

FINANCIAL REPORTING COUNCIL

CONSULTATION ON FUTURE FUNDING ARRANGEMENTS

CBI RESPONSE

September 2008

I INTRODUCTION AND SUMMARY OF CBI POSITION

1. The CBI is pleased to respond the FRC's consultation on future funding arrangements.
2. CBI members consider that, in order to ensure the independence and accountability of the FRC, the Government should reconsider its decision to withdraw funding. The Government is an important a stakeholder in ensuring the effectiveness independence and integrity of FRC activities and adequacy of the financial and other resources available to the FRC. Continuation of Government funding provides a separate source of funding so that FRC is not just funded by those the FRC regulates. A Government contribution to funding, which is modest in the context of total Government spending, gives weight to appropriate Government oversight of FRC activities and performance, and underpins the overriding mission statement of the FRC "to promote confidence in corporate reporting and governance".
3. Withdrawal of Government funding, if maintained, removes a key plank of Government oversight of the FRC, and lends weight to the suggestion we raised in the CBI response earlier this year to the consultation on the cost effectiveness of FRC regulation that the FRC considers formation an FRC stakeholder or user representative panel as an additional mechanism for engagement with stakeholders, including in connection with funding, budgets and application of resources. Withdrawal of the Government contribution to funding also calls into question whether the Government intends to maintain its right to appoint the Chair and Deputy Chair of the FRC Board.
4. We support in principle the proposal to seek funding contributions from large private companies and public sector organisations because they benefit directly and indirectly from the work of the FRC and its operating bodies. We are not clear who will fall within the ambit of large private companies - a threshold test of annual turnover in excess of £500 million seems to be proposed. However it seems from Table 5 on Page 22 that this will include large private companies exceeding such turnover which are subsidiaries of listed companies, who already provide funding to the FRC. It is not clear why such listed companies (or indeed large private companies who may also have large subsidiaries) should be paying twice or more in respect of their large subsidiaries, if that is proposed. In its proposals following this consultation, the FRC should ensure to exclude this exposure to multiple liability for groups of companies. In contrast the proposed total public sector contribution at 5% according to Table 4 on Page 22 seems quite modest.



5. It is also not clear how the proposed discount rates would apply, when contributions relate to market capitalisations for listed companies, turnover for large private companies and expenditure for public sector bodies. It might be clearer and simpler if the proportions of the total funding sought to be raised were allocated to each category of contributor, (including the Government if it can be persuaded to continue to contribute) with levies calculated to reflect the amount sought to be raised from each category of contributor.

6. It would also be beneficial to stakeholders if the FRC published a rolling 3 year budget, so that stakeholders, when considering the formal budget proposals for the following financial year, could have an indication of cost trends and expectations based on estimates over a 3 year period. This would also help to identify in particular any expectations for growth in the FRC workload, and in numbers of FRC staff to service that workload, which is a significant item in any budget.

7. Whatever funding arrangements are put in place, they should be underpinned by effective and consistently applied regulatory impacts and evaluations. The FRC should aim to follow the BRE's Principles of Good Regulation and the Statutory Code of Practice for Regulators 2007. For example, they recommend consultation periods of twelve weeks, compared to just over nine weeks stipulated for the present consultation, which also runs over a holiday period.

8. Ultimately, the size and structure of contributions to FRC funding must be judged in the context of how such contributions are used, and proposals for regulation need to be accompanied by impact assessments. This will help evaluate whether the FRC is putting its funds to good use and delivering value for money regulation in line with the Code of Practice for Regulators.

II RESPONSES TO CONSULTATION QUESTIONS

SECTION TWO – FRC CURRENT FUNDING ARRANGEMENTS AND PROPOSED PRINCIPLES

Q.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. See our comments above.

Withdrawal of Government funding, if maintained, removes a key plank of Government oversight of the FRC, and lends weight to the suggestion we raised in the CBI response earlier this year to the consultation on the cost effectiveness of FRC regulation that the FRC considers formation an FRC stakeholder or user representative panel as an additional mechanism for engagement with stakeholders, including in connection with funding, budgets and application of resources.

Withdrawal of the Government contribution to funding also calls into question whether the Government intends to maintain its right to appoint the Chair and Deputy Chair of the FRC Board.

We are also concerned as to which companies will fall within the ambit of large private companies. It seems that this is intended to include large private companies exceeding an annual turnover threshold of £500 million including subsidiaries of listed companies meeting this criteria. However listed companies already provide funding to the FRC based on their market capitalisation which will take into account the value of their subsidiaries. It is not clear why such listed companies should be paying in respect of two or more companies if they have large subsidiaries, if that is proposed.

A similar situation arises if a large private company has a subsidiary exceeding the £500 million turnover threshold.

In its proposals following this consultation, the FRC should ensure to exclude this exposure to multiple liability for groups of companies.

Q.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 also support an FRC contribution towards the funding of EFRAG, as part of a future agreement with stakeholders on EFRAG's future role, governance, structure, budget and funding.

SECTION THREE - WHICH GROUPS SHOULD CONTRIBUTE TO FRC COSTS

Q.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 support appropriate funding contributions being sought from large private companies and the public sector. However, as noted, it seems that subsidiaries of listed companies meeting the turnover criteria will also be included, and we do not consider it appropriate that such listed companies pay twice.

There may also be issues in determining the scope of applicability to public sector organisations.

As indicated, we also consider that the Government should maintain a financial contribution.

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

No.

SECTION FOUR - PROPOSED BASIS OF CONTRIBUTIONS FROM EACH FUNDING GROUP

Q.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?

As noted above, we support in principle the proposal to seek funding contributions from large private companies and public sector organisations because they benefit directly and indirectly from the work of the FRC and its operating bodies.

However it seems from Table 5 on Page 22 that this will include large private companies exceeding such turnover which are subsidiaries of listed companies, who already provide funding to the FRC. It is not clear why such listed companies (or indeed a large private company with a large subsidiary) should be paying twice or more, if that is proposed.

In contrast the proposed total public sector contribution at 5% according to Table 4 on Page 22 seems quite modest.

It is also not clear how the proposed discount rates would apply, when contributions relate to market capitalisations for listed companies, turnover for large private companies and expenditure for public sector bodies. It might be clearer and simpler if the proportions of the total funding sought to be raised were allocated to each category of contributor, (including the Government if it can be persuaded to continue to contribute) with levies calculated to reflect the amount sought to be raised from each category of contributor.

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

As discussed above, seeking maintenance by the Government of its contribution, would provide a source of independent funding for the FRC, and would satisfy a public interest criterion in seeking to ensure the accountability and effectiveness of the FRC and its operating bodies.

Q.7. Do you agree that the FRC should increase its target level of reserves to £2 million?

It is difficult to make an assessment, but reserves up to this level may well be appropriate.

The amount will depend as to what purposes the reserves might be applied, such as for example, in respect of the AADB, and whether or not any changes are made to the AADB Disciplinary Schemes which may impact its liability for costs or other awards.

As the CBI has indicated in its response to the AADB consultation on the Accountancy Disciplinary Scheme, CBI members are opposed to possible Rule changes which might prevent successful respondents in proceedings instituted by the AADB recovering their costs.