



**The Hundred Group**  
of Finance Directors

Policy and Planning Manager  
Financial Reporting Council  
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28 August 2008

Dear Madam

**Response to the proposals for future arrangements for funding the FRC's activities in relation to accounting, auditing and corporate governance**

The Hundred Group of Finance Directors represents the views of the finance directors of the UK's largest companies drawn largely, but not entirely, from the constituents of the FTSE100 Index. Our members are the finance directors of companies whose market capitalisation collectively represents over 80% of companies listed on the London Stock Exchange. Views expressed in this letter are those of The Hundred Group of Finance Directors but are not necessarily those of our individual members or their respective employers. We meet periodically to discuss issues affecting major corporations, and selectively respond to governmental and other consultation exercises where we believe that our role in companies and collective experience give us a particular insight into often complex matters.

We read with interest your consultation document and have the following comments:

*Withdrawal of Government funding*

In order to safeguard the independence and accountability of the FRC, we would welcome the Government reconsidering its decision to withdraw funding. The Government is an important stakeholder in ensuring the effectiveness, independence and integrity of FRC activities. The continuation of Government funding not only provides a separate source of funding so that FRC is not just funded by those it regulates, the Government's contribution to funding gives weight to appropriate Government oversight of the FRC's activities and performance.

*Levy increases*

We do not consider it appropriate to increase the funding burden on listed companies and accountancy professional bodies by 18%. We believe it would be more appropriate for the FRC to prioritise its spending, with a view to keeping levy increases to a minimum, particularly given the current economic conditions. We are also concerned that levies are set on

assumptions of contributions being received from other groups of market participants, and that it subsequently proves difficult to collect such contributions (see below).

#### *Additional funding contributions from other major groups of market participants*

We support, in principle, the proposal to seek funding contributions from large private companies and public sector organisations as they benefit directly and indirectly from the work of the FRC and its operating bodies. However, it is not clear from the consultation paper which companies fall within the category of large private companies. A threshold test of turnover in excess of £500 million appears to be proposed but we assume this will not include large companies which are subsidiaries of listed groups, many of which will exceed this turnover target. If it is the intention of the FRC to charge such companies within a listed group, we object strongly to this proposal as it would mean that such companies will be charged twice. In the same way, we would recommend that the FRC should look at groups of private companies, rather than individual companies.

For listed companies, the contribution is included in their listing fee, which companies have to pay. It is difficult to see that there is an equivalent mechanism for encouraging payment from private companies, so this will effectively be a voluntary contribution for them.

#### *Discounts*

We understand from previous consultations that the other major groups of market participants receive a discount due to the fact that not all of the FRC's activities affect those companies. While we understand this principle, we would like to understand how those discounts have been determined, as we have requested in previous responses to consultations. For example, we do not see why a large private company or an AIM listed company should be given a 50% discount or a public entity 75%. The level of discount should be supported by empirical evidence based on the cost of the FRC's activities from which they do not benefit. In addition, the cost of collecting fees from these organisations will be much higher than the cost of collecting from fully listed companies and there is far greater risk of non-collection so we believe that this should also be factored into the contributions payable by those organisations.

In appendix 1 we have included responses to your specific questions.

We hope you find this letter of interest. We would be happy to discuss it further at your convenience.

Yours sincerely

  
pp Peter Williams

*Chairman of Investor Relations and Markets Committee  
The Hundred Group*

## Appendix 1

*Question 1: Do you agree that our costs should be met by the major groups of market participants which are subject to, or have regard to, our regulatory requirements, and have the primary responsibility for implementing the standards we set or influence, monitor and enforce?*

Yes in principle, but the Government should also maintain a contribution. We believe that in order to safeguard the independence and accountability of the FRC, the Government should reconsider its decision to withdraw funding. The Government is an important stakeholder in ensuring the effectiveness, independence and integrity of FRC activities. The continuation of Government funding not only provides a separate source of funding so that FRC is not just funded by those it regulates, the Government's contribution to funding gives weight to appropriate Government oversight of the FRC's activities and performance.

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*Question 2: Do you agree that the funding groups which prepare financial statements should contribute towards the UK share of the IASB's costs?*

Yes we are happy to continue to fund the IASB but note that we believe the UK's contribution to the IASB should be reduced to reflect the fact that a number of new countries will be adopting IFRSs in the next few years.

*Question 3: Do you agree that we have appropriately identified the two major groups which (following the decision to withdraw the Government contribution to our funding) are subject to, or have regard to, our regulatory requirements but which do not contribute to our costs?*

Yes we do assuming that large private companies which are subsidiaries of listed companies are excluded to ensure listed groups are not charged more than once. As noted we also believe the Government should maintain it's funding.

*Question 4: Are there any other major groups of market participants which, in your view, should contribute to our funding arrangements?*

No.

*Question 5: Do you agree with our proposed basis for assessing the appropriate contribution from the potential new funding groups we have identified to the costs of our core operating activities in relation to accounting, auditing and corporate governance?*

No we do not. We understand from previous consultations that the other major groups of market participants receive a discount due to the fact that not all of the FRC's activities affect those companies. As we have requested in our previous responses, we would like to understand how those discounts have been determined. For example, we do not see why a large private company or an AIM listed company should be given a 50% discount or a public entity 75%. The level of discount should be supported by empirical evidence based on the

cost of the FRC's activities which they do not benefit from. In addition, the cost of collecting fees from these organisations will be much higher than the cost of collecting from fully listed companies and there is far greater risk of non-collection so we believe that this should also be factored into the contributions payable by those organisations.

*Question 6: Are there additional criteria which, in your view, we should take into account in determining the size of the contribution from these groups?*

We would recommend that the FRC should look at groups of private companies in addition to individual companies as it would be quite possible for a private company to avoid charges by ensuring that individual companies fall below the turnover threshold.

*Question 7: Do you agree that the FRC should increase its target level of reserves to £2 million?*

It is difficult to assess what level of reserves the FRC should have but we do not think it is appropriate to increase the level of reserves at the same time as a major contributor of funding is proposing to withdraw its funding.