

Policy and Planning Manager
Financial Reporting Council
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

10 March 2010

Ref: EY2010

Direct line: 0207 951 4666

Email: ttheath@uk.ey.com

By post and email: planning@frc.org.uk

Dear Policy and Planning Manager

Draft Plan and Levy Proposals 2010/11

1. Ernst & Young LLP welcomes the opportunity to comment on the FRC's *Draft Plan and Levy Proposals 2010/11* ("the Plan"), issued in December 2009.
2. We agree with the four priorities outlined in the Plan. In particular, we support the FRC's intention to influence and respond to international initiatives on corporate reporting and governance. In our opinion matters such as the complexity of reporting and the content of audit reports can only be addressed effectively from an international perspective.
3. On a related theme, we support the FRC's aim to improve the transparency of reporting, spanning narrative and numerical disclosures. However, the same level of attention should also be focused on ways to counter the risks associated with this. For example, the definition of business models will need to be clarified where assurance is required to be given, and safe harbour provisions will need to be considered for directors and auditors.
4. We noticed that this initiative on reporting forms part of a relatively small number of planned activities, which helps to make this year's Plan more concise. This demonstrates to us a greater focus by the FRC on macro-economic issues. We very much welcome this approach and believe it is highly appropriate in light of the financial crisis. To this end we encourage the FRC to keep under review the valuable guidance it has already provided to audit committees and directors as the effects of the crisis continue.
5. We also encourage the FRC (via POB) to reconsider the level of information it publishes on the aims of the AIU. We believe there is scope to improve awareness amongst stakeholders of the important work done by the AIU, whilst also promoting a better understanding of what it takes to deliver a high quality audit. In addition, we believe that the FRC should continue to support liability reform, and it should also take on (via the APB) the future convergence of ethical standards with the IFAC Code, (including a target date set by the APB).



6. Finally, we note that the government has continued to uphold a decision it made before the financial crisis, to gradually withdraw its contributions towards the funding of the FRC. This has now dropped by 48% (£2.3m to £1.2m). We disagree with the government's decision on this matter, despite the current state of the UK's public finances. This is because the shortfall in FRC funding has to be made up from the entities it regulates. In the interests of "being seen to uphold" independent regulation, we hope that a future administration might reconsider this decision to withdraw government funding.
7. However, for the time being, plans to 'secure efficiency savings equivalent to 5% of core operating costs' (approximately £0.65m in the 2010/11 budget) are very welcome as a means to absorb part of the shortfall. That said, the levies charged against companies (public and private) and accountancy bodies are still scheduled to rise in the 2010/11 budget by 18% (£5.5m to £6.5m) and 4.5% (£4.5 to £4.7) respectively. This is despite an overall commitment to focus on fewer initiatives.
8. We expect that readers of the final plan will want to know more about the drivers behind these increases, and the extent to which they have been offset by the reduced number of initiatives. Therefore we encourage the FRC to make further disclosures on these matters as it finalises its plan.

CONCLUSION

The FRC is highly regarded, both in the UK and overseas, for the way it formulates and implements regulation. The recent report by the Better Regulation Executive, on the FRC's performance against the Hampton Principles, endorses this view. Therefore it is important that the FRC not only continues to receive the funding it needs to remain effective, it should also continue to channel this funding towards its core tasks. The reduced scope of FRC initiatives planned for 2010/11 bodes well in this regard.

We are grateful to the FRC for publishing this draft Plan, and we hope you have found our comments helpful. If you would find it useful, colleagues in our firm are available to discuss further any of the points we have raised.

We wish you every success with the rest of the consultation process and encourage you to publish all non-confidential responses, including this one, shortly after the closing date. We look forward to reading the results.

Yours sincerely



Robin Heath
UK Managing Partner