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Dear Sir

FRC Draft Plan & Budget 2009/10

We welcome the opportunity to comment on your draft plan for 2009/10. From our perspective the FRC continues to perform a vital role, and a clear robust plan is of great importance to the capital markets and profession. We have commented below on the questions posed.

In particular we encourage the FRC to consider:

- including within its major activities and projects the FRC's next steps in relation auditor liability agreements;
- expanding the review of market comment on the use of fair values to cover other areas of IFRS and to influence wider IASB projects based on findings (see comment on outcome two – corporate reporting – challenges in the current climate); and
- balancing the need for regulation alongside the need to make the career path attractive and something for people to aspire to (see comment on outcome three – recruitment and retention of quality staff).

Proposed updates to Strategic Framework

Outcome Three – Auditing – 'Related services'

We note the proposal to add 'related services' to the auditing aspects of the plan. However we note that there are no major activities or proposals in the document in respect to these 'related services' and therefore we do not believe the plan is clear as to the implications for the regulation of such services. We also believe context should be added in the definition of 'related services'; many potential related services are not required by either statute or regulation and therefore do not fall within legislative or regulatory elements of the strategic framework.

We would also highlight that it is important for the FRC to reach an appropriate balance between regulation and over administration for these 'related services'. In setting out any proposals we recommend the FRC consider guidance which already exists in this area.

We would welcome publication for comment of a broad proposal of the FRC's intention in this area.

Major activities and projects

Auditor Liability Agreements

Following the issuance of guidance by the FRC in June 2008 on auditor liability agreements and recent developments in the US which have hampered UK implementation, we believe there should be reference in the 2009/10 activities and projects as to future FRC plans. We believe this issue should be addressed urgently and stand ready to support the FRC and the government in further discussions.

Outcome One – Corporate governance

As discussed below we consider the risk that the Combined Code may lose credibility resulting in reduced confidence in corporate governance to be one of the most significant risks. We note and agree with the proposed plan to monitor emerging events and keep under review the extent to which the Combined Code defines good practice in corporate governance including developments in relation to risk management. However, we also feel in the current economic environment it is important for the FRC proactively to address any perceived weaknesses in the 'comply or explain' model during 2009/10 and seek to influence international corporate governance developments – particularly the promulgation of the 'comply or explain' model across the European Union. There is a danger that perceived weaknesses in the UK corporate governance framework may undermine the success of the EU's approach and fail to shape the debate with US regulators on how best to secure good corporate governance. And this, in turn, may shape the way in which major emerging markets like China and India address the governance issue.

Outcome Two – Corporate reporting – challenges in the current climate

We concur with the activity you have highlighted to review market comment on the use of fair values and influence the IASB projects on measurement and their use. However, we believe these market conditions present challenges to companies which are wider than the use of fair values. We therefore believe that the current economic climate represents an opportunity to seek companies' and users' feedback more widely on the application of IFRSs as a practical tool in testing times. We encourage the FRC to consider expanding the review of market comment to cover recent application of other areas of IFRS, such as: accounting for impairment generally, including specifically the determination of pre and post tax discount rates for goodwill valuations and the usefulness of the related disclosures; re-examining the results of the project

on accounting for and disclosure of post retirement benefits; and examining the guidance on applying the definitions of adjusting and non adjusting post balance sheet events in difficult circumstances, and to influence wider IASB projects based on findings.

We also welcome the IASB approach in the establishment of the IASB/FASB Financial Crisis Advisory Group and encourage the FRC to continue to influence the IASB to act in this way.

Outcome Two – Corporate reporting – influence of IFRS development

We strongly agree with the identified risk that principles-based standards may be undermined by the inappropriate development of IFRS influenced by pressure to achieve the convergence of IFRS and US GAAP. We believe that during such a convergence period it will be important to maintain a balance between the convergence agenda and ongoing IFRS development. This is key to address the risk that the forthcoming degree of change in IFRS may make it an unstable and costly platform which could hinder effective communication with users, shareholders and other stakeholders.

We note that in response to this risk the FRC propose to continue to influence the development of IFRS during a period in which a large number of important standards are likely to be scheduled for agreement. We concur with this approach and believe the FRC's ongoing international influence is a critical part of its role.

We also believe the strength of the IFRS brand is important for the long-term success of IFRSs. An ongoing challenge will be how to protect this brand, in particular from the continuing threat it will face to its strength from local variants arising due to possible changes being made in national adoption or endorsement and also due to time lags between the effective dates of standards and their endorsement for use. We believe that the protection of the IFRS brand should be dealt with through liaison with national standard setters and regulators. To this end we also believe the FRC should proactively focus on how it will influence the development of IFRS after the adoption by forthcoming users, notably the US, and should include this in its 2009/10 activities.

We also recommend the FRC, in its plans for consultation, include the recently established IASB Monitoring Board of public authorities who are likely to be influential in this area.

Outcome Three – Recruitment and retention of quality staff

The plan refers to a potential failure to recruit and retain sufficient numbers of high quality individuals to the accountancy profession. We are aware that increasing auditing standards and regulation are making the profession less attractive, requiring us all to commit more time and resource to recruit and retain the best staff. The FRC's overall goals should include balancing the need for regulation alongside the need to make the career path attractive and something for people to aspire to. For example, regulatory reviews should give equal prominence to good examples of best practice as well as improvement areas.

Outcome Three – Future developments for audits

We agree it is important that the legislative provisions relating to auditing, originating in the UK or in the EU, are effective and proportionate. We concur with the activity you have highlighted to continue to work with the EU and BERR to influence the implementation of the Statutory Audit Directive. We also believe it is important the FRC influence any debate in future developments in relation to audits including the regulation of audits, both in the UK and internationally, and encourage you to continue to do this.

Outcome Three - Efficient market for audit services / concentration of audit market

We continue to support the work of the Market Participants Group in ensuring there is adequate competition in the audit market. We note that the FRC will continue to monitor and implement the recommendations made by the MPG which should reduce the perceived risk of insufficient choice in the audit market place. We continue to believe this process should not draw significantly on the FRC's limited resources.

Outcome Four – Actuarial practice

We acknowledge that the FRC has made some progress in the past year with actuarial matters, but that this remains slow. We concur that it is important to focus on implementing the plan for the transition from existing actuarial technical standards to a new suite of standards including final standards on data, modelling and reporting. However, we also believe it is important that appropriate emphasis is placed, by the FRC, on the development of practice specific standards which support these data, modelling and reporting standards. We ask the FRC to ensure this is included in its activities.

Identification of risks

Outcome One - Corporate governance

In respect of corporate governance we believe that considerable focus will be given by stakeholder groups (including the European Commission and global regulators) to the perceived failures of the 'comply and explain' corporate governance model. Consequently, we believe the risk that the Combined Code may lose credibility resulting in reduced confidence in corporate governance to be one of the most significant risks. We consider this to be a greater risk than the challenges facing boards to provide adequate information regarding governance practices in the current environment.

Outcome Two - Corporate reporting

We agree with the major risks highlighted in respect of corporate reporting. However, we also believe that in the current economic conditions the risk associated with appropriate disclosures with respect to going concern is significant and should be highlighted, particularly given the

guidance issued by the FRC in respect of this matter. We note that the activities to support outcome one (b) include plans to review the implementation of the updated going concern guidance and agree that this is a key project for the FRC in the coming year.

Draft work programme

Outcome Two (b) – Complexity of corporate reporting

As we stated in our response to the 2008/09 plan we strongly agree with your assessment of the risk that information in accounts is overly complex and is in danger of being increasingly less relevant to users. We have witnessed ever expanding annual reports, with additional disclosures/complexity potentially obscuring important messages and driving the increased use of non-GAAP information. We strongly supported the review focused on simplification.

We look forward to reviewing your recommendations with respect to this. We believe the output from this review should aim, inter alia, to provide evidence to assist the FRC in influencing the IASB in reducing out of date or non value-adding disclosures based on a clear framework dealing with disclosure.

Outcome Two (d) – International enforcement process

We concur with the activity to influence the development of international enforcement practices through active involvement in EECS, established under CESR. We believe that as the SEC and other regulators become increasingly involved in interpreting IFRS for enforcement purposes this role and its importance increases. We recommend the FRC intensify its activity in this area to ensure that the international coordination of regulatory enforcements is carried out in a manner which the UK financial reporting community would welcome.

Comments on proposed budget

Whilst we acknowledge our industry must maintain effective regulation and in times of economic turbulence the FRC performs an increasingly important role we have concerns over the anticipated 11% increase in the 2009/10 budgeted expenditure (£19.9m), compared to the 2008/9 forecast (£17.9m). We are concerned that this increase occurs at a time where there is a focus on cost reduction and restraint across all aspects of the economy, including our audit practice. Accordingly we would expect a lower budgeted increase focused on external project delivery and gaining efficiencies.

Overall, we hope that our comments are helpful in finalising your budget and strategy for the coming year. We are always keen to work closely with the FRC on ensuring the best possible direction and focus in the future.

Yours faithfully



PP Oliver Tant
Partner, UK Head of Audit