



**FINANCIAL REPORTING COUNCIL**

**QUARTERLY STRATEGIC  
PROGRESS & PLANNING REPORT**

**JULY 2009**

## INTRODUCTION

This report provides a summary of progress on the major activities and projects in our Plan for 2009/10. It covers developments in the last quarter (April – June 2009) and identifies, as far as possible, expected developments in the next quarter (July – September 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 which we believe contribute to confidence in corporate reporting and governance. This is available on our website at: [www.frc.org.uk](http://www.frc.org.uk).

The key themes for our work as set out in our Plan for 2009/10 are as follows:

- Influence market participants to meet high standards of reporting and governance through a combination of measures to raise awareness of major risks, monitor corporate reporting and governance practices, and take enforcement action where appropriate.
- Influence legislators and international standard setters to encourage a proportionate and principles-based approach which promotes high standards of corporate reporting and governance.
- Influence international regulatory authorities to encourage effective co-operation.

Our decision-making bodies are the FRC Board and our six Operating Bodies:

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 its 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 Officer, FRC, 5th Floor, Aldwych House, 71-91 Aldwych, London WC2B 4HN. Email: [plan@frc.org.uk](mailto:plan@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: April - June 2009</i><br><i>Next quarter: July - September 2009</i>   |
|---|---|--|
| Published in 2009 /10 Plan (April 2009)   |   |  |
| <p>The Combined Code and the 'comply or explain approach' may lose credibility resulting in reduced confidence in corporate governance.</p> | <p>Complete the review of the effectiveness of the Combined Code on Corporate Governance.</p> | <p><b>Last quarter:</b> The FRC announced in March that it intended to review the Combined Code on Corporate Governance and invited initial views from listed companies, directors, investors and other interested parties their experience of implementing the Code. The closing date for comments was 29 May. The FRC received 111 responses, which are available at: <a href="http://www.frc.org.uk/corporate/2009reviewresponses.cfm">http://www.frc.org.uk/corporate/2009reviewresponses.cfm</a></p> <p><b>Next quarter:</b> The FRC will publish a progress report, including a summary of respondents' views on the initial invitation to comment, towards the end of July. If any changes are proposed to the Code they will be subject to further consultation later in the year.</p> |

### 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.

| MAJOR RISKS   | MAJOR ACTIVITIES & PROJECTS   | <i>Last quarter: April - June 2009</i><br><i>Next quarter: July - September 2009</i>  |
|---|---|---|
| Published in 2009 /10 Plan (April 2009)   |   |   |
| <p>Current economic conditions may make it more challenging for directors to prepare financial statements which comply fully with the requirements of accounting standards and which show a true and fair view.</p> | <p>Review a risk-based selection of annual and interim accounts and directors' reports. Reviews will focus on the banking, retail, leisure and travel, commercial property and house-building sectors and others which derive significant revenue from the provision of business services such as advertising, media, recruitment and technology.</p> | <p><b>Last quarter:</b> The FRRP selected a number of annual accounts for review, with a focus on the priority sectors announced in December 2008: banking, retail, leisure and travel, commercial property and house-building sectors and others which derive significant revenue from the provision of business services such as advertising, media, recruitment and technology.</p> <p><b>Next quarter:</b> The FRRP will continue to review a risk-based selection of annual and interim accounts and directors' reports, with a focus on the priority sectors outlined above.</p> <p>The FRRP will complete its review of the impairment disclosures of a number of large companies following its announcement (on 2 July) that its initial findings suggest an improvement in the overall quality of impairment information compared with previous years.</p> |

## 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.**

| MAJOR RISKS  | MAJOR ACTIVITIES & PROJECTS   | <i>Last quarter: April - June 2009</i><br><i>Next quarter: July – September 2009</i>   |
|--|---|--|
| Published in 2009 /10 Plan (April 2009)  |   |  |
| Current economic conditions may increase the risk of fraud in preparing financial statements.  | Keep under review the guidance to audit committees and directors and issue further guidance if appropriate.   | <p><b>Last quarter:</b> On 29 May, the FRC published an exposure draft of updated guidance for directors of UK companies to assist them with their assessment of going concern and in evaluating the nature and extent of disclosures relating to going concern. The FRC explained that the updated guidance, when finalised, would replace the existing guidance published by the ICAEW in 1994. The FRC also invited views on whether the final guidance could be reasonably implemented in time for 31 December 2009 year ends.</p> <p><b>Next quarter:</b> The consultation period on the draft updated guidance on going concern will close on 28 August. The FRC will respond to comments on the draft updated guidance and will give feedback to stakeholders on whether the finalised guidance can be reasonably implemented in time for 31 December 2009 year ends. The FRC will continue to keep the guidance for audit committees and directors under review.</p>   |
| During a period of volatility and increased uncertainty, the challenges for directors to describe effectively companies' business models and business risks may increase.  | Review narrative reporting in the light of the business review requirements of the Companies Act 2006 and review the need for additional disclosure requirements relating to business models. | <p><b>Last quarter:</b> The ASB began its project to review narrative reporting in light of the business review requirements of the Companies Act 2006.</p> <p><b>Next quarter:</b> The ASB will continue its review of narrative reporting.</p>   |
| The goal of a single set of global accounting standards may be undermined if there is a loss in support for the role of the IASB and other standard setters in exercising independent judgement, based on their skills and experience, or by the actions of jurisdictions to carve-out or adapt IFRS, so reducing the quality of their accounting standards. | Promote continued support in the EU for maintaining the IASB and other standard setters' ability to exercise independent judgement in setting accounting standards.                           | <p><b>Last quarter:</b> The ASB continued to assess and respond to all EFRAG draft comment letters and Invitations to Comment (nine during the period). The ASB continued to play its active role in EFRAG, including attending Technical Expert Group (TEG) meetings and the Consultative Forum of Standard-Setters (CFSS). In April, EFRAG announced that Ian Mackintosh, Chair of the ASB, had been appointed as a member of its newly formed interim Planning and Resources Committee (PRC).</p> <p>During the period, the ASB responded to the European Commission consultation on a review of the EU Accounting Directives and participated in a Commission stakeholder meeting on the review held in June. Work continued on the accounting for tax project.</p> <p>The FRC and ASB also worked closely with the Government in briefings for meetings of the G20 and ECOFIN, stressing the importance of maintaining the ability of the IASB to exercise its independent judgement in standard setting.</p> <p><b>Next quarter:</b> The ASB will continue to assess and respond to all EFRAG draft comment letters and Invitations to Comment and play an active role in EFRAG. The ASB will participate in EFRAG's convergence discussions with the IASB in July 2009. Work on the accounting for tax project will continue.</p> <p>The Board will also respond to the IASB consultation documents that have been issued in recent weeks and associated EFRAG draft comment letters and will hold an extra meeting during July to deal with pressing issues.</p> |

## 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.**

| MAJOR RISKS  | MAJOR ACTIVITIES & PROJECTS  | <i>Last quarter: April - June 2009</i><br><i>Next quarter: July – September 2009</i>   |
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| Published in 2009 /10 Plan (April 2009)  |  |  |
| Principles-based standards may be undermined by the inappropriate development of IFRS, towards a more rules-based approach, influenced by intense pressure to achieve the convergence of IFRS and US GAAP. | 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. | <p><b>Last quarter:</b> The ASB assessed and responded to all IASB and IFRIC consultations (three during the period).</p> <p>On 24 April, the FRC sent a response to the US Securities and Exchange Commission (SEC) on its Roadmap for the Potential Use of Financial Statements prepared in accordance with IFRS by US issuers.</p> <p><b>Next quarter:</b> The ASB will continue to respond to all IASB and IFRIC consultations (at least five outstanding consultation responses to be submitted by the end of September 2009) and will continue to actively influence the development of IFRS during a period in which a large number of important standards are likely to be scheduled for agreement.</p>  |
| Corporate reports may be overly complex and lack relevance.  | Finalise our recommendations arising from our review of complexity and relevance of requirements relating to corporate reporting.                      | <p><b>Last quarter:</b> On 4 June, the FRC published a discussion paper, <i>Louder than Words</i>, on principles and actions for making corporate reports less complex and more relevant. The discussion paper recommends reducing complexity based on eight guiding principles. The discussion paper was intended to form the basis for a debate within the UK and global financial reporting communities.</p> <p><b>Next quarter:</b> The consultation on the discussion paper will continue. The consultation period will close on 30 October.</p>  |
| Continuing controversy about the extent of fair value accounting undermines confidence in corporate reporting.   | Monitor market comment about the use of fair values and influence the IASB projects on measurement and the use of fair values within existing IFRS.    | <p><b>Last quarter:</b> The ASB monitored market comments and reports about the use of fair value and the relevant IASB projects, including the IASB’s accelerated project to replace IAS 39 ‘Financial Instruments: Recognition and Measurement’. The ASB submitted a response to the request for input from the IASB-FASB Financial Crisis Advisory Group (FCAG), including commentary on fair value measurement.</p> <p><b>Next quarter:</b> The ASB will continue to monitor market comments and reports about the use of fair value and the relevant IASB projects. The ASB will assess and respond to the IASB’s Exposure Draft of Fair Value Measurement guidance and to any consultation by the IASB on its accelerated project to replace IAS 39.</p> |

### Strategic Outcome Three: Auditing and related services

**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, and users of audit-related services can place an appropriate degree of reliance on the reports provided.**

| MAJOR RISKS  | MAJOR ACTIVITIES & PROJECTS   | <i>Last quarter: April - June 2009</i><br><i>Next quarter: July – September 2009</i>  |
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| Published in 2009 /10 Plan (April 2009)  |   |   |
| The complexity and volume of risks, including the risk of fraud, arising from the tougher economic conditions may be challenging for auditors to address adequately.           | Undertake risk based monitoring and report on the quality of audits of publicly traded and other major public interest entities, having particular regard during our inspection work in 2010/11 to audit issues relating to going concern, fair value accounting estimates and disclosures and the impairment of assets including goodwill and other intangibles. | <p><b>Last quarter:</b> The AIU completed the 2008/09 programme of inspections and commenced the 2009/10 programme. The 2009/10 programme has particular regard to audit issues relating to going concern, fair value accounting estimates and the impairment of assets including goodwill and other intangibles.</p> <p><b>Next quarter:</b> The AIU will continue its 2009/10 programme of inspections whilst also continuing to report on the results of the 2008/09 programme.</p>  |
|  | Keep under review the guidance to auditors and issue further guidance if appropriate.   | <p><b>Last quarter:</b> The APB considered the comments which had been received on its draft guidance on exposure draft PN23, Auditing and Complex Financial Institutions (issued in December 2008).</p> <p><b>Next quarter:</b> The APB will continue to consider the comments received in response to its draft guidance on exposure draft PN23.</p>  |
| The high level of concentration in the audit market may result in significant uncertainty and cost in the event of one or more of the Big Four audit firms leaving the market. | Continue to 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.   | <p><b>Last quarter:</b> On 21 May, the FRC published the Market Participants Group (MPG)'s third progress report. The report outlined the progress in implementing the MPG's recommendations aimed at increasing choice in the audit market, including the issue by the Consultative Committee of Accountancy Bodies of the Voluntary Code of Practice on Disclosure of Audit Profitability; and the publication by the Audit Inspection Unit (AIU) of public reports on audit firms which had been subject to a full scope AIU review. Other relevant developments include an exposure draft of revised Ethical Standards and the close of consultations by the European Commission on ownership rules and by the Audit Firm Governance Working Party on a governance code for audit firms.</p> <p><b>Next quarter:</b> The FRC will continue to monitor, and implement where appropriate, the recommendations of the Market Participants Group.</p> |
| Provisions of the Statutory Audit Directive may be difficult to implement cost-effectively.  | Continue to work with the EU and BIS to influence the implementation of the Statutory Audit Directive.  | <p><b>Last quarter:</b> The POB continued to work with the EU and BIS to influence the implementation of the Statutory Audit Directive. In particular, it implemented arrangements to accept registration on third country auditors.</p> <p><b>Next quarter:</b> The POB will continue to work with the EU and BIS to influence the implementation of the Statutory Audit Directive.</p>  |

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| <p>There is a risk that the changes to the auditing standards may not be effective if they are inherently difficult for auditors to implement in an efficient and/or effective manner.</p> | <p>Implement the decision to apply Clarity ISAs in the UK and Ireland and work positively towards the adoption of Clarity ISAs in the EU.</p>   | <p><b>Last quarter:</b> The APB issued Exposure Drafts of Clarified ISAs (UK and Ireland) on 21 April. The APB sought public comment on exposure drafts of 33 clarified ISAs (UK and Ireland), clarified international Standard on Quality Control (UK and Ireland) and a revised statement of the Scope and Authority of APB Pronouncements.</p> <p><b>Next quarter:</b> The APB's consultation period on Exposure Drafts on clarified ISAs will close on 22 July. The APB will consider, and respond to, the comments received.</p>  |
| <p>Regulatory arrangements may be inadequate to facilitate the effective monitoring of firm-wide procedures at firms managed on a global or regional basis.</p>                            | <p>Contribute to the work of IFIAR and EGAOB and promote effective co-operation between national audit regulatory authorities, in particular gaining an enhanced understanding of the audit networks; and consider the implication for audit quality.</p> | <p><b>Last quarter:</b> IFIAR's fifth meeting was held in Basel on 27-29 April. Discussions covered audit inspection workshops, current market conditions, dialogue with other international organisations, funding and other issue relevant to auditor oversight. A copy of the press release is available at the IFIAR's website at <a href="http://www.ifiar.org">www.ifiar.org</a>.</p> <p>FRC staff attended a number of EGAOB sub-group meetings and the EGAOB plenary meeting in Brussels on 30 June to discuss European audit regulatory issues.</p> <p><b>Next quarter:</b> IFIAR's sixth meeting will take place in Singapore on 14-16 September.</p> <p>FRC staff will continue to participate on EGAOB and EGAOB sub-group meetings.</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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| <p><b>MAJOR RISKS</b></p>   | <p><b>MAJOR ACTIVITIES &amp; PROJECTS</b></p>  | <p><i>Last quarter: April - June 2009</i><br/><i>Next quarter: July - September 2009</i></p>   |
| <p>Published in 2009 /10 Plan (April 2009)</p>  |  |  |
| <p>Providing information which adequately reflects the uncertainties arising from tougher economic conditions may be challenging for actuaries.</p> | <p>Keep under review the guidance for users of actuarial information and issue further guidance if appropriate</p> | <p><b>Last quarter:</b> The FRC kept under review the usefulness of the guidance for users of actuarial information on challenges arising from current market conditions which it published in December 2008.</p> <p><b>Next quarter:</b> The FRC will continue to keep the guidance under review.</p> |

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| <p>Actuarial standards may not contribute effectively to the reliability and usefulness of actuarial information and advice within the wider regulatory framework for the insurance and pension sectors.</p> | <p>Continue to develop a new suite of technical actuarial standards - publishing final standards on data, modelling and reporting, and draft standards on pensions and insurance; and reviewing the implications of the introduction of Solvency II.</p> | <p><b>Last quarter:</b> On 28 May, the BAS published exposure drafts of Technical Actuarial Standards on data (TAS: D) and modelling (TAS: M). The proposed standards are expected to come into force by April 2010, although earlier adoption is strongly encouraged. Standards are principle-based and generic, applying across many areas of actuarial work.</p> <p>On 10 June, the BAS submitted a response to CEIOPS consultation paper CP-revor12309-33 on Systems of Governance.</p> <p>On 26 June, the BAS published a consultation paper on the principles for inclusion in the Technical Actuarial Standards on pensions (TAS: P).</p> <p><b>Next quarter:</b> The consultations on the exposure drafts on standards on data and modelling will close on 28 August. The BAS will continue to develop its new suite of technical standards, and will issue a consultation paper on insurance. It also expects to publish its reporting standard. The BAS will also continue to review the implications of the introduction of Solvency II.</p> |
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| <p align="center"><b>Strategic Outcome Five: Professionalism of accountants and actuaries</b></p> <p align="center"><b>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.</b></p> |  |   |
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| MAJOR RISKS  | MAJOR ACTIVITIES & PROJECTS  | <p><i>Last quarter: April - June 2009</i></p> <p><i>Next quarter: July - September 2009</i></p>   |
| <p align="center">Published in 2009 /10 Plan (April 2009)</p>  |  |   |
| <p>Failure to agree and implement the changes to the Accountancy Scheme in the next year will leave the AADB facing a substantial risk from costs awards which, in certain circumstances, could impact on the effectiveness of the AADB.</p>   | <p>Complete the implementation of changes to the AADB Accountancy Scheme.</p>  | <p><b>Last quarter:</b> The AADB continued discussions with the Scheme Participants in respect of changes proposed to the Accountancy Scheme.</p> <p><b>Next quarter:</b> The AADB will, subject to concluding discussions with the Scheme Participants, publish the outcome of its review of the Accountancy Scheme and a full draft of the revised Scheme. The AADB will continue its preparations for implementing the revised Scheme.</p> |
| <p>The regulatory framework for the enforcement of professional and ethical standards may be incomplete or may not meet the public interest.</p>   | <p>Review the effectiveness of the regulatory framework for professional discipline and enforcement of standards, including the FRC's role within the framework.</p> | <p><b>Last quarter:</b> No developments to report.</p> <p><b>Next quarter:</b> The FRC expects to initiate this project in the next quarter.</p>  |

**Strategic Outcome Six: FRC Effectiveness**

**The FRC is an effective and independent regulator, operating in public interest and actively helping to shape UK, and to influence EU and global, approaches to corporate reporting and governance.**

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| <b>MAJOR RISKS</b>  | <b>MAJOR ACTIVITIES &amp; PROJECTS</b>  | <i>Last quarter: April - June 2009</i><br><i>Next quarter: July - September 2009</i>  |
| Published in 2009 /10 Plan (April 2009)   |   |   |
| The FRC may not be sufficiently alert to, or be made aware of, relevant developments in the markets or may fail to respond appropriately to those developments. | Review the adequacy of the FRC's arrangements for monitoring emerging events and appropriately prioritise our activities. | <p><b>Last quarter:</b> The FRC began an internal review of its arrangements for identifying emerging events.</p> <p><b>Next quarter:</b> The FRC will continue its review and implement as appropriate any necessary changes to its arrangements for monitoring emerging events.</p> |

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](http://www.frc.org.uk). The website also contains a summary of the status of all FRC consultations.

**1. Closed Consultations**

|                             | <b>Issue</b>   | <b>Closed</b> |
|-----------------------------|--|---------------|
| <b>Corporate Governance</b> | 2009 Review of the Combine Code on Corporate Governance          | 29 May 2009   |
| <b>Actuarial Practice</b>   | Technical Actuarial Standard: Exposure Draft, Reporting (TAS: R) | 29 May 2009   |
| <b>Auditing</b>             | Revised draft Ethical Standards for Auditors                     | 15 June 2009  |

**2. Open Consultations as at July 2009**

|                             | <b>Issue</b>   | <b>Date for Responses</b> |
|-----------------------------|--|---------------------------|
| <b>Auditing</b>             | Consultation Paper: Proposed Clarified International Standards on Auditing (UK and Ireland)              | 22 July 2009              |
| <b>Corporate Governance</b> | Exposure Draft: Going Concern and Liquidity Risk - Guidance for Directors of UK Companies                | 28 August 2009            |
| <b>Actuarial Practice</b>   | Technical Actuarial Standard: Exposure Draft, Modelling (TAS: M)   | 28 August 2009            |
| <b>Actuarial Practice</b>   | Technical Actuarial Standard: Exposure Draft, Data (TAS: D)  | 28 August 2009            |
| <b>Actuarial Practice</b>   | Consultation Paper on principles for inclusion in the Technical Actuarial Standards on Pensions (TAS: P) | 18 September 2009         |
| <b>Corporate reporting</b>  | Financial Reporting Exposure Draft on Improvement to FRSs  | 30 September 2009         |
| <b>Auditing</b>             | Discussion Paper: Complexity project – <i>Louder than Words</i>  | 30 October 2009           |

**3. Consultations likely to open in next Quarter (July – September 2009)**

|                            | <b>Issue</b>  |
|----------------------------|---|
| <b>Actuarial Practice</b>  | Consultation Paper on principles for inclusion in the Technical Actuarial Standards on Insurance (TAS: I) |
| <b>Corporate reporting</b> | Financial Reporting Exposure Draft on Amendments to UITF 42 and FRS 26: Embedded Derivatives              |
| <b>Corporate reporting</b> | ASB Discussion Paper: Policy Proposals – the future of UK GAAP  |



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