



FINANCIAL REPORTING COUNCIL

**QUARTERLY STRATEGIC
PROGRESS & PLANNING REPORT**

JANUARY 2009

INTRODUCTION

This report provides a summary of progress on the major activities and projects in our Plan for 2008/09. It covers developments in the last quarter (October – December 2008) and identifies, as far as possible, expected developments in the next quarter (January – March 2009). A summary of consultations being conducted as part of the major activities and projects is contained in Annex A.

Our annual plans are based on our Strategic Framework, which sets out the outcomes that we believe contribute to confidence in corporate governance and reporting. This is available on our website at: www.frc.org.uk.

The key themes for our work as set out in our Plan for 2008/09 are as follows:

- Lead public debate in the UK on the major issues affecting confidence in corporate reporting and governance.
- Monitor corporate reporting and governance practices in the UK and take enforcement action where appropriate.
- Increase our participation in the development of international standards and co-operation with international regulatory organisations.
- Contribute to modifying the UK regulatory regime to take account of changes in European and UK legislation.

The work we undertake in pursuit of our strategic outcomes is performed primarily by our six Operating Bodies and by the FRC Board. Our Operating Bodies are the:

Accounting Standards Board (ASB)
Auditing Practices Board (APB)
Board for Actuarial Standards (BAS)
Financial Reporting Review Panel (FRRP)
Professional Oversight Board (POB)
Accountancy and Actuarial Discipline Board (AADB).

The FRC Board and the Operating Bodies are supported by the FRC's professional staff (the "Executive").

We hope that you will find this report helpful and would welcome your comments on it and any other aspect of our work. Comments should be sent to the Policy and Planning Manager, FRC, 5th Floor, Aldwych House, 71-91 Aldwych, London WC2B 4HN. Email: planning@frc.org.uk

Strategic Outcome One: Corporate Governance

UK companies with a primary listing in the UK are led in a way which facilitates entrepreneurial success and the management of risk.

MAJOR RISKS	MAJOR ACTIVITIES & PROJECTS	<i>Last quarter: October 2008 – December 2008</i> <i>Next quarter: January 2009 – March 2009</i>
Published in 2008 / 09 Plan (April 2008)		
No major risks where primary responsibility for mitigating action lay with the FRC were identified in the 2008/09 Plan & Budget.	No major activities and projects were identified in the 2008/09 Plan & Budget in relation to this Outcome.	No major activities or projects to report.

Strategic Outcome Two: Corporate Reporting

Corporate reports contain information which is relevant, reliable, understandable and comparable, and are useful for decision-making, including stewardship decisions.

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The EU might adopt standards that prohibit UK companies from complying with IFRS as published by the IASB thus making their financial reports not comparable with their peers and increase their cost of capital.	Influence the continued appropriate adoption of IFRS by the EU. <i>Outcome: 2.a.i</i>	<p>Last quarter: On 24 October the FRC issued a Statement on the Development of Accounting Standards in which it stated the importance of retaining responsibility for the setting of accounting standards with the relevant standard setters. On 12 November, an ASB co-ordinated letter, signed by UK constituents representing a range of interests, was published in the Financial Times, stressing the importance of the EU not adopting its own version of IFRS. In November, the ASB and the German Accounting Standards Board (GASB) agreed to take forward a joint project on accounting for tax, which will also form part of the PAAinE initiative.</p> <p>The ASB continued to play an active role in EFRAG. This was achieved through:</p> <ul style="list-style-type: none"> • Responding to six draft comment letters/Invitations to Comment. • Attending the October and November meetings of the Technical Experts Group (TEG), and the October meetings of the Consultative Forum of Standard-Setters (CFSS) and Pro-active Accounting Activities in Europe (PAAinE) Coordinators group. • Participating in EFRAG's twice-yearly convergence discussions with the IASB in October. <p>The FRC submitted written and oral evidence on international accounting standards to the Treasury Select Committee.</p> <p>Next quarter: The ASB will continue to assess and respond to all EFRAG draft comment letters and Invitations to Comment. The ASB will continue to play its active role in EFRAG, including attending TEG meetings, the Consultative Forum of Standard-Setters (CFSS), and the PAAinE Coordinators group. Work on the accounting for tax project will continue. The ASB will also be working with EFRAG in the implementation of that body's proposals to strengthen the European voice in seeking to influence the development of IFRS and to negotiate a Memorandum of Understanding (MoU).</p>

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The cumulative impact of legal and accounting requirements could result in the provision of information by companies in a form that is overly complex and not sufficiently useful and relevant to users.	<p>Review the complexity and relevance of the requirements relating to corporate reports and identify opportunities to improve them.</p> <p><i>Outcome: 2.a.i</i></p>	<p>Last quarter: The project team continued to undertake detailed research with constituents on the causes of complexity in corporate reporting. The Complexity Advisory Panel met in October and November to discuss the major issues arising from the FRC's work.</p> <p>Next quarter: The Complexity Advisory Panel plans to discuss a draft version of the consultation paper at its next meeting, which will be scheduled for early 2009. The consultation paper is due to be issued in the April-June quarter.</p>
IFRS develop in ways that do not contribute to their usefulness for preparers and users of accounts.	<p>Influence the development of IFRS.</p> <p><i>Outcome: 2.a.ii</i></p>	<p>Last quarter: The ASB continued to monitor all projects on the IASB's work programme. During the quarter the ASB agreed responses to four IASB and IFRIC proposals:</p> <ul style="list-style-type: none"> • Conceptual Framework: Objectives and Qualitative Characteristics Exposure Draft (ED) • Annual Improvements (ED) • Simplifying EPS (ED) • Financial Instruments Disclosures Improvements (ED) <p>Next quarter: The ASB will continue to assess and respond to all IASB and IFRIC consultations, including EDs on Amendments to IFRS 5 and First-time Adoption of IFRS. It will continue to look for opportunities to promote the merits of reassessing the advantages of further convergence between IFRS and US GAAP.</p>
Convergence between UK GAAP and IFRS does not reflect the needs of UK companies, including smaller companies.	<p>Determine the appropriate degree of convergence between UK GAAP and international standards, taking into account both the potential benefits and costs of convergence to UK preparers and users.</p> <p><i>Outcome: 2.a.iv</i></p>	<p>Last quarter: The strategy remained under consideration. The ASB continued to keep those UK standards which are converged with their IFRS equivalent up to date. In the period the ASB issued an amendment to Financial Reporting Standard (FRS) 26 (IAS 39) 'Financial Instruments: Recognition and Measurement' and FRS 29 (IFRS 7) 'Financial Instruments: Disclosures' that would permit the reclassification of certain financial instruments. The ASB also issued (i) a further amendment to FRS 26 in relation to Eligible Hedged items; (ii) an ED on Amendments to FRS 29 on improving financial instruments; and (iii) an 'Improvements to FRS' standard.</p> <p>Next quarter: The ASB will continue to work to ensure that UK converged standards remain in line with their IFRS equivalents, responding to circumstances arising from the current credit crisis as appropriate.</p>

Strategic Outcome Two: Corporate Reporting

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<p>Corporate reports do not contain adequate disclosures relating to financial arrangements and uncertainties in the light of credit market conditions at the time of approval of financial statements.</p>	<p>Review a selection of annual and interim accounts and directors' reports.</p> <p><i>Outcome: 2.c.i</i></p> <p>Issue an update to directors and a separate update to audit committees on the challenges arising from economic conditions when preparing corporate reports, including reporting on going concern and liquidity risk.</p> <p><i>Outcome: 2.a.ii and 2.a.v</i> (Note: Not published in Plan 08/09 but issued in response to market developments).</p>	<p>Last quarter: The Panel published its activity report and comments on the challenges to corporate reporting arising from current conditions in financial markets. The report trailed a review by the FRC on goodwill impairment disclosures, which was published on 23 October.</p> <p>On 30 October, following a risk-based assessment and discussion with the FSA and the FRC's Standing Advisory Group, the FRRP announced its priority sectors for 2009/10. The Panel's current monitoring activity is biased towards the following industry sectors: banking, retail, travel and leisure, commercial property and house builders.</p> <p>The Panel announced that it will continue to review accounts from companies in these industries in 2009/10 and, in view of the deteriorating economy, will extend its selection to include other entities which derive significant revenue from the provision of services such as advertising, media, recruitment and technology.</p> <p>In response to tougher economic conditions, the FRC published three documents to assist boards, audit committees and finance teams to consider the heightened risks associated with these conditions:</p> <ul style="list-style-type: none"> • Challenges for Audit Committees arising from current market conditions • An update for Directors of Listed Companies: Going Concern and Liquidity Risk; and • Study: Going Concern and Liquidity Risk Disclosures. <p>The Panel continued to review a selection of annual and interim accounts and directors' reports.</p> <p>On 22 December, the Panel announced that it intended to review impairment disclosures in 2008 accounts and will notify a number of listed companies in advance that their accounts will be subject to review in this respect.</p> <p>Next quarter: The Panel will continue to review a selection of annual and interim accounts and directors' reports.</p>

Strategic Outcome Three: Auditing

Users of audit reports can place a high degree of reliance on the audit opinion, including whether financial statements show a true and fair view.

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The Statutory Audit Directive provisions relating to foreign auditors prove difficult to apply effectively.	Work with the EU and BERR to influence the development and implementation of legislative provisions - including the implementation of the EU Directive on Statutory Audit, with a particular focus on the provisions relating to foreign auditors. <i>Outcome: 3.a.i</i>	Last quarter: On 6 November, the POB published the detailed requirements to give practical effect in the UK to European requirements for the regulation of auditors of companies from outside Europe that have issued securities on regulated markets within the EU. The UK forms and guidance reflect points made in response to the UK consultation carried out between May and July this year. Next quarter: The POB will keep under review the application of the new requirements and will continue to work with other EU regulators to give practical effect to the European requirements in a proportionate manner.
The new “Clarity” ISAs develop in ways which are not principles-based and do not promote the importance of professional judgement.	Contribute to IAASB’s project to revise and clarify ISAs and work positively towards their adoption in the EU. <i>Outcome: 3.a.ii</i>	Last quarter: On 23 October, the APB issued a consultation paper on whether UK and Irish auditing standards should be updated for new international auditing standards that will be issued in early 2009. Next quarter: The APB will consider the responses to the consultation paper.
The current high level of concentration in the audit market results in significant uncertainty and cost in the event of one or more of the Big Four firms leaving the market.	Monitor and implement, where appropriate, the recommendations made by the Market Participants Group, which aim to enhance the efficiency of the audit markets and to mitigate the risks associated with a major firm leaving the market. <i>Outcome: 3.b.iv</i>	Last quarter: On 15 October, the FRC published updated Guidance on Audit Committees. The revised guidance encourages audit committees to consider the risks associated with their external auditor leaving the market and to disclose more information about the process by which the auditor was selected in the company’s annual report, and provides guidance on the factors to be considered if a group is considering engaging firms from more than one network to work on the audit. On 24 November, the FRC published its second Progress Report on the implementation of the MPG recommendations, the feedback to the consultation contained in the first Progress Report and other relevant developments. Next quarter: The FRC will continue to monitor progress on the implementation of the MPG recommendations and in particular responses to the ICAEW exposure draft of the Combined Code style Best Practice Guide for auditors of public interest entities and the exposure draft by the CCAB of a draft Voluntary Code of Practice on Governance Disclosure of Audit Profitability.

Strategic Outcome Three: Auditing

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<p>Auditors may not adequately address the risks arising from credit market conditions.</p>	<p>Monitor and report on the quality of audits of listed and other major public interest entities through a programme of inspections designed to assess both compliance with the requirements of UK regulation and the quality of audit judgements.</p> <p><i>Outcome: 3.c.ii</i></p>	<p>Last quarter: On 8 December, the POB published reports on the Audit Inspection Unit’s (AIU) inspections for 2007/08 of the following seven audit firms: BDO Stoy Hayward LLP, Deloitte & Touche LLP, Ernst & Young LLP, Grant Thornton UK LLP, KPMG LLP and KPMG Audit PLC, PKF (UK) LLP and PricewaterhouseCoopers LLP.</p> <p>The 2008/09 inspection visits at all the Big 4 firms continued.</p> <p>Next quarter: Inspection visits will continue in 2009.</p>

Strategic Outcome Four: Actuarial Practice

Users of actuarial information can place a high degree of reliance on its relevance, transparency of assumptions, completeness and comprehensibility.

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Failure to reach agreement on a satisfactory conceptual framework for actuarial technical standards.	Finalise the Conceptual Framework and Scope & Authority for actuarial technical standards. <i>Outcome: 4.a.ii</i>	This project is now substantially complete. No major activity took place during the last quarter and none is planned for the next quarter.
Actuarial technical standards in key areas fail to reflect the changing legislative and regulatory environment.	Review existing standards and implement a plan for the transition from existing actuarial technical standards to a new book of actuarial standards based on the principles included in the Exposure Draft published for comment in March 2008. <i>Outcome: 4.a.iii</i>	Last quarter: The BAS published a consultation paper on Modelling, and a feedback paper on Actuarial mortality assumptions. It confirmed that it does not intend to publish a separate standard on mortality. The BAS withdrew a number of the Guidance Notes that it had adopted from the Actuarial Profession, as they had been determined to be obsolete or out of its scope. It started work on consultation papers on Long Term Insurance Business, General Insurance and Pensions. Next quarter: The BAS will publish a feedback paper on the exposure draft of its TAS on reporting, including a plan for the development of the final TAS. It will continue working on consultation papers on Long Term Insurance Business, General Insurance and Pensions.
The Morris Review identified a number of shortcomings in the previous arrangements for scrutinising the quality of actuarial advice. The FRC is currently working with the other bodies to assess the adequacy of the arrangements.	Publish and follow up the FRC's review of the effectiveness of monitoring and scrutiny of actuarial work by making recommendations to the actuarial profession based on consultation responses. <i>Outcome: 4.c.ii</i>	Last quarter: The FRC analysed the responses to discussion papers on the drivers of actuarial quality and monitoring and scrutiny of actuarial work which closed on 30 September. Next quarter: Feedback statements including recommendations on the drivers of actuarial quality and the monitoring and scrutiny of actuarial work will be published.

Strategic Outcome Five: Professionalism of accountants and actuaries

Clients and employers of professionally qualified accountants and actuaries and of accountancy and actuarial firms can rely on them to act with integrity and competence, having regard to the public interest.

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Published in 2008 / 09 Plan (April 2008)		
The effectiveness of the AADB could be reduced by legal challenges or costs awards.	Implement, as appropriate, any agreed changes to the independent disciplinary arrangements to deal with public interest cases involving accountancy firms or actuaries. <i>Outcome: 5.c.ii</i>	Last quarter: The AADB continued its discussions with the CCAB and made considerable progress in finalising the draft Accountancy Scheme which will then be submitted for formal approval. Next quarter: The AADB will publish the outcome of its Accountancy Scheme Review and consultation, including details of its final proposals and a full draft of the revised Accountancy Scheme. It will continue its preparations for implementing the revised scheme.

Strategic Outcome Six: FRC Effectiveness

The FRC is an effective and independent regulator, actively helping to shape UK, EU and international approaches to corporate reporting and governance.

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Aspects of FRC regulation impose disproportionate costs on regulated entities.	Implement agreed actions to improve cost-effectiveness of FRC regulation whilst preserving confidence in corporate reporting and governance. <i>Outcome: 6.a.i</i>	Last quarter: On 3 December, the FRC published a feedback statement on its cost-effectiveness consultation noting that it had implemented measures to address some of the issues which were raised: <ul style="list-style-type: none"> • an updated policy for publishing consultation responses on our website • publishing an overview of all current consultations on the website • providing training for FRC staff on best practice in preparing impact assessments <p>The responses to the consultation also helped the FRC to further develop its planning process.</p> Next quarter: The FRC will continue to implement the actions identified as a result of the cost-effectiveness consultation. It will continue its dialogue with stakeholders about ways to improve the cost effectiveness of FRC regulation whilst preserving confidence in corporate reporting and governance.
At Government request, we consulted market participants on the options for new funding arrangements. There is a risk that the proposed arrangements fail to command adequate support.	In response to the Government's request, complete the consultation regarding funding the FRC's core operating activities in relation to accounting, auditing and corporate governance. <i>Outcome: 6.c.iii</i>	Last quarter: On 25 November, the FRC announced new arrangements for funding its core operating activities in relation to accounting, auditing and corporate governance. The changes will come into effect from April 2009. The main change in the new arrangements is to bring large private entities and public sector organisations within the scope of the FRC levy on organisations which prepare financial statements ("the preparers' levy"). The FRC published its 2009/10 levy proposals on 15 December as part of its document Draft Plan 2009/10, Proposed Updates to the Strategic Framework and 2009/10 Levy Proposals. Next quarter: The FRC will analyse responses to its 2009/10 levy proposals.

The status of the consultations on the major projects referred to in this document is summarised below. The consultation papers identified in sections 1 and 2 below can be found on the FRC website at www.frc.org.uk. The website also contains a summary of the status of all FRC consultations.

1. Closed Consultations

Consultation		Decision
Corporate reporting	Improvements to Financial Reporting Standards	Amendments to FRS published 13 Nov 2008
	Exposure Draft: Heritage Assets	Under consideration
Auditing	Detailed Proposals: Regulation of auditors of companies from outside Europe that have issued securities on regulated markets within the EU	Detailed arrangements published 6 Nov 2008
	Discussion Paper: Audit Firm Ownership Rules	Under consideration
	Draft Guidance on use of Audit Firms from more than one network	Revised guidance published 15 Oct 2008
Actuarial Practice	Discussion Paper: Promoting Actuarial Quality	Under consideration
	Discussion Paper: Monitoring and Scrutiny of Actuarial Work	Under consideration
	Consultation Paper on a Generic Data Standard	Under consideration
FRC Effectiveness	Consultation Paper: Proposals for future arrangements for funding the FRC's activities in relation to accounting, auditing and corporate governance.	Statement published 25 Nov 2008
	Discussion Paper: Cost Effectiveness of FRC regulation	Statement published 3 Dec 2008

2. Open Consultations

	Consultation	Date for Responses
Auditing	Consultation Paper on updating UK and Irish Auditing Standards for new International Standards	16 Jan 2009
FRC Effectiveness	Draft Plan 2009/10, Proposed Updates to the Strategic Framework and 2009/10 Levy Proposals	13 Mar 2009

3. Consultations likely to open in next Quarter (January – March 2009)

Consultation	
Actuarial Practice	Consultation Paper: Modelling Standard



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