



Cost-Effectiveness of FRC Regulation

The ABI's Response the FRC's Discussion Paper on cost effectiveness

Introduction

1. The ABI welcomes the opportunity to respond to this discussion paper. ABI members are large institutional investors controlling funds worth some £1.3 trillion, including holdings equivalent to around one-fifth of the UK market. Our members are responsible for investing a large proportion of the savings of the UK public, including providing their pensions, and many are also large publicly listed entities. As a result, ABI members have a strong interest in the quality of financial reporting and its cost-effectiveness.
2. In the ABI's view, the overarching purpose objective of corporate reporting should be to provide high quality and clear information on companies to its current and potential investors, thereby helping to create an efficient capital market. We therefore fully support the FRC's aims of proportionality, accountability, consistency, transparency and targeting. We consider that the FRC generally fulfils these aims in an exemplary manner. We would emphasise that, although a reduction in the cost of regulation is to be welcomed where achievable, any reduction must not be at the cost of the quality of reporting and governance.
3. We fully recognise that many of the regulatory requirements placed on companies, their advisers and auditors are due to European or international requirements. In some cases the UK's requirements go beyond what is required at an international level. This has been characterised by some as gold-plating and there have been calls for the UK to align itself with European or international standards. However, although we are supportive of harmonisation where appropriate, we believe the first question to address is what represents the right approach for the UK rather than how to maximise alignment with practice in other jurisdictions. We strongly believe that regulatory burden should be proportional. Excessive burdens should be avoided, but the overarching objective should be quality. A lowering of UK standards simply to align them with international ones is not an objective we can support.

Specific comments on the Consultation Questions

- 1. Do you have any comments on our approach to improving the cost-effectiveness of FRC regulation whilst preserving confidence in corporate reporting and governance?**

We consider that the FRC has so far approached cost-effectiveness of regulation in an appropriate manner. The FRC should continue to maintain a watching brief, and review its approach and any changes proposed to ensure that they are consistent with the core aims.

- 2. Do you agree that the actions we have already implemented to improve the cost-effectiveness of FRC regulation have been helpful? Are there any aspects of those actions which are particularly relevant to the development of further proposals?**

The FRC's actions to increase cost-effectiveness have in the main been helpful and well directed. In relation to specific actions, although we agree that it is helpful to review the Combined Code from time to time, we believe that decisions to undertake reviews should be prompted by a belief that there are matters that it would be timely to reconsider. A responsive approach of this kind will help ensure that the Code continues to evolve and that large-scale high impact but infrequent overhauls may prove unnecessary. We would therefore recommend that, following the promulgation of the latest iteration in July 2008, the amended Code should be allowed sufficient time to bed in and then future reviews should take place when there are material issues to consider.

- 3. Do you agree that the further proposals we have identified can potentially further improve the cost effectiveness of those aspects of the regulatory regime for which the FRC is responsible whilst preserving confidence in corporate reporting and governance?**

The ABI has no objections to the identified areas for potential further improvement in relation to cost-effectiveness. However, we would again emphasise that any reduction in costs should not result in an unwelcome reduction in the quality of reporting.

- 4. Are there any additional aspects of FRC regulation where you believe there are opportunities to improve the cost-effectiveness of those aspects of the regulatory regime for which the FRC is responsible?**

No, we have no particular suggestions to make.

5. Do you have any comments from the perspective of smaller enterprises subject to FRC regulatory requirements?

We fully recognise the requirement to balance the need for appropriate regulatory requirements on smaller entities with the avoidance of undue costs. We believe that the principles of good reporting and governance can and should be applied to smaller entities in a non-burdensome manner. We are, as a point of principle, against the existence of carve-outs for smaller entities as this can in itself create problems and unnecessary complexity. Similarly we believe that the principles hold for all quoted companies covered by the FRC and are not related solely to the size of the entity.

We also believe that it is responsibility of those parties with a vested interest in the work of the FRC to try to facilitate better market practice as a way to make the FRC's work more effective. We would point to the work the ABI has undertaken with the Quoted Companies Alliance on engagement between smaller companies and investors as an example of this.

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