



Financial Reporting Council

FRC Consultation on its Draft Strategy and Plan & Budget 2022/23

Feedback Statement

July 2022

Introduction

The FRC published its draft Three Year Plan for 2022-25 in January 2022, based on its continued commitment to being an effective and transparent regulator as it prepares to transition to the Audit, Reporting and Governance Authority (ARGA).

The draft Plan contained a detailed breakdown of intended expenditure for 2022-23 and a summary of the expected trajectory of overall costs and headcount for the following two years, on the assumption that, as ARGA, the FRC will be granted regulatory powers and funding on a statutory footing during the three-year period covered by the draft Plan.

The FRC requested feedback by 1 March, and welcomes the responses from the eight organisations that responded to the consultation:

1. Consultative Committee of the Accountancy Bodies (CCAB)
2. Deloitte
3. EY
4. ICAEW
5. Institute and Faculty of Actuaries (IFoA)
6. KPMG
7. PWC
8. Quoted Companies Alliance (QCA)

The purpose of this feedback statement is to provide a summary of the responses, which the FRC will take into account in implementing its Three Year Plan for 2022-25.

In the White Paper *'Restoring trust in audit and corporate governance'*, published in March 2021, the Government consulted on a range of proposals with three broad aims: building trust and credibility in the UK's audit, corporate reporting and corporate governance system; ensuring accountability for those playing key roles in that system; and increasing resilience and choice in the statutory audit market.

A number of respondents noted that their feedback on the FRC's Three Year Plan was related to the outcome of this consultation. The Government Response to the consultation, published in May 2022, confirmed that it will implement the proposal in the White Paper to establish a new regulator, the Audit, Reporting and Governance Authority (ARGA).

Stakeholders' views

Respondents made the following general points in relation to the FRC's operations:

- There was a call for the FRC further to clarify how it aims to build its capabilities to meet the expectations of ARGA and shift public perceptions; with the suggestion that the FRC should develop a more detailed plan ahead of the publication of the Government Response to its 2021 White Paper on restoring trust in audit and corporate governance. As noted above, the Government Response has now been published.
- Some respondents questioned how the FRC intend to drive improvements in standards pending legislation to establish ARGA.
- There was support for the FRC's 'four faces' approach to developing the regulatory regime. One respondent advocated secondments between audit firms and the FRC as it would be an effective way to share expertise and capabilities.
- Respondents emphasised the importance of two-way stakeholder engagement, particularly increased investor engagement.
- One respondent commented that during the transition to ARGA the FRC should do more to display thought leadership in financial reporting standards.

Respondents made the following general points about ARGA:

- There was general support for its establishment and for it to be a strong and effective regulator.
- ARGA should be consultative and promote a culture of learning and best practice.
- It is important that ARGA has right numbers of qualified staff to carry out its proposed functions.
- One respondent commented that there should be regular reporting on the application of the principles of the Regulator's Code as mentioned in the draft plan.

Response

The FRC thanks respondents for the feedback received and will continue to engage with stakeholders during 2022/23, noting the specific points that were made.

The finalised Three Year Plan 2022-25, published in April, sets out the FRC's progress towards establishing ARGA.

The FRC has confirmed in the finalised Plan its Purpose - *to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those responsible for delivering them* – and the five objectives set out in the draft Plan:

- To set high standards in corporate governance and stewardship, corporate reporting, auditing and actuarial work, and assess the effectiveness of the application of those standards, enforcing them proportionately where it is in the public interest.

- To promote improvements and innovation in the areas for which it is responsible, exploring good practice with a wide range of stakeholders.
- To influence international standards and share best practice through membership of a range of global and regional bodies and incorporate those standards into the UK regulatory framework.
- To promote a more resilient audit market.
- To transform the organisation into a new robust and independent regulator, acting in the public interest.

The FRC has also affirmed its commitment to the Regulators’ Code and to the four ‘faces’ regulatory approach set out in the draft Plan:



The finalised Plan sets out the FRC’s progress towards establishing ARGA. In the three years since Sir John Kingman’s independent review of its effectiveness, the FRC has made significant progress implementing those recommendations within its power to ensure better outcomes for stakeholders who rely on high quality audit, reporting and corporate governance.

As the journey to ARGA continues, and reflecting respondents’ the finalised Plan considers carefully how, and when, the FRC will need to increase its capacity to adapt to new powers and responsibilities. The Plan sets out a detailed breakdown of the FRC’s intended expenditure for 2022-23, alongside a summary of expected costs and headcount for the following two years.

The finalised budget for 2022/23 is reduced by £0.8m compared with the draft budget: from £60.6m to £59.8m.

The finalised funding requirement will also be reduced by £0.8m. The FRC has confirmed that, as proposed in the draft funding arrangements for 2022/23, £1.6m from FRC reserves will be used to reduce the levies that would otherwise be applied.

The Government Response confirms that Government has asked FRC will consult on the statutory funding model for ARGA subject to the Government’s legislative timetable.



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