

The Hundred Group
of Finance Directors

Paul Boyle
Financial Reporting Council
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13 March 2008

Dear Sir

FRC Draft plan and budget 2008/09

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. Set out below is our response to the FRC's Plan and Budget.

Corporate Governance

We note that the FRC intends to lead public debate on major issues affecting future confidence in corporate reporting and governance. We expect that this is likely to be a somewhat specialised debate, particularly since the volume of consultation material from the IASB, IAASB, FSA, FRC and others means that it remains difficult to achieve a wide level of genuine public engagement. *It would be helpful for you to indicate what form the public debate is expected to take and whether the FRC plans anything specific this year.*

Although we broadly agree with the proposed approach to Corporate Governance for 2008/09 we believe that the risk assessment understates the risk of investors adopting a 'box ticking' approach to governance. Our experience indicates that it is difficult to engage with investors or shareholder representative groups on a 'comply or explain' basis. In addition we note that there appears to be little connection between specialist governance teams and portfolio managers within large institutional fund managers and that this increases the risk of a box ticking approach to governance. We encourage the FRC to remain vigilant in relation to this risk.

Corporate Reporting

We strongly support the proposed work programme and would emphasise the need for the FRC to monitor and influence the direction of corporate reporting in order to achieve the stated strategic outcome. We remain concerned about the risk of a further extension of complex fair value accounting in new standards. In particular we are concerned that a continued drive in this direction will take the profit and loss account further away from cash flows and the operating results of the business whilst taking the balance sheet ever closer to 'market based valuations', even where there is an illiquid or no market. We note and support the FRC's reference to reliable and understandable reports and hope these information attributes are given sufficient weight in new standards (including the Conceptual Framework) rather than being subordinated to 'fair value' considerations.

More generally, we remain very concerned about the growing volume and complexity of financial reporting standards and the impact this has on the relevance and usefulness of financial reports. We note the FRC project to review complexity and relevance of current reporting requirements (supporting outcome 2 (a)). We would be happy to contribute to this project.

The IASB has recently responded more constructively to the concerns of preparers and users but the degree to which this will translate into responsive exposure drafts and standards remains to be seen. A number of important IFRS standards are anticipated during 2008/09 and the FRC's focus on this area would be welcomed and supported.

We note and support the FRC's intention to lobby the European Parliament and European Commission on the IFRS endorsement process to ensure that there are no further carve outs.

We believe that the widespread international adoption of IFRS means that the IFRS/US GAAP convergence project should now be replaced by a project to support the adoption of IFRS by US public companies. A clear statement of the FRC's position on this matter would be welcomed.

Auditing

Following your presentation to the 100 Group, we now understand your precise concerns regarding audit market concentration. Market concentration has two obvious risks: lack of competition and the unexpected exit of a major firm. Our experience indicates that this market is generally efficient and it was clear at the recent 100 Group speaker evening that FD's are not convinced that the second risk a regulatory intervention. We believe that it would be sufficient for the FRC to have a contingency plan to deal with the unexpected exit of a major firm. As such we believe that the FRC should be careful not to give more weight and prominence to this matter than it merits as this might detract from other more important issues such as confidence in financial reporting.

We note the FRC's current consultation on auditor liability limitation agreements. Such agreements will need widespread and public shareholder support before directors are asked to propose changes which have a broad and indirect corporate benefit.

We appreciate the need for the FRC to keep under review relevant aspects of current credit market conditions and to modify its plan to take this into account. The Treasury Select Committee hearings on Northern Rock once again highlight the wide expectations gap between the responsibilities of auditors and the expectations placed upon them. We would support the development of Auditor guidance by the FRC in this area.

Actuarial Practice

We support the FRC's plan.

Professionalism of Accountants and Actuaries

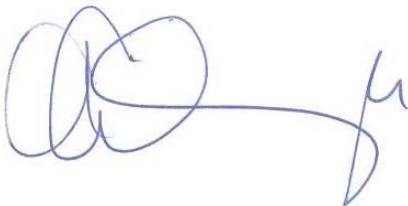
We support the FRC's plan.

Proposed budget

We support the proposed budget but note with concern the Government's intention to cease funding. We believe that the Government should continue fund the FRC in order to retain the public's confidence that the FRC remains an independent body rather than self-regulating body.

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

Yours sincerely

A handwritten signature in blue ink, consisting of several loops and a long horizontal stroke ending in a small flourish.

Ashley Almanza
Chairman
The Hundred Group