

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

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Dear Sir

Draft Plan 2009/10, Proposed Updates to the Strategic Framework and 2009/10 Levy Proposals

We write in response to the invitation to comment on the above-named Consultation Paper issued by the Financial Reporting Council in December 2008.

The Paper invites comments across three broad headings – the FRC’s Strategic Framework, the Draft Plan 2009/10 and the Budget and Funding for 2009/10. We comment on each of these areas below in that order but note that we consider our more important comments to be in the second section on the FRC’s planned activities for 2009/10.

1. The Strategic Framework

The major change to the Strategic Framework is to move so-called “related services” from Outcome Five to Outcome Three so that the latter becomes “auditing and related services”. This is then backed up by a reference on page 23 of the Supporting information, charging the standard setting body with the task of playing an influential role in the development of international standards for related services. We believe that a public debate is needed on whether such international codification of related services is required at this time. Evidence needs to be collected on whether there is public demand for such. Increased regulation through standard setting over the last 30 years has placed an enormous cost burden on those who pay for the services. In this codification of steps and processes, the principles associated with the professionalism of accountants may appear of relatively less importance compared to ticking off completion of all the various processes. We therefore prefer that such work is

seen as supporting professionalism rather than a standards generation activity. For this reason we do not support this move at this time.

2. The Draft Plan 2009/10

We disagree with those seven risks, on page 4 of the Paper, which say that the current economic conditions will increase the risk of error or omission or inadequate information and so on in financial statements. In our experience, the current economic conditions create heightened awareness of the need for high quality financial reporting. In this reporting season, more attention than ever is being paid to testing valuation models, cash flow forecasts, providing excellent explanations to users of financial statements on business models and the risks and uncertainties therein, and other aspects of reporting associated with high quality financial reporting. We therefore do not accept the thinking on page 4 of the Paper. We believe that the current economic conditions have tested the adequacy of codes of conduct and reporting practices hitherto and we believe that these have been found wanting in a number of respects. We therefore recommend that the FRC ensures that the following two activities are tackled in 2009/10.

a) Monitoring the effectiveness of the Combined Code

The FRC has consulted regularly on the effectiveness of the Combined Code and the responses thereto have been that no major change is required to the Code. We do not advocate changes to the Code at this time. However, the current economic conditions are highlighting areas in which amendments to the Code may be sought in the medium term. For example, the FSA has recently published a Code of practice on remuneration policies. This was in response to public concerns. While the principles on remuneration in the Code have served well the UK for many years now, we believe that there will be a desire to demonstrate that they are fit for purpose going forward. We therefore recommend that the FRC sets up now a Monitoring Group of market participants to collect evidence over 2009/10 and to consider in due course whether specific amendments to the Code provisions on remuneration should be made.

We are also aware that questions on governance practices regarding internal control, the composition of boards and the role of shareholders are being asked. Similar to our proposal in respect of remuneration, we recommend that the FRC establishes a Monitoring Group for these other areas of the Code. Again, its primary role at the moment would be to collect evidence so that if the FRC decides in due course to consult on changes to the Code, these are based on that evidence. We recommend two groups because of the specialised nature of the remuneration topic.

b) Considering going concern

The current economic conditions have highlighted the area of going concern. We thank the FRC for issuing on a timely basis various documents in November and December 2008 on this topic. These are serving us well in practice at this time. We wrote to the FRC on 27 February 2009 and we shall not repeat herein the points which we have made in that letter. We are aware that the FRC has a group looking at updating the 1994 Guidance for directors of listed companies on the subject of going concern and financial

reporting.

In that submission, we discuss how accounting standards need augmentation to ensure that preparers discuss more fully the factors considered in, and the conclusions reached on, going concern. This will involve seeking an amendment to an international accounting standard and its UK equivalent. We believe this will be an important role for the FRC to ensure that it, together with its appropriate operating bodies, can work together to develop considered proposals which may in due course lead to updating of international standards.

There are three other major activities which we believe should be firmly on the FRC's radar in 2009/10. These are making clear progress on the development of high quality actuarial standards, the effective implementation of the new clarified ISAs and the production of a clear road map for the conversion of UK GAAP with IFRS. On the last point, we note that the IASB is due to publish its IFRS for non publicly accountable entities in mid 2009. UK accounting standards, to which many internationally based standards have been bolted on in recent years, are not serving well preparers and users and are not conducive to allowing that high quality financial reporting results. The aim of convergence with international accounting standards has been on the FRC's agenda as a goal for many years now. We urge the FRC to ensure that progress is made in 2009/10 in achieving this aim.

3. **Budget and Funding for 2009/10**

We wrote to the FRC on 18 August 2008 in response to the invitation to comment on the proposals for future arrangements for funding the FRC's activities. Our concerns remain largely unaddressed. Public sector organisations in particular are not, in our opinion, paying an appropriate share of the FRC's costs.

Page 10 of the Paper sets out the draft budget for 2009/10. It shows the FRC's total costs increasing from £17.9m in 2008/09 to £19.9m for 2009/10. We acknowledge that case costs for the AADB are volatile and thus the proposals for these in 2009/10 are not unreasonable. However, we question the need to increase core operating costs by 7% at a time when salary levels are relatively flat and no major change in staff numbers is projected.

In the past, this consultation has generated a relatively modest number of responses. If the FRC would like to meet with respondents to discuss in more detail their comments, we would be happy to participate. In the meantime, if you would wish further information on the above, please contact Isobel Sharp or Martyn Jones.

Yours faithfully

Deloitte LLP