



**FINANCIAL REPORTING COUNCIL**

**QUARTERLY STRATEGIC  
PROGRESS & PLANNING REPORT**

**OCTOBER 2007**



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## INTRODUCTION

This report provides a summary of progress on the major activities and projects in our Plan for 2007/08. It covers developments in the last quarter (July - September) and identifies, as far as possible, expected developments in the next quarter (October - December). The Plan for 2007/08 is based on our Strategic Framework, which sets out the outcomes that we believe contribute to confidence in corporate reporting and governance. Both documents were published in April 2007 and are 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 2007/08 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:

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)

and by the FRC Council. The Committee on Corporate Governance, whose members are drawn from the Council, assists it in its work on corporate governance. The operating bodies and the Council are supported by the FRC's professional staff (the "Executive"). The Council will hold its final meeting on 9 October and its responsibilities will be transferred to the Board of the FRC.

We hope that you will find this report of value and would welcome your feedback on it and any other aspect of our work. Comments should be sent to the Director of Planning & Resources, 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.

<b>MAJOR PROJECTS &amp; ACTIVITIES</b> Published in 2007 / 08 Plan (April 2007)	<i>Last quarter: July – September 2007</i> <i>Next quarter: October – December 2007</i>
<b>Work with BERR on implementation of the EU requirements on audit committees and corporate governance statements.</b>  <i>Outcome 1 (a) (i)</i>	<p><b>Last quarter:</b> The revised 4<sup>th</sup> Directive will require listed companies to include a corporate governance statement in their annual report and accounts. This will include a “comply or explain” statement on how the company had applied the relevant corporate governance code, and a number of mandatory disclosures including a requirement to describe the main elements of the internal control system relating to financial reporting. The revised 8<sup>th</sup> Directive will require listed companies to have an audit committee (or “equivalent arrangements”) that complies with minimum requirements as regards independence and expertise. Following public consultation, BERR announced in July that these requirements would be implemented through FSA Listing Rules.</p> <p><b>Next quarter:</b> We will continue to liaise with BERR and FSA on the drafting of the new Rules and will review the implications for the section of the Combined Code relating to audit committees.</p>
<b>Begin a review of the impact of the Combined Code on Corporate Governance</b>  <i>Outcome 1 (a) (ii)</i>	<p><b>Last quarter:</b> The comment period closed on 20 July for our consultation paper inviting views on the impact of the Combined Code – including issues such as whether the Code has helped to improve board performance, its impact on smaller listed companies, and the effectiveness of the “comply or explain” mechanism. Views were sought from listed companies, directors, investors and other interested parties, 106 responses were received and are currently being analysed.</p> <p><b>Next quarter:</b> The intention is to publish a summary of the findings of the review together with proposed changes to the Code – if there are any – in October and to publish a more detailed report on issues arising from the review later in the year. If any changes are proposed there will be a separate consultation. Our intention is to co-ordinate any consultation with the FSA’s consultation on the new Listing Rules, so that all changes to current corporate governance requirements take effect at the same time.</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.**

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<b>Influence IASB/FASB conceptual framework and convergence projects</b>  <i>Outcome 2 (a) (ii)</i>	<p><b>Last quarter:</b> The ASB has continued to monitor the IASB and US FASB joint project to converge and improve their conceptual frameworks, as well as all projects on their convergence agenda. In September, the two Boards re-discussed the objective of financial reporting and agreed an amended version to reflect concerns about stewardship, which was influenced by the ASB-led work on the issue as part of the European Pro-active Accounting Activities in Europe (PAAinE) initiative. In July, the ASB issued a briefing paper on the wider implications for financial reporting of the proposals set out in the IASB Discussion Paper (DP) ‘Preliminary Views on Insurance Contracts’. The ASB has also agreed how it will review the IASB’s Annual Improvements process.</p> <p>The FRC has written to the US SEC in support of its proposal to eliminate the requirement for a US GAAP reconciliation for foreign companies reporting under IFRS.</p> <p><b>Next quarter:</b> The ASB will assess and respond to the IASB Discussion Paper ‘Preliminary Views on Insurance Contracts’ (which has a deadline for comments of 16 November 2007) and will respond to other IASB and IFRIC consultations. We will continue to monitor the development of IFRS.</p>
<b>Conclude research project on accounting for pensions with the issue of a Discussion Paper and an analysis of responses</b>  <i>Outcome 2 (a) (iii)</i>	<p><b>Last quarter:</b> Work continued on the drafting of a discussion paper on the financial reporting of pensions, and drafts of a number of sections of were discussed by the ASB at its meetings in July and September and the European Financial Reporting Advisory Group (EFRAG) Technical Experts Group (TEG) in September. The UK Pensions Advisory Panel and EFRAG Pensions Working Group also considered material for the discussion paper at their meetings in September.</p> <p><b>Next quarter:</b> We aim to publish the discussion paper at the end of 2007.</p>

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<p><b>Continue to consider a strategy for the convergence of UK standards with IFRS</b>  <i>Outcome 2 (a) (iv)</i></p>	<p><b>Last quarter:</b> The ASB consultation on the IFRS for Small and Medium-sized Entities (SMEs) Exposure Draft closed on 31 July. 22 responses were received. The ASB also submitted its comments on EFRAG’s draft comment letter on the IASB Exposure Draft and to the IASB. The ASB has also written to the European Commission to note the support for use of the IASB ED, at least for ‘middle tier’ companies, in the UK and Ireland. In July, the ASB issued Financial Reporting Exposure Draft (FRED) 41 ‘ Related party disclosures’, which contains proposals to replace the existing UK standards with one based on IAS 24 and to ensure consistency between the requirements of accounting standards and company law. The UITF has issued for comment (Information Sheet 84) a draft Abstract based on IFRIC D22 on hedges of a net investment in a foreign operation.</p> <p><b>Next quarter:</b> The consultation period on FRED 41 closes on 19 October, after which the ASB will be considering the responses and the issues arising in working towards developing the final standard. The consultation period on UITF Information Sheet 84 closes on 31 October.</p>
<p><b>Respond to the consultation on the implications of new accounting and auditing standards for the “true and fair” view</b>  <i>Outcome 2 (a) (v)</i></p>	<p><b>Last quarter:</b> Leading Counsel has been working on an opinion which will update the Hoffmann and Arden opinions for subsequent developments, including UK and EU legal cases, the EU’s IAS Regulation and the Companies Act 2006.</p> <p><b>Next quarter:</b> We intend to publish leading Counsel’s opinion in the next quarter.</p>
<p><b>Review selection of annual &amp; interim accounts and directors’ reports</b>  <i>Outcome 2 (c) (i)</i></p>	<p><b>Last quarter:</b> The Panel continued its review of annual and interim accounts for compliance with the relevant accounting requirements. The Panel published its Activity Report for 2006/07 which found a good level of compliance overall, both with UK and international accounting requirements. The Panel also published a follow-up review of pensions disclosures with IFRS which found that there had been some improvement in disclosures about mortality assumptions and in the provision of sensitivity analysis in the accounts of a sample of accounts prepared by listed groups. The Panel published its findings which also noted areas where there had been no or little discernible improvement. The Panel received 15 responses to its consultation paper inviting comment on its proposal that audit firms voluntarily inform the Panel when they issue a qualified audit report. The Panel’s Working Group on narrative reporting published a summary of the Panel’s approach to its review of directors’ reports, including business reviews. The additional responsibility represents an extension of the Panel’s scope rather than a change in its role.</p> <p><b>Next quarter:</b> The Panel will publish a revised draft of its Operating Procedures for public comment before seeking approval from the Secretary of State, BERR. The Panel will also publish its priority sectors for 2008/09 following discussion with its Standing Advisory Group, an independent committee which comments on the Panel’s proposals, and the FSA. It is also intending to publish its response to the consultation on its proposal that audit firms voluntarily inform the Panel when they issue a qualified audit report.</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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<b>Continue our project on choice in the UK audit market</b>  <i>Outcome 3 (b) (iv)</i>	<p><b>Last quarter:</b> The consultation on the interim report of the Market Participants Group (MPG) attracted 46 responses from representative groups of companies, investors and corporate advisors as well as from individual market participants and other organisations. There was generally strong support for the criteria used by the MPG to assess possible market-based actions and there was broad support for the majority of the provisional recommendations. The MPG has been considering the responses.</p> <p><b>Next quarter:</b> The MPG plans to publish its final report this quarter. The FRC will issue an update on the project setting out its response to the MPG's final report and how the MPG's recommendations will be implemented.</p>
<b>Consider responses to our discussion paper "Promoting Audit Quality" and respond as appropriate</b>  <i>Outcome 3 (a) (iv)</i>	<p><b>Last quarter:</b> On 30 November 2006 we published 'Promoting Audit Quality', a discussion paper seeking opinions as to whether, within the existing legal and regulatory framework, all appropriate steps are being taken to maintain and enhance the quality of audits and, if not, seeking views as to what more could or should be done. We have analysed the responses and have drafted a feedback paper summarising the comments received and setting out the FRC's proposed approach to the issues raised.</p> <p><b>Next quarter:</b> The feedback paper will be published in October 2007.</p>
<b>Contribute to IAASB's project to revise and clarify ISAs and to work positively towards their adoption in the EU</b>  <i>Outcome 3 (a) (iii)</i>	<p><b>Last quarter:</b> The APB commented on four ISA exposure drafts during the period and discussed key issues contained in several pre-exposure drafts. When preparing responses to exposure drafts the APB obtains the views of its Public Sector and SME audit sub-committees.</p> <p><b>Next quarter:</b> The APB will comment on another nine ISA exposure drafts that have recently been issued. The new ISAs, which have been prepared as part of the Clarity Project, are expected to be adopted for use within the EU under the provisions of the Statutory Audit Directive. However, the EU has yet to establish a timetable for their adoption. The APB will discuss how it should respond to any gap between the completion of the Clarity Project and the adoption of ISAs on a European basis.</p>
<b>Review the scope for providing guidance on the application of the Companies Act 2006 provisions relative to auditor liability limitation agreements</b>  <i>Outcome 3 (a) (i)</i>	<p><b>Last quarter:</b> We announced on 4 July the establishment of an independent working group to produce guidance on the use of agreements to limit the liability of auditors of public companies. This has been done at the request of market participants. The working group is chaired by Sir Anthony Colman and includes representatives of companies, investors and the accountancy profession.</p> <p><b>Next quarter:</b> The intention is to prepare draft guidance for public consultation later in 2007, with final guidance to be published in the first quarter of 2008. The FRC will only give its endorsement to guidance that enjoys broad support from all market participants.</p>

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<p><b>Monitor, through our Audit Inspection Unit, the quality of the audit function in relation to listed companies and other entities in whose financial condition there is a major public interest</b></p> <p><i>Outcome 3 (c) (ii)</i></p>	<p><b>Last quarter:</b> The 2007/08 Inspection process is well underway with visits to all of the Big 4 plus two of the next tier being undertaken. Two of the Big 4 visits are led by the AIU but carried out jointly with the PCAOB. We have proposed to the professional bodies that our cycle of visits to the smaller mid tier firms should be extended from annual visit to 18-24 months as this will better align the regulatory activity to those firms’ size and the risks they pose. The professional bodies’ own monitoring units are likely to continue to undertake monitoring visits annually. As a result of this policy decision the AIU activity will be varied from the 2007/08 Plan in that not all the mid-tier firms will receive an AIU inspection visit during 2007/08. However, all the largest six firms will receive an AIU inspection visit.</p> <p>The consultation on implementing our planned changes to the way we report on the work of the AIU ended on 20 September.</p> <p><b>Next quarter:</b> Inspection visits will continue to the larger firms and a selection of smaller firms undertaking audits of listed companies or major public interest entities.</p> <p>We will analyse and consider the responses to the consultation on the way we report on the work of the AIU. Inspection visits are being undertaken in the expectation that the changes are implemented as envisaged.</p>
<p><b>Contribute to the implementation of the 8<sup>th</sup> Company Law (Auditing) Directive, with particular focus on the provisions relating to foreign auditors</b></p> <p><i>Outcome 3 (a) (i)</i></p>	<p><b>Last quarter:</b> We continued to work closely with BERR on the implementation of the Directive in the UK, and also with the European Commission and other Member States with the aim of ensuring that additional measures at EU level allow a proportionate implementation of the 3<sup>rd</sup> Country auditor regime.</p> <p><b>Next quarter:</b> The POB will publish draft regulations on the register of foreign audit firms and on transparency reporting by audit firms as part of the UK’s implementation of the Directive.</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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<b>Publish and consult on a conceptual framework for actuarial standards</b> <i>Outcome 4 (a) (ii)</i>	<p><b>Last quarter:</b> The focus for the BAS continued to be on the design and development of a conceptual framework for technical actuarial standards. The consultation period ended on 6 July. 20 responses were received and have been analysed, most of which were supportive of the structured basis proposed by the BAS. The BAS continued work on preparations for a final consultation on the principles underlying the conceptual framework.</p> <p>On 11 July the BAS announced a review of the mortality assumptions in actuarial calculations.</p> <p><b>Next quarter:</b> Work will continue on the development of the conceptual framework with a view to conducting a full consultation in November. Work will continue on the review of mortality assumptions.</p>

## 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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<b>Monitor the regulatory activities of the professional bodies in relation to their members.</b>  <i>Outcome 5 (c) (i)</i>	<p><b>Last quarter:</b> We continued to fulfil our statutory obligations in relation to the recognition, supervision and de-recognition of those accountancy bodies responsible for supervising the work of auditors in the UK or offering a recognised professional qualification. We have finalised our work for 2006/07 and reported to the Secretary of State in July on how we have discharged our statutory responsibilities.</p> <p><b>Next quarter:</b> We will start our programme of visits which will run through to March 2008. These visits will be based on a revised approach to monitoring the professional bodies which will target our work on specific areas of regulation of each body rather than monitoring across all areas.</p>
<b>Operate an independent investigation and discipline scheme to deal with misconduct.</b>  <i>Outcome 5 (c) (ii)</i>	<p><b>Last quarter:</b> On 16 August the AIDB expanded its responsibilities to include the actuarial profession and changed its title to the Accountancy and Actuarial Discipline Board (AADB). On 13 September the AADB adopted the Actuarial Scheme and Regulations. The AADB can now consider whether the conduct of actuaries should be investigated in public interest cases in the UK. The Scheme and Regulations were published on the AADB website on 17 September, together with guidelines for identifying public interest cases. The AADB began the process of recruiting two actuaries and a further lay member to its Board. In relation to accountants, the AADB continued to investigate:</p> <ul style="list-style-type: none"> <li>• the conduct of Deloitte &amp; Touche LLP as auditors and advisers to the MG Rover Group:</li> <li>• the conduct of a member of the Institute of Chartered Accountants in England and Wales (ICAEW) in relation to Langbar International Limited and into various parties associated with iSoft :</li> <li>• the conduct of two individuals and one firm in relation to the Emerging Business Trust in Northern Ireland:</li> <li>• the conduct of certain members of the professional accountancy bodies who were involved in the events leading up to the collapse last year of European Home Retail plc and Farepak Food &amp; Gifts Ltd.</li> </ul> <p>The AADB continued to assess whether changes to the scheme for the accountancy profession should be made in the light of the outcome of the Mayflower case.</p> <p><b>Next quarter:</b> The AADB will continue to progress the investigations listed above and to consider any new matters that arise. The AADB will complete the appointment process for additional Board members. The AADB will continue to progress its review of the Scheme for the accountancy profession.</p>

## 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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<b>Following consultation, implement proposed changes to the governance structure of the FRC</b> <i>Outcome 6 (b) (ii)</i>	<b>Last quarter:</b> The Temporary Nominations Committee continued with the recruitment of the new Non-Executive Directors for the new Board. <b>Next quarter:</b> The names of the new Non-Executive Directors will be announced in October.
<b>Evaluate opportunities to improve the cost effectiveness of those parts of the regulatory system for which we are responsible</b> <i>Outcome 6 (a) (i)</i>	<b>Last quarter:</b> The FRC and its Operating Bodies considered the scope of, and approach to, this project which will focus on evaluating opportunities to reduce regulatory costs imposed on regulated entities. <b>Next quarter:</b> We will issue a consultation paper in December 2007.
<b>Make an effective contribution to the work of the International Forum of Independent Audit Regulators</b> <i>Outcome 6 (b) (iv)</i>	<b>Last quarter:</b> Following the formal decision to establish the International Forum of Independent Audit Regulators (IFIAR) in September 2006, we have continued to contribute to IFIAR’s work programme. Paul Boyle, the FRC’s Chief Executive, was elected Chairman of IFIAR at its meeting in Toronto, at the end of September. At that meeting, IFIAR discussed the work on the relationship between audit quality and inspections, contingency planning, and on obtaining information about the quality assurance arrangements of the global audit firms. <b>Next quarter:</b> The FRC will make a substantial contribution to the leadership and secretariat of IFIAR.

## Consultations Related to Major Projects in 2007/08 Plan

Annex A

The status of the consultations 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 consultation papers relating to other projects being undertaken by the FRC in 2007 / 08.

### 1. Closed Consultations

Consultation		Decision
<b>Corporate Governance</b>	Review of the impact of the Combined Code	Findings to be announced in October
<b>Corporate Reporting</b>	Consultation paper on the IASB's Exposure Draft of an International Financial Reporting Standard for Small and Medium-sized Entities (SMEs)	Under consideration
	Discussion paper on Voluntary Disclosure of Qualified Audit Reports	Under consideration
<b>Auditing</b>	Discussion paper on 'Promoting Audit Quality'	Under consideration
	Interim report of the Market Participants Group (MPG) as part of the Audit Choice project.	Under consideration
	Reporting on Audit Quality Monitoring – Implementing a new approach	Under consideration
<b>Actuarial Practice</b>	Preliminary consultation paper – Towards a Conceptual Framework	Under consideration
<b>FRC Effectiveness</b>	Consultation paper on new governance structure for the FRC	New Non-Executive Director appointments to be announced in October

### 2. Open Consultations

Consultation		Date for Responses
<b>Corporate Reporting</b>	Financial Reporting Exposure Draft (FRED) 41 'Related party disclosures'	19 October
	UITF Information Sheet 84 – draft UITF abstract on hedging	31 October
	Discussion Paper on Preliminary Views on Insurance Contracts	16 November

### 3. Consultations likely to open in next Quarter (October - December 2007)

Consultation	
<b>Corporate Governance</b>	Consultation on changes (if any) arising from the review of the impact of the Combined Code (November '07)
<b>Corporate Reporting</b>	Consultation on draft revised set of Operating Procedures for the FRRP
	Discussion Paper on the financial reporting of pensions (December '07)
<b>Auditing</b>	Consultation on draft guidance on the operation of Auditor Liability Agreements (expected November/December '07)
<b>Actuarial Practice</b>	Conceptual Framework for technical actuarial standards (November 07)
<b>FRC Effectiveness</b>	Proposed approach to collect the business levy from AIM companies (November '07)
	Plan & Budget 2008/09 (December '07)
	Opportunities to improve the cost effectiveness of FRC Regulation (December '07)