



# The Consultative Committee of Accountancy Bodies

15 March 2010

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The Institute of Chartered Accountants of Scotland  
The Institute of Chartered Accountants in Ireland  
The Association of Chartered Certified Accountants  
The Chartered Institute of Management Accountants  
The Chartered Institute of Public Finance and Accountancy

Dear Mr Andrews

## **FRC DRAFT PLAN & BUDGET AND LEVY PROPOSALS 2011/12**

Thank you for the opportunity to comment on the FRC's proposals and initiatives for 2011/12. The comments of the six CCAB bodies are set out below.

### **General**

1. Overall, we are supportive of what the FRC seeks to achieve and the four major 2011/12 outcomes stated are strategic and timely. In particular,
  - We support the objective that corporate governance and reporting should provide greater value to investors, to aid the stewardship of companies, including better reporting of business models, strategy and risk management. The proposal that the FRRP should consider this aspect in the reports it reviews demonstrates 'joined up thinking'.
  - We welcome the acknowledgement in the overview to the Draft Plan that the public interest is served and value to investors enhanced through the promotion of competition in the audit and financial reporting markets.
2. Influencing EC legislators is critical if we are to have any hope of deregulating some key aspects of UK law that affect all companies. This will aid the development of UK GAAP, but it is not just about that. Modernising the accounting Directives, which are very out of date, into framework laws that are fit for the 21<sup>st</sup> century, is a key aim that the FRC should be pursuing aggressively, with help from BIS. Positive outcomes in relation to this area of EU law will offer significant scope for deregulation of UK law, thus benefiting UK companies by cutting compliance costs.
3. Another legislative area, related to accounting and ripe for deregulation, is the area of capital maintenance. The rules are complex, overly technical and costly because of their interaction with GAAP, and do not protect creditors to any great extent. As EU law covers only public companies, there is scope to simplify radically the rules for private companies, which represents a significant and costly gold-plating of EU law. We would be happy to discuss this further with the FRC.

## Section Two – Proposed Major Activities and Projects

### *Do you have any comments on the proposed major activities and projects?*

#### *FRC Board*

4. We note, in respect of the second bullet point in Section 2, that any forthcoming reform of the FRC may create additional costs. Clearly any proposals for reform and how they are to be funded are of great interest to the CCAB bodies. We assume that the FRC will undertake appropriate consultations to help ensure it remains a cost-effective regulator. As stakeholders, we would welcome engagement with the FRC prior to those consultations and an indication as to their timing.
5. We share the belief that good governance is important in terms of both the ability of boards to manage effectively, and their accountability to shareholders. A third element of good governance should be the ability of shareholders generally (and not just institutional investors) to influence the board. This should extend to the interaction of the board with the external auditor, via the audit committee.
6. We note that the Stewardship Code was issued in July 2010:
  - The Draft Plan does not suggest how the FRC and the Committee on Corporate Governance intend to ‘monitor the effectiveness of the Stewardship Code’ so early in its implementation. Perhaps the Plan for 2011/12 should broadly set out activities such as this looking further than one year into the future. Also, noting that the Code principle relating to risk will be a focus of the FRC’s work in 2011/12, perhaps, over time, consideration ought to be given to how all parts of the Code might be monitored.
  - Over the long term, we believe consideration ought to be given to the role of the FRRP and so we welcome the FRRP’s focus on clear linkages between narrative reports and the accounts and descriptions of business models. We welcome the FRC’s subsidiary boards’ encouragement of best practice but care should be taken so that such practice is not promulgated as mandatory. The recent pronouncements on reporting of risks and uncertainties and capital management disclosures are examples of this tendency.
7. We believe that the FRC should provide a strong voice in terms of both the EU and BIS activities in the areas of regulation relevant to the FRC and therefore support the proposal that the FRC should work with both organisations. We would encourage early and intense cooperation, before proposals for changes to law or regulation become fully developed, when there is more chance of influencing the final outcome.

#### *Accounting Standards Board*

8. We notice that no attempt has been made in this part of the report to prioritise the proposed activities listed. However, UK standard setting should be key, i.e. completing the UK GAAP revision with IFRS for SMEs etc (covered by the fifth bullet point).
9. The emphasis on narrative reporting and sustainability (in the first and seventh bullet points) is correct in the light of developments related to integrated reporting and the revival of interest in the OFR. There are some fundamental questions to be answered on the purpose of both the financial statements and the wider annual report in terms of how these issues should develop in future. The objective should be, to provide relevant information to shareholders and investors without the distraction of other information related to general public policy initiatives. The extent to which the ASB should be trying to influence developments in respect of IFRS, either with the IASB directly or via Europe, should not be taken as a given. Rather, it should be part of a complete review of the future of the ASB after the completion of the current convergence of UK and IFRS.

10. On regulation generally we believe that international co-operation is critical so we support initiatives aimed at achieving such co-operation. We regard the work of the ASB in forging links with other national standard-setters as an example of international thinking which we believe is key to the effective development of corporate reporting, governance and audit. Hopefully this work will extend to involvement with the growing global integrated reporting initiative which aims to influence the thinking of G20 and others.
11. In addition, the ASB should have regard to reporting by UK micro companies in the future (when the scope of the 4th Directive may be altered). We believe that the FRC is dealing with this but there does not appear to be any mention in the Draft Plan.

*Financial Reporting Review Panel*

12. The activities of the FRRP must be a key area of activity for the FRC. However, the Draft Plan provides more detail in Section 1 (at the top of page 6) than in Section 2.
13. We support the FRRP's aims to improve the quality of reports and accounts of the smaller listed and AIM quoted companies. We also support the intention to focus on the links between narrative reports and the accounts (as mentioned in Section 1 of the Draft Plan).
14. The FRRP announced its sectoral priorities for 2011/12 in November 2011 and these are listed in Section 1. It would be helpful to include some explanation as to the reasons behind the decision to prioritise these sectors. Travel and property are both appropriate risk sectors in the current economic environment. However, the rationale for the insurance sector is less clear and some may view other sectors, e.g. mining, as more appropriate.

**Section Three – Proposed budget 2011/12**

*Do you have any comments on our draft budget and funding projects for 2011/12?*

15. The Draft Plan states that the FRC will enhance its effectiveness and efficiency, based on the principles of good regulation, and seeks to identify the reasons for an increase in total budgeted costs of £0.4 million. However, the comparisons made in the document are between the Draft Budget for 2011/12 and the Budget for 2010/11. Comparison with the up to date forecast for 2010/11 is more informative. This shows a saving in core operating costs of only £0.2 million, but an increase in audit inspection costs of £0.3 million.
16. Turning to the levy, we feel disappointed that all of the benefit from the reduced 2011 budget has been handed back to the preparers and it is of concern that the FRC are reducing reserves (created and paid for by all levees) in order to do so. We cannot see a justification for this.
17. Overall, however, we recognise that core costs appear to be under reasonable constraint. We hope that the FRC is aware of the pressing financial positions of the professional accountancy bodies and their members against a background of the gradual emergence of the UK economy from the recession. In terms of future demands on the European and international fronts, we would encourage the FRC generally to utilise the activities of other international organisations thereby avoiding unnecessary duplication of effort.

18. We acknowledge that the work of the AADB is on an upward trend, due to cases already identified and in progress but also note that, as a result, the bodies will have to meet continually increasing costs. It is therefore vital that the costs of the AADB are kept under constant review and that the AADB works, as set out in the key priorities for 2011/12, to reduce the time and cost of handling cases.

Yours sincerely

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