



## **FRC MAJOR PROJECTS AND ACTIVITIES IN 2006 / 07 - SUPPLEMENTARY REPORT**

This report is intended to provide further details to supplement the overall account of our work in the FRC Annual Report 2006/07. It summarises the actions taken in relation to the major activities and projects set out in the Plan & Budget 2006/07 – Revised, published in May 2006. Our website at [www.frc.org.uk](http://www.frc.org.uk) includes all of the FRC’s announcements and publications during the course of the year.

### **Objective 1 - Promote high quality corporate reporting**

#### **(a) Promoting the development of high quality international accounting standards**

- Continued to monitor the IASB and US FASB joint project to develop a conceptual framework for financial reporting, as well as all projects on the convergence agenda. Responded to all IASB consultation documents.
- Continued to exert influence internationally, including chairing two meeting of National Standard-Setters from around the world which, among others things, discussed a number of major issues on the IASB’s agenda.
- Contributed to IASB projects to develop accounting standards and the principles to guide future standards, including (i) a project on accounting for leases and related contractual arrangements, on which the IASB is planning to publish a Discussion Paper in 2008; and (ii) a research project on management commentary, where an IASB agenda proposal is scheduled for discussion in December 2007.
- Continued to play an active role in EFRAG, which advises the European Commission on the adoption of IFRS, contributes to the work of the IASB, and undertakes projects under the initiative Pro-active Accounting Activities in Europe (PAAinE). Participated in all PAAinE projects and responded to all EFRAG consultations.
- Engaged UK and Irish constituents on major topics on the accounting standard-setting agenda, including hosting (either singly or jointly with other partners) five public meetings on: measurement, convergence (jointly with ICAI in Ireland), conceptual framework, leases (jointly with the Finance and Leasing Association), and the IASB’s Exposure Draft of an IFRS for SMEs and future of UK GAAP (jointly with ICAS).
- Continued work on the ASB research project into the financial reporting of pensions, with the aim of publishing a full Discussion Paper later in 2007.
- Completed a project on pensions disclosures, with the publication in December 2006 of an amendment to FRS 17 to align the disclosures with the equivalent international standard (IAS 19) and in January 2007 of a Reporting Statement of best practice on pensions disclosures.



**(b) Maintaining a high quality regime for UK accounting standards, including appropriate convergence with international standards**

- Published in November 2006 an analysis of responses to ASB proposals for a workable strategy for convergence between UK accounting standards and full IFRS (or equivalent IASB's IFRS for SMEs). There were forty-three responses, which can be viewed on the ASB pages of the FRC website. The ASB agreed to defer any final decisions on convergence until a clearer understanding of the outcome of the IASB project on an IFRS for Small and Medium-sized Entities (SMEs) is reached.
- In January 2007 issued a revised version of the Financial Reporting Standard for Smaller Entities (FRSSE), including a major simplification in terms of share-based payment where a disclosure-only approach is required for equity-settled transactions.
- In April 2006 issued an amendment to FRS 26 'Financial Instruments – Measurement' to align with equivalent international requirements on recognition and de-recognition.
- In December 2006 issued an Exposure Draft of a proposed standard 'Accounting for Heritage Assets'.
- Issued further exposure drafts on (i) an amendment to FRS 25 'Financial Instruments – Presentation' on the liability/equity classification; (ii) an amendment to FRS 3 'Reporting Financial Performance to clarify the treatment of certain gains and losses; and (iii) a Statement 'Half-Yearly Financial Reports' in the light of the EU Transparency Directive and its UK implementation.
- Agreed revisions to two Statements of Recommended Practice (SORPs) and Exposure Drafts of three SORPs to reflect developments in financial reporting.
- Undertook an initial review of the future role of the Urgent Issues Task Force (UITF).
- The UITF issued five Abstracts during the year.
- Continued to work with the FSA in order to effect the implementation of the Transparency Directive in the UK.

**(c) Promoting improved reporting in information accompanying financial statements, including through narrative reports**

- Published in January 2007 a report on a review of narrative reporting by UK listed companies in 2006, in order to maintain the focus on narrative reporting and on the importance of encouraging continuing improvement in this area.
- Published in January 2007 a Reporting Statement 'Retirement Benefits – Disclosures', setting out best practice for companies to consider when preparing disclosures on defined benefit schemes, which is designed in particular to help users of accounts understand the way pension liabilities are calculated.



**(d) Monitoring the preparation of corporate reports to ensure that they comply with the relevant legal requirements and standards and give a true and fair view, taking enforcement action where it is appropriate to do so**

- Made progress on drafting a revised statement on 'true and fair', with a view to updating our statement published in August 2005 to take account of recent developments, including the Companies Act 2006. We informally consulted a number of accounting experts and commissioned an opinion from leading counsel. We are reflecting on their comments and intend to publish a further statement during 2007.
- Carried out 312 reviews of accounts in 2006/07, including interim accounts and annual accounts of overseas issuers. 20 sets of accounts were also subject to restricted review in respect of their pensions disclosures.
- Conducted a review of defined benefit pension disclosures by companies reporting under IFRS and UK GAAP.
- Published a detailed report on the results of FRRP reviews for the 2005/06 financial year which were prepared in accordance with UK GAAP.

**Objective 2 - Promote high quality auditing**

**(a) Promoting the development of high quality international standards on auditing**

- Contributed to the IAASB's "Clarity" project, which is intended to improve international auditing standards, on which the APB's UK standards are based. APB work involved discussion of key issues, pre-exposure and direct support on some of the individual projects. The Clarity project is not planned to be completed until 2008 and will continue to be a priority in 2007/08.
- Commented on exposure drafts of several proposed international standards on auditing. During the period responses were submitted on eight ISAs (ISA 230, 260, 320, 560, 550, 600, 610, 720).

**(b) Maintaining a high quality regulatory regime for auditing in the UK, including appropriate technical and ethical standards, effective supervision by the recognised professional bodies and an effective market for audit services**

- Developed and issued for public consultation "*Promoting Audit Quality*", a paper on a framework of the key drivers of audit quality.
- Considered the appropriate policy response to the research into concentration and competition within the audit market. Took forward the project on *Choice in the UK audit market*. The continuation of this project will be a major feature of our work in 2007/08.
- Monitored the passage through Parliament of the Companies Bill, and prepared for its implementation.



- Prepared for the implementation of the 8th European Company Law Directive:
  - Worked with the DTI to establish and action secondary legislative requirements for the effective implementation of our delegated powers - including requirements for transparency reports under Article 38, and requirements for the audit register, including for non-Member State auditors.
  - Started to develop procedures for the registration and regulation of non-Member State auditors of non-Member State Companies.
  - Participated in arrangements for the co-ordination of the regulation of audit and the oversight of the auditing profession in the EU.
- Promoted arrangements for international co-operation and co-ordination between independent audit regulatory authorities across the world.
- Carried out a full programme of monitoring visits to those accountancy bodies that offer a recognised UK audit qualification, or are recognised to supervise UK auditors. This involves updating documentation of each body's regulatory systems, testing compliance through monitoring visits, making recommendations, and followed up on the reserves to previous recommendations.
- Updated industry-specific auditing Practice Notes to take account of the implementation of ISAs (UK and Ireland), including those on pension schemes, banks and building societies, insurers, investment businesses and friendly societies.

**(c) Monitoring the quality of the auditing function in relation to listed companies and any other entity in whose financial condition there is a major public interest**

- Undertook inspection visits to the 9 largest audit firms to review firm-wide procedures and specific audits, and issue recommendations to improve audit quality.
- Expanded the coverage of audit inspections in 2006/07 to complete the implementation of independent audit inspection as envisaged in the DTI Review of the Regulatory Regime of the Accountancy Profession published in January 2003.
- Reviewed a selection of specific audits of public interest entities, including for the first time, entities not audited by the 9 largest audit firms, and issued recommendations to improve audit quality. The expansion of the coverage of audit inspections in 2006/07 completed the implementation of independent audit inspection as envisaged in the DTI Review of the Regulatory Regime of the Accountancy Profession published in January 2003.
- Published an annual review of findings from our independent monitoring regime.
- Led inspections together with the US Public Company Accounting Oversight Board at two of the "Big 4" UK audit firms, helping to pave the way for arrangements under which the UK (and the EU as a whole) and the US are able to place reliance on one another's regulatory arrangements in the future.
- Initiated a debate with stakeholders on the way in which AIU findings on audit firms are reported, with a view to seeing if more information on individual firms could be made available publicly and whether information on individual audits reviewed might be made available by the auditors to the company's directors.



### **Objective 3 - Promote high quality actuarial practice**

#### **(a) Developing an appropriate conceptual framework to guide standards, including the explicit objectives and characteristics of actuarial technical standards**

- Began work to develop a conceptual framework of the concepts and principles underlying actuarial work. Formed three working groups, which have been considering the issues of, respectively, value, risk and stakeholders' interests.
- Published a paper in April 2007 with a preliminary indication of the issues which the conceptual framework might contain, with the aim of following this up in the autumn of 2007 with a full discussion paper setting out the issues on which the BAS will be inviting views.
- Commissioned research with pension scheme trustees and non-executive directors of insurance companies to help understand their experience and needs when dealing with the actuarial profession. Established the Stakeholder Interests Working Group, which comprises those familiar with taking decisions based on actuarial input (such as pension trustees and representatives of the insurance world) as well as people with a particular concern with the "end-user" - the beneficiaries (such as policy holders or pension scheme members) and the public interest (journalists and consumer advocates).
- Established liaison arrangements, with the Actuarial Profession and some of its related bodies and societies, and with regulators, government departments, academic and research bodies, etc. This has been achieved through a mixture of regular meetings and more ad hoc arrangements to address specific issues as they arise.

#### **(b) Issuing new actuarial technical standards, or amending existing ones, providing, where appropriate, practical guidance on the application of standards**

- Responded to the Government review of transfer values.
- Amended the majority of life insurance notes to align them with changes to the FSA Rulebook.

#### **(c) Promoting a framework for effective scrutiny and monitoring of the quality of actuarial work, including compliance with actuarial standards in the UK**

- Signed an MoU with the Actuarial Profession in May 2006, setting out the respective responsibilities for actuarial regulation, including a commitment on the part of the Actuarial Profession to publicise BAS standards and to require actuaries to observe them. Arrangements for communications between the Actuarial Profession and the FRC were agreed in October 2006.
- In May 2006 the BAS adopted all existing Actuarial Profession Guidance Notes (GNs) of a technical nature. Some of these GNs were referred to directly in legislation and were not finally adopted until April 2007 when appropriate amending legislation became effective.
- Established liaison arrangements with the FSA and the Pensions Regulator.



- Formed a Quadrilateral Group with the Actuarial Profession and statutory regulators to liaise over monitoring and scrutiny.
- Developed a high level understanding and description of monitoring systems in conjunction with the Quadrilateral Group described above.
- Made preparations for a review of the effectiveness of monitoring systems in 2008/09.

#### **Objective 4 – Promote high standards of corporate governance**

##### **(a) Promoting high standards of corporate governance in the UK based on the “comply or explain” approach, maintaining an effective Combined Code on Corporate Governance, and related guidance, and promoting its widespread application**

- Published in June 2006 an updated version of the Combined Code on Corporate Governance, which applies to financial years beginning 1 November 2006. A small number of changes were made to the previous version of the Combined Code, which was published in 2003. These enable the company chair to sit on the remuneration committee if considered independent on appointment; provide shareholders voting by proxy with the option of withholding their vote on a resolution; and encourage companies to publish the details of proxies lodged on resolutions where votes are taken on a show of hands. These amendments received strong support in a public consultation exercise held earlier in 2006.
- Held meetings with over 100 Chairs of listed companies and senior investors to hear their views on the impact of the Combined Code.
- Published in November 2006 “*The UK Approach to Corporate Governance*”, a summary of key aspects of corporate governance in the UK.
- Worked with the DTI to implement EU requirements on audit committees and corporate governance statements in a manner consistent with the existing UK framework.
- Supported the Pre-emption Group in producing, promoting and monitoring the application of revised Pre-emption Guidelines published in May 2006.

##### **(b) Promoting a non-prescriptive EU approach to corporate governance that shares good practice and promotes the development of effective national regimes**

- Supported the DTI in responding to the European Commission’s Company Law Action Plan. The focus of our input was to ensure the preservation of the essential features of the UK’s approach to corporate governance, including “comply or explain”.
- Took the lead in establishing an informal network of bodies responsible for corporate governance codes in other countries to share experience and best practice.



## **Objective 5 – Promote the integrity, competence and transparency of the accountancy and actuarial professions**

### **(a) Overseeing the way in which the accountancy professional bodies exercise their regulatory responsibilities in relation to their members**

- Published our Annual Report on 'Key Trends' in the accounting profession in December 2006.
- Reviewed progress on implementing recommendations following projects on training and education of accountants, and the accountancy and auditing needs of small and medium sized enterprises with a view to publishing a subsequent report summarising progress against all recommendations made by the POB.

### **(b) Overseeing the way in which the Actuarial Profession exercises its regulatory responsibilities in relation to its members**

- Published a report in December 2006 evaluating the Actuarial Profession's progress in implementing the Morris recommendations.
- Developed a broad understanding of the Profession's regulatory systems and set out a general oversight methodology and priorities.
- Assessed the availability of public information about facts and trends in the actuarial profession.

### **(c) Operating an independent investigation and discipline scheme for matters which raise or appear to raise important issues affecting the public interest**

- The AIDB considered 18 potential matters and monitored a number of other potential cases, which came to its attention from a variety of sources.
- The AIDB appointed its first independent disciplinary tribunal to hear disciplinary complaints arising out of the collapse of the Mayflower Corporation plc. The case was completed in January 2007.
- Commissioned a review of the AIDB Scheme to ensure that the disciplinary process operates in a fair, transparent and efficient manner, consistent with the principles of good regulation. A number of recommendations have been or are being implemented.
- Worked closely with the Actuarial Profession to agree the draft Scheme and detailed Regulations that would underpin the inclusion of the Profession in the discipline scheme later in 2007.

### **(d) Establishing standards and related guidance for accountants providing assurance services**

- Published ethical standards for reporting accountants in October 2006.



## **Objective 6 – Promote our effectiveness as a unified independent regulator**

### **(a) Meeting the principles of good regulation and ensuring that we are transparent and accountable and demonstrate our effectiveness**

- Published our Annual Report for 2005/06, which included an assessment of our performance in implementing our published Plan & Budget 2005/06 and the way in which we sought to meet the principles of good regulation.
- Published for comment in December 2006 a draft Strategic Framework which set out the outcomes and other elements which we believe contribute to our overall aim of promoting confidence in corporate reporting and governance. In April 2007 we published the final version of the Framework, which takes into account comments received.
- Published for comment, also in December, our draft Plan for 2007/08. In April 2007 we published the final version of the Plan which is based on the outcomes set out in the Strategic Framework.
- Published up-to-date information on our work on our website.

### **(b) Ensuring that we are recognised in the UK and internationally as a credible, authoritative and influential organisation**

- Played a leading role in the establishment of IFIAR. In September 2006, 18 independent audit regulatory organisations from around the world took the decision to establish IFIAR - to share knowledge of the audit market environment and practical experience of independent audit regulatory activity; to promote collaboration in regulatory activity; and to provide a focus for contacts with other international organisations which have an interest in audit quality. The Chief Executive of the FRC was appointed as IFIAR's first Vice-Chair.
- In April 2007 signed a protocol with the SEC and FSA for implementing the Work Plan between the SEC and the Committee of European Securities Regulators as it relates to sharing information on the application of IFRS by issuers listed in the UK and the US.
- Published regular "Strategic Progress and Planning reports" throughout the year. Proposals for holding a corporate reporting and governance conference were reviewed in 2006 and a decision was taken to defer this event until the completion of the FRC structure review and Strategic Framework.
- Worked with the DTI and HM Treasury to ensure that a statutory gateway was put in place between the FRC and the Pensions Regulator (established in December 2006) and an expanded gateway with the FSA (established in January 2007).
- Reviewed our relevance to the public sector.



**(c) Ensuring that we have adequate resources and management processes**

- Continued to develop our people management and development processes to improve our ability to attract, retain and motivate the people required to meet our objectives.
- Developed our IT systems to improve our effectiveness and efficiency in relation to risk management and document management.
- Developed and tested our Business Continuity Plan for dealing with incidents which could disrupt our normal operations.
- Reviewed the effectiveness of our arrangements for identifying and responding to risks to confidence in corporate reporting and governance in UK.