



Our Ref GM/PJC

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10 March 2010

Dear Sirs

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Draft plan and levy proposals 2010/11

We welcome the opportunity to comment on the Financial Reporting Council's (FRC) draft plan and levy proposals 2010/11.

We support the FRC as the regulator responsible for promoting confidence in corporate reporting.

1 We welcome the macro-economic focus of the draft plan

In our response to the 2009/10 strategic framework and levy proposals we urged the FRC to be wary of over-regulation, particularly at a time when investors, preparers and the accounting profession face unprecedented pressures posed by the financial crisis. As we hopefully enter a period of economic recovery, this message remains unchanged, we believe the FRC should ensure that it closely engages with stakeholders in a meaningful way to understand what is perceived by market participants to be major risks to market confidence before detailed specific proposals are taken forward.

In this regard, we are very supportive of the draft plan for 2010/11 which we believe does demonstrate a macro-economic focus, with fewer individual initiatives, and strong stakeholder engagement. We believe the 2010/2011 draft plan provides a helpful framework within which the operating bodies of the FRC can regulate in an effective and proportionate fashion.

2 We commend the FRC for the guidance it has issued arising from the economic downturn

We commend the FRC for publishing some helpful material in the last year which has helped inform debate and stakeholders on important issues arising from the economic downturn including:

- Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009
- 2009 Review of the Combined Code
- Stewardship Code for Institutional Investors

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We believe that the Stewardship Code should have regard for the shareholder engagement provisions of the Audit Firm Governance code to help facilitate improved engagement between institutional shareholders and the audit firms who audit listed companies.

We also welcomed the publication "Louder Than Words" on complexity in corporate reporting, although we recognise that this is only the first stage in this important debate.

3 Key stakeholders would benefit from increased choice in the public interest audit market

We do not believe the FRC has been particularly effective in reducing the concentration of the market for supply of audit and other services to large corporates. We would be disappointed if the FRC were to abandon the objective of increasing audit choice in favour of the narrower objective of avoiding one or more of the four largest firms withdrawing from the public interest audit market, as suggested by recent media coverage.

Almost all stakeholders to varying degrees have expressed concerns over the unnecessarily high level of concentration in the UK audit market, and we believe the only long term solution is to increase the number of firms who are active in that portion of the market. We welcome measures taken by the FRC to help sustain a healthy and vibrant audit market. However, it would be an odd message for the FRC to give that protecting four firms at almost any cost was more important than increasing the level of choice while maintaining quality.

We believe the FRC could do more to facilitate increased choice in the public interest audit market. For example the FRC could do more to raise the awareness of the results of the independent audit inspection process referred to within section 4. We believe the 2009 report demonstrates that there is a wider range of audit firms who are well placed to audit FTSE companies than is often presumed. The FRC could also be more active in eliminating contractual arrangements imposed by third parties that restrict audit choice for reasons other than audit quality. We have numerous examples of these arrangements. We have suggested various additional actions over the years that we believe the FRC could take to eliminate this barrier which we believe would be more effective than the FRC's current response.

4 Key stakeholders are not well informed of the audit inspection process

We have been a long-term supporter of the publication of the results on independent audit inspections on individual audit firms, together with the overview reports. These reports demonstrate the importance that audit firms place on audit quality yet our own engagement with stakeholders suggest that the reports have not been effective in informing key stakeholders (such as investors, audit committee chairs and intermediaries) in this regard.

In our view the Professional Oversight Board (POB) could do more to explain the inspection process to stakeholders and help them to use this vitally important tool to assess audit quality and make or influence auditor appointment and re-appointment decisions.

5 We welcome greater transparency of business models

We support greater transparency of business models within annual reports as it is important that both narrative reporting and numerical disclosure provide users with an understanding of the business model. In this context we also welcome consideration of the content of the audit report.

The content of annual reports and audit reports should however be considered internationally but we would welcome the FRC informing the international debate.

The FRC should also consider the degree of safe harbour that should be provided to directors and auditors as greater responsibility is implicit within this proposal given that more informative information tends to be forward looking and less capable of being drafted or reviewed than historical financial information.

6 FRC has an important role internationally

We fully support the FRC influencing and responding to international initiatives including seeking continued support in the European Union (EU) for maintaining the International Accounting Standards Board (IASB) and other standard setters' ability to exercise independent judgement in setting accounting standards.

We commend the Auditing Practices Board (APB) for its support of the adoption of ISAs within the EU with no carve-ins or carve-outs, except in respect of domestic legislative requirements.

We believe the APB should publish a roadmap for convergence of UK Ethical Standards with the International Federation of Accountants (IFAC) Code of Ethics.

7 2010/11 budget and levy proposals

Whilst we acknowledge that the FRC plays an increasingly important role in an economic downturn, we do question whether an 8% increase in FRC costs (£19.8m forecasted 2009/10 to £21.3m budgeted 2010/11) will be well received by those funding the expenditure, when most businesses continue to be focused on cost reduction as the economy hopefully recovers.

In our previous comments on levy proposals, we highlighted our concern that the link between the level of the levy and the benefit received by the respective group of preparers is not immediately clear to us. The FRC should endeavour to make this link more transparent.

Our detailed responses to each question within the consultation are set out on the following pages.

If you have any questions on this response, please contact Phil Crooks (phone: 01908 359 573; email: phil.j.crooks@gtuk.com) or Steve Maslin (phone: 0207 728 2736; email: Steve.Maslin@gtuk.com).

Yours faithfully



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Appendix A: Consultation questions

Question one: *Do you have any comments on the proposed major activities and projects? Are there any additional activities or projects which should be included?*

Grant Thornton response: Yes. We are broadly supportive of the draft plan and set out additional comments on proposed major activities and projects together with omissions in Sections 3 to 6 of our covering letter.

Question two: *Do you have any comments on our draft budget and our funding projects for 2010/11?*

Grant Thornton response: Yes. We set our comments on the draft budget for 2010/11 within Section 7 of our covering letter.

Question three: *Do you have any comments on our levies for 2010/11?*

Grant Thornton response: Yes. The link between the level of the levy and the benefit received by the respective group of preparers is not immediately clear to us. The FRC could helpfully demonstrate the link between the amounts collected from each group of preparers and the benefit derived by the relevant group.

Further, we question whether it is fair that large private entities and public sector organisations are given a discount to the levy rates applied to publicly traded companies. A different basis applies for the calculation of the respective levy rates, one based on market capitalisation and the other on turnover. We believe the FRC should use the same basis for calculation of the preparers levy, for example by using the turnover or higher of capitalisation and turnover, as the basis for the calculation of the levy for publicly traded companies.

We also have a concern that the current basis may not be equitable for large private entities and public sector organisations given that the potential impact of sharp reductions in the market capitalisation on the levy from public companies may not be fully compensated by the proposed increase in the minimum levy level. The FRC should consider undertaking an analysis on the impact on levies of changes in market capitalisations, if it has not done so already.

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