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Dear Policy and Planning Manager

FRC Levy Proposals 2008/09

Unilever welcomes the opportunity to comment on the FRC's proposed future arrangements for funding the Council's activities in relation to accounting, auditing and corporate governance from July 2008.

We are disappointed that the UK government has announced its withdrawal from the funding of the FRC and support the Council in its efforts to find an appropriate alternative to the previous funding structure.

However, we have strong concerns about the proposed arrangement as it inappropriately focuses on a relatively small group of funding providers. We believe that the FRC contributes significantly to the strong reputation of the UK financial markets and that this is to the benefit of a large group of stakeholders, including companies, government, and the general public. The general public has previously contributed to the funding of the FRC in the way of (tax funded) government grants and new ways must be found to spread the cost amongst a larger group of the UK business community and other key stakeholders.

We strongly believe that the funding needs to move towards a concept of wider participation in order to maintain the independence of the FRC and to underpin the Council's responsibility to the whole of the UK's economy and the general public.

Please refer to our detailed responses to your consultation questions which are attached. If you wish to discuss any points raised in more detail, please contact me on 0207 822 6919.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Michael Smith', written over a white background.

Michael Smith
Group Chief Accountant



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?

No. The FRC's objective is to "promote confidence in corporate reporting and governance". Specifically, the FRC regards confidence in corporate reporting and governance "as vital to the healthy functioning of business and markets and thus as making a significant contribution to the economy overall and the UK's competitiveness in international markets". This acknowledges the importance of accounting and governance for the whole economy and the general public. Confidence in corporate reporting and governance is in the public interest and to the benefit of a wide audience, both directly and indirectly. The focus on public and large private companies as well as the accounting and actuarial profession to fund the FRC hence appears inappropriate.

In the previous funding structure the contribution from the general public was provided in the form of (tax funded) government grants; in the absence of government grants other ways to obtain funding from a wider group of stakeholders should be explored.

Please also refer to our responses to questions 4 and 5 below.

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 agree.

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?

No. As explained in our response to question 1 we believe that funding should be obtained from a wider group of stakeholders who benefit from the FRC's work. We welcome the proposal to broaden the group of funding participants but do not believe that merely including large private companies and public organisations, if the latter indeed agree to co-fund the FRC, is appropriate.

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

Yes. Based on the proposal, the majority of the funding will still be provided by listed companies and the accounting profession. The latter is largely funded through membership fees, which implies that individual professionals (working in the profession or in public or private companies) contribute significantly to the FRC's funding while a large group of corporate market participants still does not. This is inappropriate.



Key stakeholders include (1) all UK companies filing UK-GAAP or audited IFRS accounts (including smaller private companies and private equity companies), (2) readers of such accounts (including investors, tax authorities, banks), and (3) other beneficiaries of sound corporate governance (including listed companies, investors, employees, business partners, general public). Possibilities should be explored to include more of these groups in the funding of the FRC.

One possibility may be to collect levies per filed set of accounts at Companies House (excluding dormant companies). This would introduce FRC funding to the majority of UK businesses, including UK subsidiaries of overseas groups. As described in our answer to question 5 below, this will result in a much fairer spread of the FRC's costs.

In addition, the Council may want to explore possibilities to include the investing community in the funding using the UK stock exchanges. Investors particularly benefit from transparency, sound corporate governance, and high quality auditing standards (and the enforcement thereof). Possibilities to involve this group could include transaction-based levies through UK stock exchanges.

We also recommend exploring possibilities to include key government stakeholders (eg, HMRC) in the future funding structure.

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 disagree that discounts should be given to private entities on the basis that some of the core activities do not specifically relate to these companies. As explained in question 1 we believe that the FRC's work has an overall benefit to the wider economy and the general public and that hence a large group of participants should be included in the funding of the FRC. Relief would be achieved though considering relative sizes of the corporate market participants (see also our answer to question 6 below).

Also, we disagree that private subsidiaries of listed companies should be included in the levy under the proposed structure as, if public companies are levied for all aspects of the FRC's core activities and the levy is based on market capitalisation, any aspects and benefits of the group's subsidiaries are necessarily included in the listed company's levy. Arguments that subsidiaries only benefit from specific aspects and hence should be due a discount does not hold as, following that argument, listed companies also do not necessarily benefit from all aspects of the FRC's work (namely UK accounting standard setting) and should also be due a discount. As a result, the proposed funding structure appears contradictory.

Also note that market capitalisation is driven by the overall performance of the group, including any overseas activities and subsidiaries. Accordingly, some UK listed groups with significant operations abroad will benefit comparably less from the FRC's work than other companies with more UK activity and UK subsidiaries. This is already conceptually acknowledged by the FRC through the discount granted to foreign companies listed in the UK. It can hence be argued that levying UK private companies will generally be more desirable and appropriate as it applies the levy primarily on UK businesses. As such, we



propose a general move towards comparatively greater funding from private companies (including subsidiaries of UK listed companies if this is reflected in reduced and consistent levies to listed companies) and away from a funding primarily from listed companies and the accounting profession.

If small amounts can be collected from a large number of private companies in an efficient manner, for example with the help from Companies House, this will mean spreading the costs over a larger number of entities and organisations which will achieve a more balanced and fair funding structure overall and an appropriate replacement of the public funding.

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

Any levies shall be determined on a simple and straight forward basis to avoid unnecessary complexities and achieve transparency. Measures could include turnover or net asset figures.

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

We agree that it is important to maintain a sufficient level of reserves in order to guarantee the uninterrupted functioning of FRC activities. However, we cannot comment on the appropriateness of an increase of reserves from currently £1m to the proposed £2m based on the information available.

We also challenge the FRC with regards to the level of its overall cost base. The relevance of IFRS for private companies can be expected to increase in the future and this should be expected to eventually reduce national standard setting activity. However, the Council argues that responsibilities have grown in recent years, increasing the pressure on resources, and proposes the increase of the reserves as a result. It has to be established if these new responsibilities are appropriately classified as core activities for which general funding is required or if a more activity-based costing and funding base should be developed for these activities (and related reserves) if they cannot be classified as core activities. We disagree that cost effectiveness and budget management should merely be measured on the basis of total costs. Instead, a balanced evaluation of the activities and the cost-benefit of these activities will be required.