

# Financial Reporting Council – Consultation on future funding arrangements

KPMG LLP is pleased to be able to respond to the FRC consultation document *Proposals for future arrangements for funding the FRC's activities in relation to accounting, auditing and corporate governance*.

In summary, KPMG LLP strongly believes that the FRC needs to be funded by a cross-section of market participants and the government in order to ensure that the FRC is independent and accountable. This independence and accountability is critical to the FRC fulfilling its objectives, most notably confidence in corporate reporting and governance. Therefore, KPMG LLP joins with those who argue that the Government should reconsider its decision to withdraw funding. If the decision announced in a Written Ministerial Statement of 6 February 2008 stands then the FRC would almost entirely depend for its funding on the entities that it inspects, oversees and regulates. This in our view creates a perception risk of “regulatory capture” which could – not least in a time of financial and economic turbulence – undermine the very integrity of the UK capital markets. In addition, having the Government, through BERR, as a major stakeholder helps to ensure appropriate Government oversight of FRC activities, role and performance and proper scrutiny of those functions delegated to the FRC operating bodies by the Secretary of State.

However, whatever is the final outcome of this review funding arrangements should be underpinned by robust regulatory impact assessments and evaluations consistent with Government’s better regulation agenda in *Principles of Good Regulation and Statutory Code of Practice for Regulators 2007*. This and a rigorous approach to budgets should help to ensure that the FRC is cost-effective and cost-conscious. We made a range of suggestions in this area in our response to the recent consultation document *Cost effectiveness of FRC regulation*. In our view significant increase in FRC costs are unacceptable. There is a need to focus on efficiencies now that the FRC have been firmly established and more and more being done by IASB and IAASB.

## ***Responses to the consultation questions***

**Q.1. Do you agree that our costs should be met by 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?**

We agree with the principle that major market participants should fund the FRC and support this continuing to be on a non-statutory basis resting on the support of stakeholders. However, we strongly believe that the Government is a major stakeholder in the success of the FRC, not least in ensuring that the UK's corporate reporting and governance remain world class and recognized as such. Anything that harmed this or could give rise to the wrong perceptions – like regulatory capture – would be significant and concerning. In addition, the BERR Secretary of State delegates' functions to the operating bodies of the FRC and therefore Government should remain a funding partner.

KPMG LLP welcomes the statement that “we are considering whether we can provide stakeholders with a meaningful and sufficiently reliable longer term view of our funding requirements.” We encourage the FRC to conclude that this would – say over a three year period – provide funders with clarity and certainty which would help with budgeting.

**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.

**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?**

Whilst we hope that the balance of the argument will encourage the Government to change its position on withdrawing funding we support the proposal to extend the base of non-Government funding as outlined in the document, subject to comments in questions below. It will, of course, be important to give due weight to the responses to the consultation from the large private companies and the public sector organisations.

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

No, we agree with your analysis on why investors, pensioners and policyholders should not make a direct contribution to FRC costs; as well as UK charities, housing associations and the higher and further education sector.

**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?**

In our view it needs to be very clear which companies fall within the ambit of “large private companies” and also what the rationale is for the calculation of the discounts. Given the discounts are significant – 50% for large private companies and all foreign listed companies and 75% for all public sector entities – the rationale needs better explanation. The previous comments about giving due weight to the responses from these groups and appropriate representative bodies bears repeating in this answer.

**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?**

In the current economic climate turnover may well be a rather crude criteria and there maybe some merit in considering other factors like numbers employed by the relevant organization.

The FRC cost points made in our introduction are particularly appropriate here - since they bear on the final bill for these groups.

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

In our view this is a matter for the FRC Board to determine.