

FEEDBACK STATEMENT ON THE UPDATED REGULATORY STRATEGY AND PLAN & BUDGET 2007/08

Introduction

In December 2006, we published our Draft Updated Regulatory Strategy and Plan & Budget 2007/08, inviting comments by February 2007.

Our stated intention was to define the outcomes and other elements – our Strategic Framework – which we believe contribute to confidence in corporate reporting and governance, and develop priorities for 2007/08 explicitly aligned to the achievement of those outcomes.

This paper reports on the feedback we have received. It is being published on our website alongside our Strategic Framework and Plan for 2007/08.

There were 17 responses (listed at Annex A), which included:

- three responses from business organisations
- four responses from investor organisations
- three responses from the accountancy and actuarial professional bodies
- responses from each of the Big Four audit firms and two of the “mid-five” audit firms.

The responses have been positive and constructive, both in their overall tone and in their detailed comments.

The following sections summarise the responses to each of the consultation questions included in the draft Strategic Framework and Plan for 2007/08.

In due course, the Strategic Framework will be part of the FRC’s overall Regulatory Strategy, which will cover wider issues such as our regulatory philosophy and our governance, funding and accountability. Some of the responses related to these wider issues. For example, it was suggested that we should include within the description of our funding arrangements the names of the professional bodies which contribute to our costs. We are currently consulting stakeholders on proposed changes to our governance structure and we will publish an updated Regulatory Strategy when that consultation has been completed. We will take into account at that time the responses already received which are relevant to those wider issues.

Strategic Framework

Consultation Question 1

Are there any elements included in the draft Strategic Framework which are not appropriate for inclusion?

No respondents identified any elements that were not appropriate for inclusion.

Consultation Question 2

Are there any elements relevant to confidence in corporate reporting and governance which are sufficiently important to be included but which have been omitted?

Some respondents suggested that there should be an additional Strategic Outcome referring to our principles-based regulatory approach. *We considered carefully whether the Strategic Framework gave sufficient emphasis to our principles-based approach. We decided that since a number of individual components refer to the importance of a principles-based approach, and Outcome Six includes the FRC's commitment to the principles of good regulation, we do not need a separate Outcome as suggested. We do, however, remain strongly committed to a principles-based approach.*

Consultation Question 3

Are there any other aspects of the Regulatory Strategy on which you wish to comment?

On Outcome One (Corporate Governance), it was proposed that:

- We should clarify the reference to listed companies. *We accepted this point and have amended the text to refer to "UK companies with a primary listing in the UK."*
- The Supporting Outcome referring to the role of institutional shareholders in monitoring the quality of corporate governance should be amended to refer to "widespread recognition of the importance of shareholder engagement". *While we acknowledge the importance of this point (which is relevant to our review of the impact of the Combined Code), we considered that it was already implicit in the text.*

On Outcome Two (Corporate Reporting), it was suggested that:

- The FRC should explain what we mean by 'stewardship'. *We addressed this issue in July 2006 in putting forward our views on the IASB/FASB discussion paper on the project to develop a joint conceptual framework.*

On Outcome Three (Auditing), it was suggested that:

- The wording included in the draft Strategic Framework – "Users of audit reports can rely on the audit opinion as to whether financial statements show a true and fair view" – could create an unrealistic expectation and should be qualified in some appropriate way. *In response to this, we have amended the wording to read "Users of audit reports can place a high degree of reliance on the audit opinion, including whether financial statements show a true and fair view". We have further amended this outcome to allow for the fact that the audit opinion may not only relate to true and fair.*
- It would be helpful if the FRC were to request the IAASB to have a moratorium for two years after the new standards being developed for the EU are finalised in order to be able to direct sufficient effort towards the necessary training and implementation. *The APB has already urged a period of calm and will continue to reiterate this in their dealings with the IAASB.*

On Outcome Four (Actuarial Practice), no specific comments were received. *However for consistency with Outcome Three, we have amended the text to read "Users of actuarial information can place a high degree of reliance on its relevance, transparency of assumptions, completeness and comprehensibility"*

On Outcome Five (Professionalism of accountants and actuaries), it was suggested that:

- Further clarification should be given to the respective roles of regulators (including the professional bodies), professional advisers and market participants. *We note this point, but in the context of the FRC's Regulatory Strategy and the Strategic Framework as a whole, we believe that the respective roles of the FRC and its stakeholders relationship are shown appropriately.*

On Outcome Six (FRC effectiveness), it was suggested that:

- We should further emphasise the importance of co-ordination between regulators, national and international, in relation to corporate governance and reporting, including the importance of our relationships with the SEC and other non-European regulatory authorities. *We have amended the relevant sections of the Regulatory Strategy to reflect this point.*

In addition to these responses, we have considered a number of helpful suggestions for clarifying the text of the Strategic Framework, which have been reflected in the finalised version.

Plan for 2007/08

Consultation Question 4

Do you have any comments on the scope and relevance of the major activities and projects included in the Plan for 2007/08?

All respondents supported the broad thrust of the Plan for 2007/08. A number of comments were received in support of specific aspects of the proposed activities and projects.

Some respondents emphasised the continuing amount of change in the regulatory environment, and the need for the FRC to keep a careful eye on the cumulative impact of those aspects of the regulatory regime for which we are responsible. *We acknowledge this point, which underlines the importance of our previously announced project to review the cost-effectiveness of those parts of the regulatory system for which the FRC is responsible.*

Consultation Question 5

Are there any additional activities or projects which should be included in the Plan for 2007/08?

In response to the feedback, we have included five additional projects which respondents identified for inclusion in the Plan for 2007/08:

- Revision, if necessary, of UK accounting standards in the light of the UK implementation of the 2006 amendments to the 4th and 7th Directive
- Provision of guidance on the application of the Companies Act 2006 provisions relating to auditor liability agreements
- Consideration of the impact of the Companies Act 2006 on auditor's reports and the Audit Quality Forum's proposals for additional information to be included in such reports
- Development of key performance indicators for the Strategic Framework
- Following consultation the implementation of the proposed changes to the governance structure of the FRC.

Consultation Question 6

Are there any other aspects of the Plan & Budget 2007/08 on which you wish to comment?

Some respondents referred to matters associated with FRC funding. *We will consult appropriately on any issues relevant to our funding.*

Some respondents commented that we should do more to make public our views on each of the six Strategic Outcomes and give an overall commentary on our view of UK corporate reporting, governance and auditing, which identifies what is right and improving, as well as those areas that have been identified as needing improvement. *We will consider this point in preparing our Annual Report for 2006/07 and in regular programme of communications with our stakeholders.*

**FRC
30 April 2007**

Annex A

The following organisations responded to the invitation to comment:

Actuarial Profession
Autorité des Marchés Financiers
Association of British Insurers
Association of Chartered Certified Accountants
BDO Stoy Hayward LLP
CBI
Consultative Committee of the Accountancy Bodies
Department for the Environment, Food and Rural Affairs (DEFRA)
Deloitte & Touche LLP
Ernst & Young LLP
Investment Management Association
KPMG LLP
National Association of Pension Funds
One Hundred Group of Finance Directors
PricewaterhouseCoopers LLP
Quoted Companies Alliance
RSM Robson Rhodes LLP