

Policy and Planning Manager
For the attention of: Sir Christopher Hogg and Mr Stephen Hadrill
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By post and by email

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Dear Sir

Draft Plan and Levy Proposals 2010/11

We write in response to the invitation to comment on the Draft Plan 2010/11 issued by the Financial Reporting Council in December 2009.

The Draft Plan invites comments on the following three areas – the proposed major activities and projects, the draft budget for 2010/11 and the FRC levies for the same period. We comment below on each of these areas.

1. Proposed major activities and projects

- 1.1 Perhaps the most telling comment in the document is the short sentence on page four which reads “our full work programme is extensive”. The last five years have seen an unprecedented and unrelenting series of changes to the rules on corporate reporting. For example every year the standard audit report changes. Every year there are changes to accounting standards to be considered. There have been continuing legal amendments associated with the introduction of the business review and with the 2006 Companies Act. The Combined Code was revised in 2006, again in 2008 and faces further revisions later this year. In our view, this constant change is not serving well preparers, auditors or users of corporate reports.
- 1.2 We acknowledge that the FRC is fully aware of the complexity in corporate reporting. But, on the same page of this Draft Plan, the FRC note that it is proposing to make further changes to the Corporate Governance Code, to stimulate improvements in

narrative reporting and to review the usefulness of information contained in audit reporting as part of its planned activities for 2010/11.

- 1.3 We strongly believe that the most important task which the FRC should consider is that of providing a stable platform for corporate reporting for British companies. Instead of a pattern of relatively modest changes every year there should be a move to a stable platform for a number of years followed by a period in which major amendments are enacted. We would also suggest that the FRC has a role to play in promulgating such a pattern internationally.
- 1.4 We responded on 5 March 2010 to the consultation paper on the proposed changes to the UK Corporate Governance Code. Consistent with the theme discussed in the paragraph above, we recommend that the FRC does not move swiftly to introduce a new Code over the next few months but instead awaits the outcome of its work in related governance areas such as internal control and the Stewardship Code, before finalising its proposals for the revised Code.
- 1.5 On page three of the Draft Plan, reference is made to the ASB currently seeking views of UK stakeholders on support for a UK strategy for convergence with international standards. The ASB has consulted at least five times on this topic over the last five years. Its press release of 16 February 2010 indicates that it will be many months before the ASB announces its next steps which will be further consultation rather than resolution. In our view the ASB is dragging its heels on this topic and there is a need for firm plans to be made now.

We are faced on a weekly, if not daily, basis with questions from clients seeking to plan changes to their reporting systems. A new pressure is emerging for UK companies which are subsidiaries of overseas groups. 2011 will be a year in which many other countries will move to IFRS, either in full or in part. Therefore, for example, the group which may be headed by a company in Japan is seeking to make plans for its accounting systems throughout the worldwide group. When it comes to its UK subsidiaries, it faces considerable uncertainty and an inability to make plans for the next few years.

- 1.6 Given that making the IFRS for SMEs available for use in the UK is something which appears to be supported by commentators generally, we urge the ASB to make arrangements now for this to be available for companies to move to that system. For those subsidiaries of overseas parents who are currently moving the entire group to international accounting standards then moving the UK subsidiaries to IFRS for SMEs now makes sense. At present, UK subsidiaries are at a disadvantage because of the current uncertainty. We are aware that the ASB may wish to explore other options and has to consider specific sector issues. But we do not see why this exploration should inhibit making the IFRS for SMEs available now to British companies. We are aware that this will mean UK companies using IFRS, IFRS for SMEs and UK GAAP for a period of time. We believe that this is acceptable as the systems are relatively similar and users of the financial statements would not be overly inconvenienced. We urge the FRC to take up this issue with the ASB.

- 1.7 On page five of the Draft Plan, there is a reference to the ASB promoting the development of a disclosure framework. We are not aware what this project might involve and would welcome further information on this so that views may be sought early on its desirability. At the moment, we do not see how this fits in with the FRC's work on reducing complexity of corporate reporting and the separate project to consider narrative reporting.
- 1.8 We welcome the priority being placed on the AADB to make significant progress on, and where possible to finalise, the matters with which it is currently dealing. One of the criticisms of the previous JDS regime was that cases took too long. Our hope has been that the AADB would conclude matters in much shorter time scales. Early experience suggests that this area requires renewed focus in 2010/11.
- 1.9 We welcome the progress which the Board for Actuarial Standards has made in 2009/10. This is an area which will require continuing focus in 2010/11.

2. Draft Plan 2010/11

The budget summary on page six reports that the draft budget for 2010/11 will be £18.4m compared with a forecast outcome for 2009/10 of £17m. This represents an 8.2% increase in the costs for accounting, auditing and corporate governance. We do not consider that this increase is justified or fully explained in the document. We note that one reason for this appears to be the proposed doubling of reserves in this area from £0.9m to £1.9m. We have difficulty seeing why this is justified or why a reduction in government funding should necessitate this increase in the level of general reserves. We recommend that the FRC revisits this area, with the aim of reducing any increase in the levy to companies to a level commensurate with general inflation.

3. 2010/11 Levy Proposals

We wrote to the FRC on 18 August 2008 and expressed our concern that public sector organisations in particular are not, in our opinion, paying an appropriate share of the FRC's costs. We repeated this concern in our letter of 13 March 2009 on the 2009/10 Plan. We repeat this concern at this time. Public sector organisations are to contribute only £0.6m to FRC funding. In the meantime, publicly traded companies contribute £5.3m. Furthermore, we expect that as large private entities include many large subsidiaries of publicly traded companies, these groups will also be bearing a sizeable share of the levy attributed to the private companies and thus picking up a significant share of the £2.0m. We ask the FRC to seek to obtain a larger contribution from public sector organisations and to minimise the impact on private sector organisations.

Please contact Isobel Sharp or Martyn Jones if you would wish to discuss any of the above points.

Yours faithfully

Deloitte LLP