

Our Ref NJJ/SAM
Your Ref JULY 2008 FUNDING

Policy and Planning Manager
Financial Reporting Council
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

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National Office

Grant Thornton UK LLP
Grant Thornton House
Melton Street
London NW1 2EP

T +44 (0)20 7383 5100
F +44 (0)20 7383 4715
DX 2100 EUSTON
www.grant-thornton.co.uk

Dear Sirs

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

We welcome the opportunity to comment on the FRC's funding proposals. We were dismayed to read of the government's announcement to withdraw funding from its 30% share of FRC costs from 2009/10. At present it appears that the government's announcement has been accepted by the FRC, but in our view the government should reconsider its decision to withdraw funding.

The government is ultimate guardian of the probity of the UK's capital markets and of the FRC's role in overseeing the UK's markets. The FRC must be, and be perceived to be, above influence from the entities that it is empowered to regulate. The current arrangement with approximately equal contributions from government, preparers and the profession enhances the independence and accountability of the FRC. Independence and accountability are critical attributes for maintaining market confidence in UK regulatory oversight, and will be even more critical attributes should a crisis in the UK's capital markets lead stakeholders to scrutinise the FRC's activities with the benefit of hindsight.

If after robust engagement the government remains disinclined to meet a 30% share of core FRC costs then we believe that there are other approaches to government contributions to the FRC that could be explored. There are public interest arguments for government funding for the regulatory elements of the FRC's work., such as audit inspection and auditor discipline. Funding for specific parts of the FRC where the public interest is demonstrably served might appeal to government in a way that a central contribution to the FRC's general running costs does not.

We believe that government has a vested interest in ensuring appropriate independent regulation of capital markets and other responsibilities of the FRC's constituent parts. For example, one problem identified by the FRC in its earlier consultation on The Accountancy Scheme is the impact on FRC resources of the award of costs against the FRC in favour of a successful defendant at a disciplinary tribunal. We believe that award of these costs could be ring-fenced by the FRC and underwritten by market participants including government.

Chartered Accountants

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A list of members is available from our registered office.

If you have any questions on this response, please contact Steve Maslin (phone: 0207 728 2736; email Steve.Maslin@gtuk.com) or Nick Jeffrey (phone: 0207 728 2787; email Nick.Jeffrey@gtuk.com).

Yours faithfully

A handwritten signature in black ink, appearing to be 'SM', with a horizontal line underneath the 'M'.

Steve Maslin
Partner, Head of External Professional Affairs
For Grant Thornton UK LLP

Direct T: 0207 728 2736
Direct F: 0207 728 2736
E: Steve.Maslin@gtuk.com

Consultation questions

Our current funding arrangements and proposed principles

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?

Grant Thornton response: We agree that major groups of market participants should contribute to the FRC's costs. However, we believe that government, as an important stakeholder in the role and activities of the FRC, and in the interest of preserving the perception of independence and accountability of the FRC, should also make significant contribution.

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

Grant Thornton response: In principle the funding groups that benefit from the work of the IASB should contribute towards the UK share of the IASB's costs, which will be a different group to preparers of financial statements.

Which groups should contribute to our costs?

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?

Grant Thornton response: In principle yes, although we have reservations as to the efficiency of replacing £550,000 of government funding by collecting on average less than £650 from each of 860 public sector organisations.

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

Grant Thornton response: Not at this time.

Proposed basis for contributions from each funding group

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?

Grant Thornton response: At present, the discounts appear arbitrary and lack transparency about the link between the levy and the benefit received. For example, the FRC could usefully explain why 860 public sector organisations (5%) derive less than half the benefit from the FRC's work of 700 large private companies (11%). At first glance it might be argued that public sector entities derive more benefit from the FRC because they will be using IFRS where often large private companies will not.

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?

Grant Thornton response: We believe that all funding groups would benefit from a greater understanding of the cost of the FRC work that their funding group is contributing towards. For example, if corporate governance accounts for 1% of FRC costs (per FRC

budget 2008/9), then those participants who do not benefit from the FRC's corporate governance work should receive a 1% discount.

The resilience of our financial position

Question 7: Do you agree that it is appropriate for us to increase the target level of our reserves to £2m?

Grant Thornton response: In principle we agree that the FRC needs a level of reserves that is sufficient to overcome unexpected short term increases to budgeted FRC activities, and a reserve of £2m seems appropriate given that the risk of a short term change to the FRC's remit would appear to be low.

The FRC says that another risk to the FRC's finances is the non-statutory basis for FRC funding arrangements. In our view a shortfall in funding receipts is an inappropriate reason to maintain a reserve, because in effect the FRC is saying that those who do contribute pay for those who do not. If the FRC is unable to obtain sufficient funding from contributors on a non-statutory basis then it should either seek government funding or it should ask the government to give the levy statutory support.