication to maximise its impact. Recognising the strong EU and international dimension to our work, we will build on our existing investment in this area.

**Evidence and analysis** play a central role in the way we work. We want to make this stronger still. We need to be clear about where points of view are based on judgement and where they are based on data and clear principles. We believe that this is the best way to ensure the quality and effectiveness of the frameworks and activities we use to deliver our mission – and the best basis for evaluating the outcomes they produce.

The environment in which we operate is continually changing. We must develop and adapt to external changes which requires the FRC to **look outwards**. Developments in product and capital markets, institutional change and uncertainty, slow growth and a muted economic outlook all form part of the rapidly changing business context in which we operate and influence. We want to do more to understand how these changes affect the relevance and impact of our core work, and in particular where they pose a challenge to the assumptions on which our approach to stewardship, corporate governance and reporting depend. Through our annual stakeholder survey we have learned that our stakeholders want us to invest in our evidence base to create a strong platform from which the FRC can speak with greater force. This means engaging with the big debates which are reshaping our economic and regulatory landscape and seizing opportunities for the FRC to influence them more effectively. As this landscape is global in scope, this means according priority to our relationships with international and European bodies.

This commitment to enhance our evidence-based approach and looking outwards will be bolstered by a renewed emphasis on **communication and engagement**. An important feature of the FRC's approach is facilitating and encouraging best practice. That requires a commitment to openness and listening. We will continue actively to communicate what we do, how we do it and why we do it. We will be more candid in acknowledging areas of difficulty and uncertainty. We expect this to mean a different relationship with our existing stakeholder groups and beyond them, with new ones.

Big challenges need a longer term perspective. So, for first time, the FRC's draft annual plan has been drawn up in the context of a three year context. This draft annual plan will set out what we propose to deliver over the next year and indicate where we expect key projects to continue or begin beyond the annual planning horizon. This will enable us to communicate more consistently our long term plans and ensure that we maintain a broad and forward-looking perspective.

## Our priority projects

In this consultation document, the FRC has identified six priority projects which are critical to delivering our aims in this environment. The objectives, activities and timelines for each of these are set out in the work plan in section two. Below we set out the overall rationale and aims for each project.

### 1. Regulatory activities

The majority of the FRC's staff and resources are devoted to regulatory activities, including fulfilment of our statutory obligations: monitoring and enforcement of accounting and auditing standards and oversight of the accounting and actuarial professions. These are mandatory activities which form the bedrock of our operations. We now need to develop these activities in a number of areas:

- ensure our actions, including further work on emerging issues and revisions to codes and standards, are informed by **robust evidence**
- provide more **evidence from our conduct work** in response to increasing international demands from regulators and standard setters so that we are more effective in reaching our goals
- conduct **thematic studies** in response to emerging corporate reporting and audit issues, contributing to our influence over stakeholders through evidence and analysis
- conduct **supervisory inquiries** into events such as corporate failures or near-failures by gathering evidence on a timely basis so that we may better determine what action, if any, may be required
- manage a step increase in the **speed and effectiveness of our disciplinary processes** whilst at the same time clearing the backlog of cases
- create and develop the capacity to undertake aspects of an **investigation** cost-effectively in house rather than through external suppliers at higher cost

### 2. Stewardship

We issued the FRC's Stewardship Code in 2010 in the wake of the financial crisis and updated it in 2012. Its purpose is to emphasise the important role of asset

owners and managers in engaging with companies over the long term. The principles of our Stewardship Code were upheld in the recent Kay report, which focussed on the key role of long term investors. But the importance of the concept of stewardship is not universally accepted. In particular, it is notable that stewardship is not explicitly and prominently positioned in the International Financial Reporting Standards (IFRS) conceptual framework. Yet this framework sets out the principles that inform accounting standards and behaviours worldwide. We therefore plan to embark upon a major programme of work which will:

- build **support for our vision** of stewardship
- clarify the contribution that is and should be made in each part of the **investment chain** to stewardship
- build an **evidence base** as to how the concept of stewardship should inform corporate reporting and auditing
- set out a **strategy for engagement** with UK and international standard-setters and regulators focussed on stewardship objectives
- gather **evidence** as to the effectiveness of our existing codes and standards relating to stewardship

### 3. Corporate reporting

The FRC's work on corporate reporting will focus on two key areas: relevance to investors and global accounting standards. In the UK, despite international and European challenges, we aspire to make annual reports more concise and relevant to the needs of investors. Part of the reaction to the financial crisis has been a growing trend to require additional disclosure to assist transparency and engender trust. However this often results in reports which are overloaded and potentially more opaque. There has been some progress, including through the work of the Financial Reporting Lab, but much more remains to be done. We need to find a way to prioritise the diverse demands made of company accounts, build acceptance that this can be made to work in most cases, and show leadership in driving implementation.

Progress on the goal of globally consistent accounting standards has stalled. We need a way forward. We will encourage the International Accounting Standards Board (IASB) to seize the opportunity to focus on high

quality standards and to revisit some of its recent work, making timely improvements. We will seek research and evidence to influence the important IASB conceptual framework project. As standard setter for the largest capital market in Europe, we stand ready to join the IASB's new advisory forum.

To encourage high quality corporate reporting, the FRC will:

- develop our **disclosure framework proposals** including seeking to influence the IASB in developing disclosure principles
- review the **role of materiality** in implementing accounting and audit standards, while ensuring that the FRC's monitoring of corporate reports and audits continues to focus on key issues and significant risks
- report on the lessons to be learned from our **reviews of 300 sets of reports and accounts** of UK companies
- influence **EU directives and regulations** which potentially restrict our ability to effect change
- seek to produce more focussed reporting through specifically designed **Financial Reporting Lab experiments**. The Lab will also consider reporting in an e-enabled world

#### 4. Audit quality and value

The FRC recognises the seriousness of the debate on the quality and value of audit that came to the fore with the financial crisis and shows no sign of abating. Our work on audit will fall into the following areas:

- getting the **standards** right, including appreciating the public's expectations of auditor reporting
- increasing the focus of the **audit monitoring programme** of the largest listed entities, whilst continuing to undertake inspections on a risk basis and fulfilling our statutory remit by applying effective oversight over the regulation of auditors by recognised professional bodies
- using the knowledge gained from our audit inspection work, identify and explore **emerging issues** and undertake **thematic projects**

- looking at and beyond the current **assurance model** to clarify and potentially enhance it. Areas for investigation include the potential need for greater assurance of narrative reporting, forward looking information – governance and controls

- reviewing the risks associated with **concentration in the audit market**

#### 5. FRC's responsibilities for actuarial oversight and standards

Seven years ago, as a result of the Morris review of the role of actuaries, the FRC assumed responsibility for actuarial professional oversight and the setting of Technical Actuarial Standards (TASs). Much has changed in the intervening period – in the profession, in the markets where it operates and in the regulatory environment. In light of these developments, we need to test whether the framework for actuarial regulation remains appropriate. With the Institute and Faculty of Actuaries, we will conduct a programme of work across our regulatory activities and report publicly on our conclusions. The actuarial programme will cover:

- the **contribution of actuarial work** and regulation to the FRC's mission
- the **scope of FRC regulation**, including TASs and their impact
- the implications for actuarial regulation of **changes in the role of actuaries**
- public trust in the **ethical standards** of actuaries
- oversight of the quality of regulatory **engagement** with actuarial firms
- the **integrity and coherence** of domestic, European and international actuarial regulation
- the FRC's regulatory role in connection with **actuarial methodologies**

#### 6. Economic and market context

The FRC will invest to further develop its ability to understand and influence key developments in the business, finance, economic and policy environment which constitute the context for so much that it does. We have so far identified the following priorities:

- **Investment - local and global.** The FRC operates in both a local UK market and a global one. UK investors in UK businesses face a different set of issues and incentives to UK investors in international businesses, as do international investors using the London capital markets. These three diverse groups are all customers for our frameworks, codes and standards and we aim to develop a deeper understanding of their different needs. The FRC will:
  - deepen its understanding of trends and developments in **capital markets** and investor behaviour, to understand better how the link between risk and capital structure impacts the effectiveness of stewardship and governance
  - develop further its evidence base on the continuing **impact of the financial crisis** on corporate governance and reporting to assess the adequacy of the response so far and identify areas for further work
  - continue to develop and publish for discussion our analysis as to whether **banks**, in view of their systemic importance, should be subject to differentiated codes and standards and whether there are wider applications of our standards to banks
  - strengthen its understanding of investor rights and its implications for stewardship by looking at the relevance of proportionate **investor rights**, including protection of different types of investors
- **Europe** – we established a Brussels office in 2012 and since then have seen a step change in the quality of our engagement in EU affairs. We know we have further to go to extend, deepen and strengthen our influence in Europe and are committed to investing in this
- **Financial regulators and policy makers** – recognising the far-reaching implications of developments in financial regulation internationally and in the UK, we will work closely with Department for Business, Innovation & Skills, Her Majesty's Treasury, the Bank of England, Financial Services Authority successor bodies, Department for Works and Pensions and the Pensions Regulator to ensure we play our role fully
- **Investors** – the message of our stakeholder survey was that we have more to do to have the impact we want with the investor community. We will review our investor outreach mechanisms and act to address this

We will continue to work closely with other groups where we have strong existing links, including:

- **Company boards** and others in the business community who both contribute to and benefit from high standards of corporate governance and reporting
- Members of the **accountancy and actuarial professions**, who through their work make an essential contribution to the quality of corporate governance and reporting in the UK – and their professional bodies working with the FRC in their regulatory role to encourage high standards.

## Engagement strategy

All of our priority projects will need their own engagement and influencing strategies to be effective. In addition, the FRC has identified key stakeholder groups whose interests and activities interact with ours in almost every area and with whom we need to build stronger relationships:

- **Internationally** – the FRC has established good working relationships with the global standard setting bodies which it will continue to pursue. But we believe we can achieve more by extending our networks laterally to include bodies and individuals who themselves exert direct influence. We also need to recognise the significant role which international bodies play in influencing debate in Europe and adjust our influencing strategy accordingly

## Consultation Question

- 1) Do you have any comments on the proposed priorities and engagement strategy outlined above?



## Section Two Work Plan 2013-2016: Proposed Major Projects and Activities

Title of Project	Regulatory activities			
Objective/ expected outcomes	Effective, proportionate and independent investigative monitoring and disciplinary procedures that provide confidence to market participants	2013/14	2014/15	2015/16
Main activities for gathering evidence and influencing outcomes	Ensure our actions, including further work on emerging issues and revisions to codes and standards, are informed by robust evidence	✓	✓	✓
	Provide more evidence from our conduct work in response to increasing international demands from regulators and standard setters so that we are more effective in reaching our goals	✓	✓	✓
	Conduct thematic studies in response to emerging corporate reporting and audit issues, contributing to our influence over stakeholders through evidence and analysis	✓	✓	✓
	Conduct supervisory inquiries into events such as corporate failures or near-failures by gathering evidence on a timely basis so that we may better determine what action, if any, may be required	✓	✓	✓
	Ensure the effective and proportionate operation of the newly reformed accountancy and actuarial disciplinary schemes. We will manage a step increase in the speed and effectiveness of our disciplinary processes whilst at the same time clearing the backlog of cases	✓	✓	✓
	Create and develop the capacity to undertake aspects of an investigation cost-effectively in house rather than through external suppliers at higher cost	✓	✓	✓



Title of Project	Stewardship			
Objective/ expected outcomes	High quality corporate governance and stewardship which fosters trust in the way companies are run	2013/14	2014/15	2015/16
Main activities for gathering evidence and influencing outcomes	Define what is meant by stewardship in different contexts	✓		
	Establish a clearer evidence base about the relationship between stewardship, corporate reporting and auditing, making clear the contribution that is and should be made in each part of the investment chain to stewardship	✓	✓	
	Influence global standard setters to enshrine the centrality of stewardship – making the case for the International Financial Reporting Standards (IFRS) conceptual framework to include this explicitly and review audit standards for consequential changes	✓	✓	
	Monitor the impact of the Stewardship and Corporate Governance Codes, carrying out research where needed	✓	✓	✓
	Assess the impact and effectiveness of September 2012 changes to the Codes, related guidance and audit standards	✓	✓	
	Finalise revised guidance on risk management and internal control and going concern	✓		
	Respond to the Kay review, setting out what the FRC has done and will do	✓		
	Influence legislation and other measures coming out of the EU Company Law Action Plan that will have an impact on Corporate Governance, (securities law chain, proxy voting agencies and reporting on governance being key topics)	✓	✓	
	Research and report on good practice in board evaluation	✓		

Title of Project	Corporate reporting			
Objective/ expected outcomes	High quality corporate reporting, providing fair balanced and understandable information which is concise, relevant and focused on stewardship	2013/14	2014/15	2015/16
Main activities for gathering evidence and influencing outcomes	Ensure appropriate UK input to the International Accounting Standards Board's (IASB's) standard setter forum	✓		
	Consider the feedback to the FRC Discussion Paper on Disclosure and identify actions	✓	✓	
	Review the role of materiality in implementing accounting and audit standards, while ensuring that the FRC's monitoring of corporate reports and audits continues to focus on key issues and significant risks	✓		
	Report on the lessons to be learned from the approximately 300 corporate reports reviewed by the FRC and engage with directors on securing improvements in financial reporting	✓	✓	✓
	Influence EU directives and regulations which potentially restrict our ability to effect change	✓		
	Seek to produce more focused reporting through specifically designed Financial Reporting Lab experiments. The Lab will also consider reporting in an e-enabled world	✓	✓	✓
	Influence developments in the IFRS Conceptual Framework	✓		
	Develop narrative reporting guidance to support BIS regulations, moving towards a more concise, relevant and principles based approach which also takes account of the integrated reporting framework	✓		
	Implement new UK General Accepted Accounting Practices (GAAP) standards, deliver XBRL taxonomies and develop insurance solutions and Statement of Recommended Practices (SORPs)	✓	✓	

Title of Project	Audit quality and value			
Objective/ expected outcomes	Foster high quality audit and confidence in the value of audit	2013/14	2014/15	2015/16
Main activities for gathering evidence and influencing outcomes	Ensure the implementation of the October 2012 changes for auditors is effective	✓	✓	
	Increase the focus of the audit monitoring programme of the largest listed entities, whilst continuing to undertake inspections on a risk basis and fulfilling our statutory remit by applying effective oversight over the regulation of auditors by recognised professional bodies	✓	✓	✓
	Contribute to the quality and value of audit by monitoring and reporting on the quality of approximately 100 audits, the majority of which will relate to the largest audit firms	✓	✓	✓
	Ensure independent and effective oversight and regulation of the UK professional bodies in their regulation of the UK audit profession	✓	✓	✓
	Implement our new regulatory power to impose sanctions where poor quality audit is identified	✓		
	Leverage our knowledge gained through routine audit firm inspection to identify emerging issues that should be considered for a thematic study	✓	✓	✓
	Review the current and future role and accountability of auditors to consider potential areas of clarity, depth and extension. Potential areas for investigation include narrative reporting, forward looking information, governance and controls	✓	✓	✓
	Respond to the Competition Commission's recommendations, as appropriate	✓		
	Develop and implement plans to mitigate risks associated with audit market concentration	✓		
	Continue to influence and lead the work with the International Forum of Independent Audit Regulators (IFIAR), the European Audit Inspection Group (EAIG) and Colleges of Regulators	✓	✓	✓
	Influence the outcome of the draft EU Auditing Directive and Regulation	✓		
	Update the Audit Quality Framework	✓	✓	
	Issue a best practice note on audit tendering	✓		
	Influence international standards for auditors	✓	✓	✓

Title of Project		Actuarial oversight and standards		
Objective/ expected outcomes	High quality actuarial practice; integrity, competence and transparency of the actuarial profession	2013/14	2014/15	2015/16
Main activities for gathering evidence and influencing outcomes	Clarify the contribution of actuarial work and actuarial regulation to the FRC's mission	✓		
	Review the scope of FRC regulation, including Technical Actuarial Standards (TASs)	✓	✓	
	Assess the implications for actuarial regulation of changes in the roles of actuaries	✓		
	Establish the most effective way for the profession to build public trust in the ethical standards of actuarial work	✓		
	Establish effective oversight of the quality of regulatory engagement with actuarial firms	✓		
	Seek to ensure the integrity and coherence of UK, European and International actuarial regulation	✓	✓	✓
	Establish the FRC's regulatory role in connection with actuarial methodologies	✓		

Title of Project	Economic and market context			
Objective/ expected outcomes	Ensure the FRC understands and influences the key developments in its economic, business and finance environment	2013/14	2014/15	2015/16
Main activities for gathering evidence and influencing outcomes	Develop a framework for the FRC to relate its work to the differing needs of UK and international investors	✓	✓	
	Deepen the FRC's understanding of trends and developments in capital markets and investor behaviour, to better its understanding of how the link between risk and capital structure impacts the effectiveness of stewardship and governance	✓	✓	
	Develop further the FRC's understanding of the continuing impact of the financial crisis on corporate governance and reporting, identifying areas for further work where needed	✓		
	Continue to develop and publish for discussion our analysis as to whether banks, in view of their systemic importance, should be subject to differentiated codes and standards and whether there are wider applications of our standards to banks	✓		
	Strengthen the FRC's understanding of investor rights and its implications for stewardship by looking at the relevance of proportionate investor rights, including protection of different types of investors	✓		

### Consultation Question

- 2) Do you have any comments on the activities outlined above?

## Section Three Draft Budget 2013/14

The FRC's annual budget is set at a level that reflects our judgement on the resources we need to fulfil our mission – to promote high quality corporate governance and reporting to foster investment – and the way in which we should most effectively deploy those resources.

Our budgetary arrangements for 2013/14 reflect the reforms to our structure and powers approved by Parliament in June 2012. They continue to distinguish between core operating costs which are under our immediate control and costs which are more dependent on external factors, notably the number and complexity of the public interest cases that fall within the scope of our disciplinary arrangements. They also distinguish between our responsibilities in relation to corporate governance, corporate reporting and auditing and our responsibilities for actuarial standards and regulation.

Our proposed overall budget for 2013/14 is shown in Table 1:

**Table 1**

£m	2012-13 Budget	2012-13 Forecast	2013-14 Budget
<b>Income</b>			
Corporate governance, reporting and auditing	12.4	12.9	14.3
Actuarial standards and regulation	2.9	2.9	2.3
Audit quality review	2.8	2.7	2.9
Accountancy case costs	4.0	4.2	5.0
<b>Total</b>	<b>22.1</b>	<b>22.7</b>	<b>24.5</b>
<b>Expenditure</b>			
Corporate governance, reporting and auditing	12.8	12.9	14.3
Actuarial standards and regulation	2.7	2.4	2.3
Audit quality review	2.8	2.7	2.9
Accountancy case costs	4.0	4.2	5.0
<b>Total</b>	<b>22.4</b>	<b>22.2</b>	<b>24.5</b>

For all our activities we seek to maximise the value that we add for our wide range of stakeholders, including those who contribute directly to our costs through our funding arrangements. We are conscious that the impact of the wider costs associated with the regulatory framework for corporate governance and reporting is significantly greater than the direct cost of FRC regulation. By focusing on the influence we can bring to bear on key aspects of the wider regulatory framework we believe that we can, over the medium term, contribute to a reduction in those wider costs. This approach requires us to exercise strict controls over our own costs but also to ensure that we have adequate resources to deliver the priorities we set in consultation with our stakeholders.

Our Draft Plan identifies what we see as the current challenges for all those involved in corporate governance and reporting in the UK, and the importance of an effective and proportionate response from the FRC. To ensure that we can make that response we are proposing an increase in the resources for our core regulatory activities in relation to corporate governance, corporate reporting and auditing; and will incur increased costs over the next twelve months in relation to our accountancy disciplinary scheme as we make progress in concluding the cases currently under consideration.

## Core operating costs in relation to corporate governance, reporting and auditing

Our core operating costs and the funding provided by each main funding group for the period 2010/11 (when the Government started significantly to reduce their contribution) to 2013/14 are as follows:

**Table 2**

£m	2010-11 Actual	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Budget
Core operating costs	12.5	12.9	12.4	12.9	14.3
<b>Funds provided by:</b>					
Preparers	7.6	7.4	7.2	7.8	8.9
Accountancy profession	4.7	4.7	4.7	4.6	4.9
Government	1.2	0.5	0.5	0.5	0.5
<b>Total</b>	<b>13.5</b>	<b>12.6</b>	<b>12.4</b>	<b>12.9</b>	<b>14.3</b>

*Note: Differences between core operating costs and funding provided reflect transfers to and from general reserves each year.*

The proposed increase in the budget for this element of our activities in 2013/14 follows primarily from our intention to strengthen our conduct activities. The proposed additional resource will enhance our ability to:

- Respond to the increasing demands from EU, international and other national regulators and standard setters for evidence from our conduct work.
- Further develop our expertise in monitoring reporting and auditing in relation to financial institutions.
- Conduct thematic studies in response to emerging corporate reporting and audit issues.
- Conduct supervisory inquiries into events such as corporate failures or near-failures to better determine what action might be required.
- Discharge our new auditor sanctioning powers and proportionate powers in relation to the accountancy regulatory bodies we regulate.
- Manage a step increase in the speed and effectiveness of our disciplinary processes whilst at the same time clearing the back-log of cases.
- Regulate third country auditors
- Plan for the regulation of local authority audit.

It is our intention to undertake aspects of disciplinary investigations in-house rather than through external suppliers. This will help us to manage as efficiently as possible the costs associated with our investigations, which will continue to be met by the accountancy professional bodies.



We are also seeking an increase in resources to enhance:

- the FRC's strategic, analytical and research capacity - including our work to influence EU initiatives within the Corporate Governance and Company Law Action Plan and other EU and international developments.
- our work in setting codes and standards for corporate governance and reporting.

We believe that to secure the necessary resources as shown in Table 2 we should increase the preparers levy rates by 8.5% as set out in Section Four and increase the contribution from the accountancy professional bodies by 6.5% compared to the contribution expected for 2012/13.

### Actuarial standards and regulation

The draft budget for the purposes of the consultation on our Plan and Budget 2013/14 is shown in Table 3. Our activities and hence our budget for actuarial standards and regulation will be finalised in the light of our current work with the Institute and Faculty of Actuaries to consider whether the framework for actuarial regulation remains appropriate. In addition we have assumed no significant new disciplinary cases arise.

**Table 3**

£m	2012-13 Budget	2012-13 Forecast	2013-14 Budget
<b>Actuarial standards and regulation</b>			
Core operating costs:	1.9	2.0	2.1
Actuarial disciplinary case costs	0.8	0.4	0.2
Increase to actuarial case fund	0.2	0.0	0.0
<b>Total</b>	<b>2.9</b>	<b>2.4</b>	<b>2.3</b>
<b>Funds provided by:</b>			
Actuarial Profession	0.3	0.3	0.2
Insurance levy	1.3	1.3	1.05
Pension levy	1.3	1.3	1.05
<b>Total</b>	<b>2.9</b>	<b>2.9</b>	<b>2.3</b>

*Note: Differences between core operating costs and funding provided reflect transfers to and from general reserves each year.*

### Audit Quality Review

The costs identified in Table 1 above include only the specific and variable costs of audit quality reviews. They are met by the individual Recognised Supervisory Bodies (RSBs) with which the firms that are subject to reviews are registered.

The fixed overheads of the audit quality review team (such as accommodation and shared IT systems) are included in our core operating costs.

For 2013/14, we are planning to expand the audit quality review team to ensure that we have increased skills and capacity to monitor and report on the quality of audits of public interest entities in the UK, including contributing to supervisory inquiries and thematic studies.

The budget for 2013/14 also reflects the costs and income associated with the additional work for the Crown Dependencies which started in 2011/12.

**Table 4**

£m	2012-13 Budget	2012-13 Forecast	2013-14 Budget
Core operating costs	3.5	3.3	3.6
Less income generated	-0.7	-0.6	-0.7
<b>Total</b>	<b>2.8</b>	<b>2.7</b>	<b>2.9</b>
<b>Funds provided by:</b>			
Accountancy Profession	2.8	2.7	2.9
<b>Total</b>	<b>2.8</b>	<b>2.7</b>	<b>2.9</b>

### Accountancy disciplinary case costs

The costs shown in Table 1 above include only the specific and variable costs of accountancy cases taken by the FRC. The FRC's related fixed overheads (such as staff, accommodation and shared IT systems) are included in core operating costs.

Accountancy disciplinary case costs are funded by the accountancy professional bodies to which the individuals or firms which are subject to each case belong within the terms of a formal case costs agreement. Case costs are forecast on the basis of the available information on actual or prospective cases. The accuracy of the forecast will depend on assumptions made as to the progress of cases and is therefore subject to a degree of uncertainty.

The forecast costs for 2012/13 are now expected to be £4.2m compared with the original estimate of £4.0m, with number of current cases flowing through to 2012/13. We expect that the costs associated with the accountancy disciplinary arrangements will be higher over the next twelve month period as we make progress in concluding these cases.

**Table 5**

£m	2012-13 Budget	2012-13 Forecast	2013-14 Budget
Accountancy disciplinary case costs	4.0	4.2	5.0
<b>Funds provided by:</b>			
Accountancy Profession	4.0	4.2	5.0
<b>Total</b>	<b>4.0</b>	<b>4.2</b>	<b>5.0</b>

### Reserves

#### General reserves

In 2008 we consulted on a proposal to increase our general reserves in relation to corporate governance, reporting and auditing from around £1m to £2m, reflecting the uncertainties arising from the reduced Government contribution and our non-statutory funding arrangements.

The reserve stood at £2.7m by March 2012. In the financial years 2012/13 and 2013/14, we plan to produce balanced budgets with no significant change to this level of this reserve.

We believe that this level will be appropriate for 2013/14 given the risks associated with those elements of the accountancy disciplinary scheme which are not covered by the arrangements with the professional bodies.

The general reserve for our actuarial responsibilities stood at £0.4m in March 2012 and this is set to rise to £0.8m by March 2013. A balanced budget is proposed for 2013/14 with no change to the general reserve.

### Case cost reserves

The FRRP case fund will remain unchanged, at £2m.

During the financial year 2011/12 £0.6m was added to the case fund for actuarial cases bringing the balance to £2.0m by March 2012. We plan to maintain the fund at this level through to the end of 2013/14.

**Table 6**

<b>Reserves £000s</b>	<b>Accountancy General Reserve</b>	<b>Actuarial General Reserve</b>	<b>TOTAL General Reserve</b>	<b>FRRP Case Reserve</b>	<b>Actuarial Case Reserve</b>	<b>TOTAL Case Reserve</b>	<b>GRAND TOTAL Reserve</b>
<b>Balance at 31/03/2010</b>	<b>2.1</b>	<b>0.1</b>	<b>2.2</b>	<b>2.0</b>	<b>1.0</b>	<b>3.0</b>	<b>5.2</b>
Surplus (deficit) in 2010/11	1.2	0.0	1.2	0.0	0.4	0.4	1.6
<b>Balance at 31/03/2011</b>	<b>3.3</b>	<b>0.1</b>	<b>3.4</b>	<b>2.0</b>	<b>1.4</b>	<b>3.4</b>	<b>6.8</b>
Surplus (deficit) in 2011/12	-0.6	0.3	-0.3	0.0	0.6	0.6	0.3
<b>Balance at 31/03/2012</b>	<b>2.7</b>	<b>0.4</b>	<b>3.1</b>	<b>2.0</b>	<b>2.0</b>	<b>4.0</b>	<b>7.1</b>
Surplus (deficit) in 2012/13 Fcast	0.0	0.4	0.4	0.0	0.0	0.0	0.4
<b>Balance at 31/03/2013</b>	<b>2.7</b>	<b>0.8</b>	<b>3.5</b>	<b>2.0</b>	<b>2.0</b>	<b>4.0</b>	<b>7.5</b>
Surplus (deficit) in 2013/14 Budget	0.02	0.04	0.1	0.0	0.0	0.0	0.1
<b>Balance at 31/03/2014</b>	<b>2.7</b>	<b>0.9</b>	<b>3.6</b>	<b>2.0</b>	<b>2.0</b>	<b>4.0</b>	<b>7.6</b>

### Consultation question

- 3) Do you have any comments on our draft Budget 2013/14?

## Section Four Proposed Levies 2013/14

### Preparers levy

The levy applies to publicly traded companies, large private entities and public sector organisations and is used to raise a proportion of the FRC's annual funding requirement and the UK contribution to the International Accounting Standards Board (IASB).

### Preparers levy – Proposed levy rates

For 2013/14, our proposed funding requirement is as follows:

**Table 7**

	<b>FRC requirement</b>		plus	<b>IASB contribution</b>		=	<b>Preparers levy</b>	
	<b>2012/13 Forecast</b>	<b>2013/14 Budget</b>		<b>2012/13 Forecast</b>	<b>2013/14 Budget</b>		<b>2012/13 Forecast</b>	<b>2013/14 Budget</b>
Levy group	£m	£m		£m	£m		£m	£m
Publicly traded companies	5.0	5.8		0.5	0.6		5.5	6.4
Large private companies	2.4	2.6		0.2	0.2		2.6	2.8
Public sector organisations	0.4	0.5		0.1	0.1		0.5	0.6
<b>Total</b>	<b>7.8</b>	<b>8.9</b>		<b>0.8</b>	<b>0.9</b>		<b>8.6</b>	<b>9.8</b>

### Proposed preparers levy rates for 2013/14

The amounts payable under the preparers levy for individual organisations 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 FSA levy arrangements. Details of the levy are published on our website.

To allow individual organisations to estimate the likely amount of the levy we will charge in 2013/14 we have calculated provisional rates as shown in Table 8. The minimum rate has been increased by 4.4% and the rates for bands 2 to 6 increased by 8.5%.

**Table 8**

<b>Band</b>	<b>Organisation size *£m</b>	<b>2012/13 levy rate per £m*</b>	<b>Proposed 2013/14 levy per £m*</b>
1 Minimum levy	Up to 100m	£948	£990
2	100m-250m	£8.45	£9.17
3	250m-1,000m	£6.45	£7.00
4	1,000m-5,000m	£4.60	£4.99
5	5,000m-25,000m	£0.077	£0.084
6	>25,000m	£0.015	£0.016

\*Size is either based on market capitalisation, published turnover, or overall expenditure depending on the type of organisation

To illustrate the effect of the increased rates, the following table shows the calculation of the levy for a publicly traded company with a market capitalisation of £1bn.

<b>Example 1: UK London Stock Exchange Main Market Company</b>							
Market capitalisation as at 30 November: £1,000,000,000							
<b>Tariff data : £1,000,000,000</b>							
Levy rate			2012-13 Levy calculation		2013-14 Levy calculation		
Band 1	Min fee Up to £100m	£948	£948	£948	£990	£990	£990
Band 2	£100m - £250m	£8.45	150 x £8.45	1,268	£9.17	150 x £9.17	£1,376
Band 3	£250m - £1000m	£6.45	750 x £6.45	4,838	£7.00	750 x £7.00	£5,250
Band 4	£1,000m - £5,000m	£4.60			£4.99		
Band 5	£5,000m - £25,000m	£0.08			£0.08		
Band 6	> £25,000m	£0.02			£0.02		
			<b>Total levy</b>	<b>£7,053</b>			<b>£7,616</b>

The following table shows the changes in our preparers levy rates since 2009/10. In general the rates have not been increased over this period. The increased levy collection achieved is as a result of adding new groups of preparers: large private companies and public sector organisations.

**Table 9**

£	Preparers Levy Rates						
	Actual 2009-10	Budget 2010-11	% change 2011-12	2012-13	2013-14	2013-14 v/s 2012-13	2013-14 v/s 2009-10
<b>Min fee</b>	980	1028	948	948	990	4.4%	1.0%
Band 1	9.39	8.83	7.68	8.45	9.17	8.5%	-2.4%
Band 2	7.17	6.74	5.86	6.45	7.00	8.5%	-2.4%
Band 3	5.12	4.81	4.18	4.6	4.99	8.5%	-2.5%
Band 4	0.0853	0.08	0.07	0.077	0.084	8.5%	-2.1%
Band 5	0.0171	0.016	0.014	0.015	0.016	8.5%	-4.8%

## Consultation question

- 4) Do you have any comments on our proposed preparers levy rates for 2013/14?

## Aligning the levy categories with the UK Listing Regime

For 2013/14 we are proposing to bring our levy arrangements in line with the UK Listing Rules. We have previously defined three categories of listed company. The first comprised UK companies with a primary listing, subject to the 'comply or explain' rules relating to the UK Corporate Governance Code. The second comprised non-EEA overseas companies with a primary listing. The third comprised non-EEA overseas companies with a secondary listing. The second and third categories were not subject to the 'comply or explain' rules and were given a 50% discount on the levy.

The changes to the UK Listing Regime introduced in 2010 redefined the categories of company subject to the 'comply or explain' rules. Given the continuing emphasis that the FRC has, in consultation with our stakeholders, placed on our role in relation to corporate governance, we believe that we should now bring our levy categories into line with the revised rules. We believe that we should manage the levy on the basis of the two categories defined by the Listing Regime: companies with a Premium Listing of equity shares required to 'comply or explain' against the UK Corporate Governance Code; and companies with a Standard Listing subject only to EU minimum standards and not therefore required to 'comply or explain' against the Code. In particular we believe that from April 2013 all companies with a Standard Listing, including UK companies should receive a 50% discount on the levy; while those companies with a Premium Listing, including overseas companies, should not receive the discount.

During 2013/14, the FRC will also review with the financial regulatory authorities whether those companies issuing other categories of securities should be subject to the preparers levy at a proportionate rate and subject to an appropriate discount.

### Consultation question

- 5) Do you have any comments on our proposal to align the FRC levy arrangements with the current UK Listing Regime?

### Actuarial standards and regulation

For 2013/14, our proposed funding requirement is as follows:

**Table 10**

<b>Actuarial £m</b>	<b>2012-13 Budget</b>	<b>2012-13 Forecast</b>	<b>2013-14 Budget</b>
Funding Requirement	2.9	2.9	2.3
Funding group			
Actuarial Profession	0.3	0.3	0.2
Pension Levy	1.3	1.3	1.05
Insurance Levy	1.3	1.3	1.05
<b>Total Actuarial Funding</b>	<b>2.9</b>	<b>2.9</b>	<b>2.3</b>

#### Insurance levy

The insurance levy will be allocated to insurance companies in the same proportion as the FSA regulatory fees and charged to insurance companies on the same invoice as the FSA fees. We do not plan to increase the insurance levy in 2013/14.

#### Pension levy

The pension levy will be allocated to schemes on the basis of their latest scheme returns to the Pensions Regulator. We do not plan to increase the pension levy in 2013/14.

### Consultation question

- 6) Do you have any comments on our proposals in relation to the insurance and pension levy rates for 2013/14?

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