

December 2017

Strategy 2018/21

Draft Budget and Levy Proposals
2018/19

The FRC's mission is to promote transparency and integrity in business. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the Competent Authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

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Registered in England number 2486368. Registered Office:

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Mission

Promoting transparency and integrity in business

Our Values

Effective

Be outcomes focused, timely, adaptable, professional and seek continuous improvement

Fair

Be proportionate, consistent, honest, trustworthy and act with integrity

Independent

Be objective, impartial and transparent

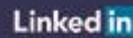
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Financial Reporting Council

FRC MISSION

Our mission is to promote transparency and integrity in business.

This serves the interests of the public and the UK economy.

High levels of transparency and integrity build investor confidence and help businesses make sound decisions in their own long term interest and that of the wider economy. Public and investor confidence is particularly undermined by failures in transparency or integrity when they are a result of poor governance and/or misleading reporting.

Transparency includes companies testing their business model and strategy with the providers of capital and other stakeholders. Listening to them should help bring about more sustainable, balanced and ultimately more profitable outcomes. And it should encourage good reporting of businesses' wider contribution to society.

Integrity in business is necessary to secure the trust of investors, customers, workers, NGOs, government and regulators. These stakeholders want to be confident that businesses and their professional advisers will do the right thing, not simply as a result of regulation but because of their corporate culture and values.

Public and investor expectations change over time in response to economic, societal, technological and environmental developments. Businesses, and the accounting and actuarial professions, need to understand and respond to these changes.

Confidence also depends on poor behaviour being held to account. The public wants to see poor behaviour investigated and sanctions imposed that are effective and in the public interest.

One - The Way We Work

The FRC's transparency and integrity

The FRC has a number of roles. We set the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitor and take action to promote the quality of corporate reporting; and operate independent enforcement arrangements for accountants and actuaries. As the competent authority for audit in the UK, the FRC sets auditing and ethical standards and monitors and enforces audit quality.

To deliver our mission we must be transparent and act with integrity. We aim to be a well-governed and accountable public body, independent from those we regulate and to follow our own principles of good governance and reporting.

Earlier this year, we commissioned an independent survey of views on our effectiveness from investors, corporate directors/non-executive directors, auditors, actuaries, professional bodies and other groups. Stakeholders identify the FRC's work on corporate governance and corporate reporting as strong. Overall, the FRC is considered independent of the professions it regulates, although investors expressed some concerns about the role of former auditors within the organisation. Stakeholders want more transparency in our disciplinary and enforcement activities, and were split equally on whether we are too stringent or not stringent enough. The independent review of sanctions commissioned by the FRC this year helps us to tackle this. The survey also found that the FRC could do more in engaging with stakeholders on matters related to actuarial regulation and our policy on investor stewardship. We will review the Stewardship Code next year and will do more to reach out to a broader range of stakeholders on actuarial issues.

We keep our governance structure and processes under review to ensure our decision making is robust and appropriate to our public interest responsibilities. In that spirit, last month we set out lessons learnt from our audit enforcement activities and the actions we have taken to become more transparent and demonstrate integrity in our decision making; including saying more about the rationale for our decisions and setting out how any perceived conflicts have been addressed. We recently introduced a new register of interests for members of our Board and committees to enhance transparency. We have already taken steps to be more proactive in audit enforcement cases and during 2018/19 will seek to make changes broadly to align enforcement procedures against accountants with those introduced last year for auditors, if necessary, seeking the support of Government.

We have recently reviewed our governance and Board and Committee diversity. We will do more to reflect the views and interests of wider society in our regulatory activities. We must have the highest level of business and technical understanding, but must also facilitate leadership and challenge from other perspectives. We have started to recruit from a wider spectrum of experience for our Board and Committees; we will refresh our advisory Councils and use our broadly-based Stakeholder Advisory Panel and other mechanisms to provide new insights and input into our work.

We have recently been confirmed by Government as having public body status. Accordingly we will during 2018, with Government, review our governance and accountability structures to build from our current good practice to ensure we fully meet public expectations.

We cannot achieve our objectives on our own and we will continue to work with a range of regulators, Government and market participants. Our analysis of the effectiveness of our powers underlines the need for such collaboration. The FRC has powers, for example, to sanction accountants and actuaries who are responsible for poor conduct, especially in relation to corporate reporting and audit. As the competent authority for audit, we now have additional powers to obtain information. But we cannot investigate or impose sanctions on directors who are not accountants or actuaries. In the absence of such powers, we are pursuing better joint working with other regulators to make the most together of existing powers

Transparency and integrity in business

Public confidence in business has undoubtedly been damaged by the behaviour of some over the last decade. High profile corporate governance scandals (particularly in relation to executive pay) and audit failures have led to concerns that business is not delivering for all. This has highlighted the need for companies to focus on the effectiveness of their governance and stewardship practices and to be transparent about how they are doing so; for audit to support and promote transparency and be more forward-looking; and for regulators, including the FRC, to do more to identify new and emerging challenges and risks.

Our approach to setting codes and standards has been based on best practice. This has enabled the UK to be a global leader in corporate governance and reporting. But we recognise that we must avoid focusing too much on past problems and achieving consensus and be more prepared to challenge the status quo.

As a regulator working in the public interest, we need to respond to political, economic, environmental and technological change. During this 2018/21 strategy period the economic environment we operate in will be challenging - with expectations of relatively slow growth in the economy and the uncertainties around the impact of the UK departure from the EU; growing societal expectations of business; and the transformational opportunity of technology and big data. Our work will continue to be guided by the evidence we gather through our regulatory activities and from research and analysis - including measures of trust in business, of progress towards our strategic priorities, and of our own effectiveness.

As our recent and current consultations on strategic report guidance and the UK Corporate Governance Code show, there is an expectation that companies report not only for investors but for a broader range of stakeholders: companies should address their impact in financial and non-financial terms and communicate how they generate and preserve value. During the strategy period our work on corporate governance and reporting will explore how most effectively to meet these expectations. Similarly, expectations of audit and assurance are

growing. We will be working in coalition with investors, business and others to shape the future of audit to meet the public interest.

We will work with other regulators, business and the professions to identify and understand developments in technology and big data and related changes in regulation. We will look in particular at the implications of developments in the use of IT in corporate reporting and wider business processes - including emerging models for trusted transaction data and blockchain. Technology and data developments are likely to transform audit and the work of actuaries. We will consider how our policies and standards for both need to evolve. Further, we will consider what changes we might need to make in the way we work and how we should use new technology to enhance our effectiveness.

UK Exit from the EU

We are working with the Department for Business, Energy and Industrial Strategy (BEIS), other regulators, and stakeholders to respond effectively to the implications of Brexit. The FRC already has strong bilateral relationships with regulators, governments, standard setters and supervisory bodies around the world. We will build on partnership with them to counter-balance any reduction in influence through the EU by sharing experiences and expertise.

We will continue to work closely with international organisations and regulators in other jurisdictions to promote high quality International Financial Reporting Standards (IFRS) and support the endorsement process for IFRS after the UK leaves the EU.

We will continue to deliver our responsibilities as UK competent authority for audit and play a key role in international aspects of standards and regulation. As we gain clarity about the implications of Brexit for assessments of equivalence and adequacy of overseas regulation, we will evolve and adapt our processes in these areas. This may have implications for our resourcing needs.

Our resources

As a public body we will follow the principles and guidance set by HM Treasury and Cabinet Office in managing our expenditure and funding. We have considered whether our resources are adequate in the light of the challenges we face, potentially including new tasks resulting from the UK exit from the EU.

Our 2018/19 budget for core costs (excluding enforcement case costs) represents an increase of 3% over the budget we set for 2017/18. We have achieved further efficiency savings during 2017/18 and have reached our target level of reserves earlier than planned. We will not, therefore, seek any additional contribution to our reserves in 2018/19. Our overall funding requirement will increase by 1% in 2018/19, as a result of an additional funding requirement from the accountancy profession to cover additional work as competent authority for audit and for our new role in monitoring local public audit. We will not increase our preparers, insurance or pension levies in 2018/19.

We have received £0.4m for actuarial case costs in 2017/18, which has contributed to our reserves, and have included in the 2018/19 budget a contribution to the Institute and Faculty of Actuaries (IFoA) to help them develop their arrangements for monitoring the quality of actuarial work. We will work with the IFoA to establish a future funding model for this public interest activity and consult on any changes.

Looking ahead into the second and third years of the 2018/21 strategy period, it is possible that we will need additional resources in response to new expectations from Government and others for the monitoring of corporate governance and in response to the UK departure from the EU. We will continue to consult annually on our budget and funding.

Section Two of this document describes our strategic priorities in more detail, and the ways in which we will assess progress against each priority, including our published KPIs on the quality of audit and the speed of our investigations. Section Three sets out our budget and funding requirement. Through our Annual Report we will report on the delivery of all the projects and activities in this strategy, and our financial performance.

We welcome views on all aspects of the proposals in this document, including our strategic priorities for 2018/21 and our budget and funding for 2018/19, by 28 February 2018. We will publish our finalised strategy, budget and levies in April 2018.

Sir Winfried Bischoff
Chairman

Stephen Haddrill
Chief Executive



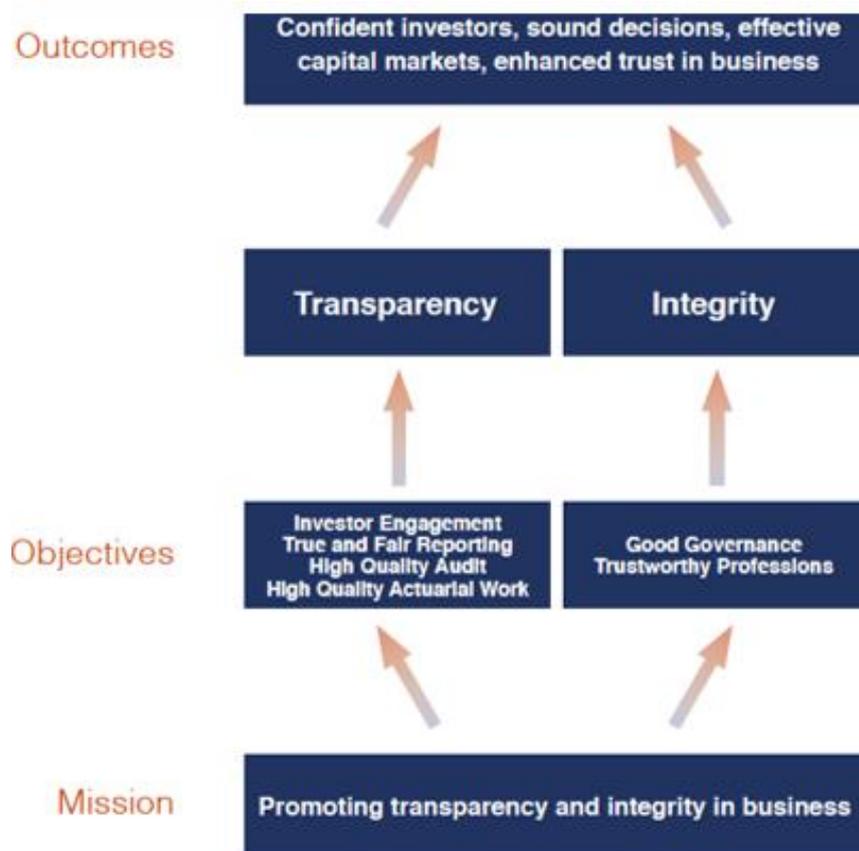
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Two – Our strategic priorities 2018/21

This section sets out the broad objectives we will pursue and the major projects and activities we will undertake over the next three years in pursuit of our mission.



Promoting corporate governance and investor stewardship with a long term focus

The need to improve public trust in UK business has placed corporate governance under the spotlight and put growing demands on the UK regulatory framework. We welcome the Government's conclusions on corporate governance reforms.

The FRC has published proposals for a revised UK Corporate Governance Code to reflect the changing business environment and help UK companies achieve the highest levels of governance. We have engaged with a wide range of stakeholders, and incorporated suggestions from the Government's Green Paper on Corporate Governance Reforms, to develop a Code which is shorter and sharper and fit for the future. The revised Code focuses on the importance of long-term success and sustainability, addresses issues of public trust in business, and aims to ensure the attractiveness of the UK capital market to global investors

through the UK's exit from the EU and beyond. It builds on the findings from the FRC's *Corporate Culture and the Role of Boards* Report published in 2016.

The revised Code sets out that the boards of companies should:

- Establish a company's purpose, strategy and values and satisfy themselves that these and their culture are aligned.
- Undertake effective engagement with wider stakeholders, to improve trust and achieve mutual benefit, and to have regard to wider society.
- Gather views of and listen to the workforce.
- Ensure appointments to boards and succession plans are based on merit and objective criteria to avoid group think, and promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.
- Be more specific about actions when they encounter significant shareholder opposition on any resolution, including those on executive pay policies and awards.
- Give remuneration committees broader responsibility and discretion for overseeing how remuneration and workforce policies align with strategic objectives.

We have added a Principle on corporate culture to the Code. Building trust in business has to start in the organisation and forming a healthy corporate culture is integral to the credibility of a company. Engaging with, and contributing to, wider society must not be seen as a tick-box exercise but imperative to building confidence among stakeholders and in turn the long-term success of a company.

We will closely monitor reporting on the new Code – including the way in which companies have reported meaningfully on how they have applied its Principles.

We recognise that, alongside bringing about change, we also need to preserve the current strengths of the UK framework, such as the unitary board, strong shareholder rights and the 'comply or explain' approach. It is also important that engagement between investors and companies is effective. The consultation on the revised UK Corporate Governance Code includes questions to inform the future direction of the UK Stewardship Code, on which we will consult in late 2018.

Later in the strategy period, we will assess the impact of our initiatives on the effectiveness of the board's role in promoting the long term success of companies, and the impact of the changing nature of equity ownership on the role of stewardship.

Large private companies are integral to the UK economy as significant employers and supporters of communities. We will work with others to develop a set of corporate governance principles to enhance confidence that these companies act appropriately.

In assessing progress on this strategic priority, we will consider:

- Listed companies' response to the changes to the Code.
- The quality of nominations committee reporting on board diversity and succession planning.
- The take-up of the governance principles for larger private companies.
- Survey evidence of the extent and effectiveness of investors' engagement with companies.
- Evidence from the responses to our Stewardship Code consultation on the effectiveness of the framework.

Promoting true and fair reporting

Corporate reporting influences behaviour and is therefore a core component of our strategy. We aim to drive continuous improvement in corporate reporting through our monitoring of annual reports and accounts, the use of thematic reviews and Financial Reporting Lab projects to tackle reporting challenges. We plan to take a lead in responding to the changing environment for, and greater expectations of, corporate reporting.

Standards of corporate reporting

Although generally good there are areas of reporting where quality is not as high as it could be. Through our reviews of corporate reporting we find a number of cases each year where the application of financial reporting standards is unclear or where narrative reporting is not fair, balanced and comprehensive as required by regulation. Others areas for improvement include the clear identification of the assets and liabilities at risk of material change in the next twelve months, and clear explanations of the relationships between business strategy, Key Performance Indicators (KPIs), executive remuneration and performance as set out in the financial statements.

We will continue to use our powers and influence to address these deficiencies. We will focus especially on how companies are implementing the new accounting standards on revenue, financial instruments and leases which will come into effect in 2018 and 2019. The new standards will pose significant challenges to companies and could have an impact on the quality of reporting over that period. Companies need to assess these challenges and reflect their conclusions transparently in their reporting to the capital markets.

Future developments

The focus on excellent financial accounting standards will be enhanced by ensuring that we respond to developments in wider reporting – including through the Strategic Report and our

role in influencing international standards. We need to ensure that corporate reporting in the UK retains its relevance in the face of shifting shareholder and stakeholder expectations, capital structures and other market developments.

Section 172 of the Companies Act 2006 requires company directors to promote the success of a company for the benefit of its members as a whole and to have regard to the impact of their decisions on their employees, the community and the wider environment. We will increase focus on companies' reporting on actions to support the long-term success of the company and to have regard to their impact on wider society. We will consider how technology can revolutionise corporate reporting, and whether new technology can enhance our monitoring programme. And we will explore new reporting models, including reporting to stakeholders outside the annual report.

Investors value comparability of information. To this end, we are supporting the Government as it explores options for the UK's accounting framework following its departure from the EU. We will ensure the UK is positioned to maintain high standards of accounting by preparing the framework for any UK endorsement process for international accounting standards. Key to comparability will be retaining IFRS. At the same time, we must understand how the UK's interests are impacted by new standards under IFRS and use that understanding to exert influence on the development of those standards and in deciding how they are adopted. If, in exceptional circumstances and subject to some strict criteria, there are aspects that need to be adopted differently in the UK we believe these should be considered.

In assessing progress on this strategic priority we will consider:

- Evidence from our corporate reporting reviews, including the quality of reporting by large public companies and smaller listed and AIM quoted companies.
- Evidence of the impact on the quality of reporting through pre-informed thematic reviews.
- Survey evidence on the understanding and effectiveness of our corporate reporting review role.
- Our assessment of the impact of the Financial Reporting Lab's initiatives relating to business model reporting and risk and viability reporting.
- Quality and comprehensiveness of the UK specific evidence gathered on the implications of adoption of IFRS 17 Insurance Contracts.
- Evidence on the quality of reporting from surveys by other regulators, bodies and market commentators.
- Evidence of changes in the landscape for corporate reporting, the impact of new technology, and companies' response to changing expectations for corporate reporting.

Promoting high quality audit and assurance

As UK competent authority for statutory audit, the FRC is responsible for setting audit standards, monitoring the quality of the audit of public interest entities, enforcing the standards required for such audits, and overseeing those regulatory tasks that we have delegated to the audit professional bodies - the Recognised Supervisory Bodies (RSBs).

Our strategic objective is to promote justifiable confidence in UK audit. High quality audit promotes transparency and integrity and provides investors and other stakeholders with a significant level of assurance that financial statements give a true and fair view, and provide a reliable and trustworthy basis for taking investment decisions.

Monitoring audit quality

Our monitoring of public interest entity audits and the firms that carry them out helps drive improvements in audit quality - including through reviews of firm-wide audit quality processes, thematic reviews, and reviews of audit engagements, focusing on areas of high risk.

In our last strategy we set the aim that by 2019 at least 90% of FTSE 350 audits will require no more than limited improvements as assessed by our monitoring programme. The annual report on Developments in Audit that we publish in 2019 will include our assessment of whether this aim has been achieved. However, we also wish to see a consistent, long-term trend of improvement. The 90% target is a waypoint not an end point. Over the strategy period we will consider increasing the target percentage and broaden its application, paying particular attention to financial services audits.

To secure improvements in audit quality, we also need to ensure that audit firms' leadership drives culture in the firms in ways that support quality and consistency. Regulation creates a framework and expectation of leadership in the firm but it cannot succeed unless the culture of the firm set and driven by the leadership is strong. We are conducting a thematic review of audit firm culture in the UK which we will publish in 2018 and will engage with the leadership of the firms to make sure that the good practices identified in the review are taken up.

A new audit firm monitoring and supervisory approach

As competent authority, the FRC now has responsibility for the regular monitoring and mitigation of risks in the audit market. These include the risks of systematic deficiencies within an audit firm network, which could lead to the demise of any audit firm, disruption in the provision of statutory audit services whether in a specific sector or across sectors, and the impact on the overall stability of the financial sector. The largest audit firms are systemically important institutions; issues in one part of the firm's global network can affect the UK firm's reputation.

As the next step we are developing and will implement during 2018/19 a new approach to the monitoring and supervision of the largest audit firms – the Big Six firms - which are core to the

integrity and transparency of our capital markets. We will set out our expectations of each firm and seek evidence in five areas: leadership and governance; values and behaviours; business models and financial soundness; risk management and control; and evidence on audit quality, including from our programme of audit quality reviews. We have already started work on monitoring risk reporting, contingency planning and IT security. We will summarise our findings across the firms in our annual reports on Developments in Audit.

As part of our focus on leadership and governance we will set out our expectations of the experience, skills and attributes of candidates for key roles such as Independent Non-Executives, Heads of Audit and Ethics partners at the Big Six firms. We will assess and feed back to senior management how well we believe their appointees meet these criteria. We do not have specific powers in this regard and will look for the firms' cooperation in doing so.

In order fully to implement our new approach we will ensure that we have staff with the necessary skills, knowledge and expertise.

The audit firms' international networks

The FRC, like other audit regulators, has no authority over the audit firms' international networks. However, UK audits frequently rely on the quality of work overseas. The international networks of the firms must ensure that public interest entity audits are completed to the highest standards by all national firms.

There continue to be examples of failings in key parts of these international networks. It is important that the networks themselves as well as the national firms take responsibility for such failures. We will continue to play a major role as members of the International Forum of Independent Audit Regulators (IFIAR) and contribute strongly to its initiatives to promote good and consistent regulation of the audit networks. We will also explore how standards set by the International Audit and Assurance Standards Board (IAASB) can be used to hold global as well as local leadership to account.

The audit of the future

We have already introduced a requirement for auditors to report on risks in the audit of financial statements, not just give a black and white opinion. These extended audit reports are an important step forward and are valued by investors. However they focus on the current audit and the financial statements of the previous years' performance. Past performance at a selected point in time continues to be the focus of audit.

Looking ahead, it is time to test the current statutory audit model and ask whether it can be made more effective as currently established and how audit should be developed to serve the public interest in the future, taking account of changing business models, new technology and stronger public expectations. The FRC will be a leader in and support a broad and diverse coalition - of those seeking assurance, those affected by it, and those who may provide and facilitate it - to explore and respond to that challenge.

Standard-setting

We will continue our major contribution to the development of international standards and their governance framework. We will focus on foundation standards for audit leadership and quality control, and changes to audits of estimates aligned with new IFRSs. We will also consider how auditing standards can evolve to adapt to the opportunities offered by digital technology.

Towards the end of the 2018/21 strategy period, we will draw together evidence on the implementation of the new suite of UK standards introduced in 2016. It will be particularly important to review the Ethical Standard.

Professional oversight

We will agree with the RSBs KPI's for audit quality throughout the statutory audit market and how these are to be monitored. We will continue to oversee the audit qualification and our delegation of audit regulatory tasks to the RSBs. As part of this role, we will review the relevance of the audit qualification, particularly given developments in technology, and the effectiveness of their governance in supporting the public interest.

Monitoring the quality of local audit

Following the Government decision to disband the Audit Commission, we have been given a significant new regulatory responsibility for monitoring the quality of the audit of local public bodies which will commence in 2019. Over the strategy period, we will recruit as necessary staff with the specialist skills to enable us to fulfil this role.

In assessing progress on this strategic priority, we will take account of a range of indicators:

- The findings from the FRC's annual audit quality reviews – comparing them with the proportion of FTSE 350 audits that require no more than limited improvements.
- RSB data on the quality of audits that are not within the scope of FRC monitoring.
- Evidence from our reviews of the quality of local audit.

Promoting high quality actuarial work

Actuarial advice underpins important aspects of corporate governance, reporting and auditing - particularly in relation to pensions and insurance.

The Joint Forum on Actuarial Regulation (JFAR) was established in 2013 by the FRC, the Institute and Faculty of Actuaries (IFoA), the Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA) and the Pensions Regulator (tPR) to coordinate the identification of, and response to, public interest risks to which actuarial work is relevant.

During the strategy period, the FRC will:

- Continue to support and contribute to the work of the JFAR to identify and report on the risks to the public interest for which actuarial work is relevant.
- Continue to oversee the regulatory work of the IFoA, including the development of its Actuaries Code and the implementation of its plans to monitor the quality of actuarial work.
- Continue to update the risk assessment underpinning our technical actuarial standards; and, towards the close of the strategy period, carry out a post-implementation review of the revised framework of technical actuarial standards (TASs) - which took effect from July 2017 - and of the individual TASs.
- Engage with government bodies on the future of pensions disclosure and the ongoing appropriateness of the FRC's responsibility for standards supporting annual statutory money purchase illustrations.

We will assess progress through Feedback on the new TASs and the updated JFAR Risk Perspective, the quality of the monitoring proposals that are agreed by the IFoA and the impact that our oversight procedures have on the actuarial profession.

Effective enforcement

Public confidence in business depends not just on regulators setting and monitoring standards but on auditors, accountants and actuaries being held to account when necessary. In 2017 the FRC took robust enforcement action in a number of cases with fines totalling just under £15m in the year, by some margin the largest aggregate annual sum to date. This included the largest fine ever imposed by the FRC of £5.1m, in respect of audit misconduct by a Big Four audit firm. An independent review of our sanctions regime was conducted during the year and reported its recommendations in November. The FRC is now considering this report with a view to deciding which of its recommendations to implement to ensure that enforcement action continues to be robust and proportionate.

As competent authority for audit, we now pursue matters relating to inadequate audit under a new audit procedure which gives us greater powers to obtain information and documents from certain audited entities. It also provides that a greater range of conduct is potentially capable of attracting a sanction. We have further strengthened our team as a result of these changes, providing a sound platform for strong and timely enforcement action in the year ahead.

Looking ahead, the FRC will:

- Take firm, fair and timely enforcement action to protect the public, promote confidence in the profession, uphold standards and deter misconduct

- Ensure our investigations are progressed efficiently and concluded more quickly.
- Review and update enforcement procedures in light of our experience under the new audit procedure.
- Following the independent review of our sanctions, apply revised sanctions guidance for tribunals to ensure our enforcement work acts as a credible deterrent to poor performance.
- Conclude our discussions with the professional bodies on the accountancy scheme.
- Continue to engage with stakeholders to explain better our powers and responsibilities.
- Will be more transparent about the outcome of individual investigations such that where there is a clear public interest and subject to any applicable legal constraints, we will publish a summary of our reasons for closing an investigation.
- Consider the impact of emerging audit technology (such as AI and data analytics) on our investigation and enforcement processes.

We will assess our performance against our published KPI of a maximum of two years between commencement of investigation and service of Proposed Formal Complaint or Preliminary Investigation Report and will consider other evidence of the impact of our enforcement activities.



 Financial Reporting Council

Fair

Be proportionate, consistent, honest,
trustworthy and act with integrity

| Projects and activities to promote: | 2018/19 | 2019/20 | 2020/21 |
|--|----------------|----------------|----------------|
| Corporate governance and investor stewardship with a long term focus | | | |
| Annual report on the quality of UK corporate governance and reporting | → | → | → |
| Finalise the revised UK Corporate Governance Code and its associated guidance | → | | |
| Monitor the implementation of the revised Code | | → | → |
| Consult on a revised UK Stewardship Code | → | | |
| Further action to promote good investor stewardship | | → | → |
| Incorporate the findings of our 2016 Corporate Culture report into the revised Guidance on Board Effectiveness | → | | |
| True and fair reporting | | | |
| Undertake our annual programme of reviews of corporate reports, and thematic reviews (see note) | → | → | → |
| Publish our annual assessment of the quality of corporate reporting in the UK | → | → | → |
| Financial Reporting Lab projects (including, in 2018/19, projects on performance measures and digital reporting) | → | → | → |
| Influence the development of IFRS and post-Brexit endorsement arrangements | → | → | → |
| Updated Guidance on the Strategic Report | → | | |
| Influence the future development of corporate reporting, including in the context of S172 | → | → | → |
| High quality audit and assurance | | | |
| Monitor and report upon the quality of firms' audit work (see note) | → | → | → |
| Annual report on Developments in Audit | → | → | → |
| Establish a coalition to review the future of audit | → | | |
| Audit firm monitoring approach | → | → | → |
| Report on RSB governance and set KPIs for RSB quality reviews | → | → | → |
| Support the development of international auditing and ethical standards | → | → | → |
| Influence the post-Brexit regulatory framework for audit. | → | | |
| Monitor the quality of local public body audit | | → | → |

| | | | |
|---|---|---|---|
| Review the pilot project to develop an Audit and Assurance Lab. | → | | |
| Effective enforcement | | | |
| Progress, conclude and report on audit, accountancy and actuarial cases. | → | → | → |
| Introduce revised sanctions guidance to Tribunals. | → | | |
| Develop best practices to support the Audit Enforcement Procedure. | → | | |
| High quality actuarial work | | | |
| Assess the IFoA's updating of the Actuaries Code | → | | |
| Oversee the IFoA's regulatory work – including the monitoring framework for actuarial work. | → | → | → |
| Annual update of the JFAR risk perspective. | → | → | → |
| Post-implementation review of the revised framework of TASs | | | → |
| Engage with Government on pensions disclosure. | → | | |

Note: The FRC will supplement its monitoring programmes with a series of thematic reviews of certain aspects of corporate reports and audits where there is particular shareholder interest, and scope for improvement and learning from good practice.

Consultation questions

- 1) **Do you have any comments on our strategic priorities – are they in line with your expectations or are there other issues on which the FRC should focus?**
- 2) **Do you have any comments on our proposed audit firm monitoring approach?**
- 3) **Do you have any comments on our key deliverables?**



FRC Financial Reporting Council

Independent

Be objective, impartial
and transparent

Three – Our culture and people

In 2016 the FRC published a report on 'Corporate Culture and the Role of Boards' developed in partnership with a number of organisations. The central message of the report was the increasing importance of corporate culture in delivering long-term success. In developing our own organisational culture we are following the key themes identified in the report. Our aim is to cultivate a culture of high performance in which we develop our people to be decisive, speedy, firm and fair, as well as engaged with a broad set of stakeholders.

Our starting point has been to better align our mission, values and behaviours. Our new mission and values, which underpin this strategy were developed through discussion and debate across the organisation. They are supported by the whole FRC team and will guide the way we work and assess our performance.

We are independent from those we regulate, with a strong public interest ethos. But we also need the technical skills, practical experience and the authority to set, influence and monitor codes and standards. This requires our people to be experts in their field with industry experience, so as to have the authority to set and influence national and international standards.

A major theme for this strategy period will be diversity - including in our governance structure, and in the way we pay and reward people, to make sure that everyone is treated fairly. Our Chief Executive is a member of the BEIS Ministerial Task Force on Diversity and as an organisation we intend to become more diverse, recognising that there is a need to make better progress in some areas. At Executive Committee level we have, and seek to maintain, a broadly equal male and female split. We need to improve further on other aspects of diversity, and will use new methods to recruit a broader range of candidates.

We have a range of learning and development programmes that are available to all our people and mentoring and work placements are undertaken across the FRC. We will use these programmes to encourage the development and contribution of all our colleagues regardless of their background. We are a signatory to the Women in Finance Charter, which includes pledges to promote gender diversity by: having one member of our senior executive team who is responsible and accountable for gender diversity and inclusion; setting internal targets for gender diversity in our senior management; publishing progress annually against these targets in reports on our website; and having an intention to ensure the pay of the senior executive team is linked to delivery against these internal targets on gender diversity.

We have in place an apprenticeship programme and have also started to offer work experience through Speakers for Schools and the Social Mobility Foundation (SMF). One of our teams volunteers with SMF to act as mentors to high-achieving young people from low-income backgrounds to help them achieve their ambitions through gaining entry to the universities and professions. Some of our teams have engaged in team-building activities organised around community projects; and we intend to do more of this type of volunteering in future.



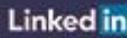
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Four - Draft budget 2018/19

Our annual budget sets out the resources we need to carry out our roles and responsibilities for the year. The key elements are the costs of:

- Our core operating activities for our work in relation to corporate governance, corporate reporting, audit and assurance, and professional oversight of the accountancy profession - which we recover through levies on companies and through payments from the accountancy professional bodies; in the case of our audit competent authority responsibilities (as shown in Table 1) the bodies are required by law to make such payments.
- Our work on technical actuarial standards, oversight of the actuarial profession, and enforcement against actuaries in public interest cases, which we recover through levies on insurance companies and pension schemes and an annual contribution from the actuarial profession.
- Investigating and prosecuting audit and accountancy enforcement cases in the public interest , which we recover directly from the accountancy professional bodies.

The budget for 2018/19 is shown as follows:

- Table 1 shows the budget allocated to our roles and responsibilities and the amount we allocate to reserves.
- Table 2 shows the budget allocated to the main types of expenditure. Staff costs account for the majority of our expenditure.
- Table 3 shows the current and projected level of reserves.
- Table 4 shows the funding requirement for 2018/19 across levy payers and the professional bodies (our funding groups).

Our proposed levies are set out in Section Four.

We have so far spent less than we budgeted for in 2017/18. Our staff costs have been lower than we originally planned because recruitment to some roles has taken longer than anticipated. We have also recovered £0.4m for the costs of an actuarial case.

The main increase in our budget for 2018/19 is the projected costs of the proposed audit firm monitoring approach on which we are consulting in Section Three.

Looking ahead through the 2018/21 strategy period, while we will continue to seek efficiency savings and ensure that we are carefully prioritising our work, we may need additional resources particularly in delivering our standard-setting and other regulatory responsibilities following the UK exit from the EU.

| Table 1: Budget | 2017/18 | 2017/18 | 2018/19 |
|---|-------------|-------------|-------------|
| | Budget | Forecast | Budget |
| | £m | £m | £m |
| Corporate Governance & Reporting | | | |
| Corporate governance | 1.1 | 0.9 | 0.8 |
| Accounting and reporting | 2.9 | 3.1 | 3.2 |
| Corporate reporting review | 4.0 | 3.9 | 4.2 |
| Financial Reporting Lab | 1.0 | 0.8 | 0.9 |
| XBRL | 0.2 | 0.2 | 0.2 |
| Central costs | 1.8 | 1.7 | 1.6 |
| Sub total | 11.0 | 10.6 | 10.9 |
| | | | |
| Audit and Assurance Regulation | | | |
| Audit quality review | 7.7 | 7.6 | 7.9 |
| Audit & Assurance standards | 1.9 | 2.0 | 1.9 |
| Audit firm monitoring | | | 0.6 |
| Professional oversight | 1.9 | 2.1 | 2.2 |
| Central costs | 1.8 | 1.8 | 1.9 |
| Sub total | 13.3 | 13.5 | 14.5 |
| | | | |
| Actuarial Standards & Regulation | | | |
| Technical actuarial standards | 0.9 | 0.7 | 0.8 |
| Professional oversight | 0.2 | 0.2 | 0.2 |
| IFoA actuarial monitoring | | | 0.1 |
| Central costs | 1.0 | 1.0 | 1.0 |
| Sub total | 2.1 | 1.9 | 2.1 |
| | | | |
| Enforcement | | | |
| Enforcement core costs | 3.4 | 3.4 | 3.3 |
| | | | |
| Sub total | 29.8 | 29.4 | 30.8 |
| | | | |
| Audit and accountancy case costs | 5.0 | 5.0 | 5.0 |
| Actuarial case costs | 0.5 | 0.1 | 0.5 |
| | | | |
| Total | 35.3 | 34.5 | 36.3 |
| Increase/(Decrease) in reserves | 0.7 | 1.7 | - |
| Funding requirement | 36.0 | 36.2 | 36.3 |

In Table 1, our central costs are allocated pro rata to each area of activity. The following table analyses our budget by type of expenditure:

| Table 2: Budget - Expenditure type | 2017/18 | 2017/18 | 2018/19 |
|---|----------------|-----------------|----------------|
| | Budget | Forecast | Budget |
| | £m | £m | £m |
| Staff costs | 21.5 | 20.8 | 22.0 |
| Non-Executive Directors Fees | 1.6 | 1.6 | 1.5 |
| Facility costs | 2.0 | 2.0 | 2.0 |
| IT & Website | 0.7 | 0.8 | 0.8 |
| Travel | 0.6 | 0.4 | 0.5 |
| Conferences | 0.2 | 0.2 | 0.2 |
| Recruitment | 0.2 | 0.2 | 0.2 |
| Training | 0.3 | 0.3 | 0.3 |
| Legal / professional / audit | 1.2 | 0.9 | 1.3 |
| Research | 0.2 | 0.1 | 0.1 |
| All others | 1.3 | 2.1 | 1.9 |
| Total | 29.8 | 29.4 | 30.8 |
| | | | |
| Actuarial case costs | 0.5 | 0.1 | 0.5 |
| Audit/ and accountancy case costs | 5.0 | 5.0 | 5.0 |
| | | | |
| Total | 35.3 | 34.5 | 36.3 |

Reserves

We maintain case costs reserves and general reserves to ensure that we can deliver our regulatory responsibilities effectively and can meet unexpected costs in the public interest. Our aim has been to establish general reserves equivalent to six months operating costs; we have kept this target under review and do not propose to add to our general reserves in 2018/19.

| Table 3 - Reserves | April 2017 | March 2018 (Forecast) | March 2019 (Forecast) |
|------------------------------|-------------------|------------------------------|------------------------------|
| | £m | £m | £m |
| General reserve | 6.1 | 7.8 | 7.8 |
| Conduct Committee legal fund | 2.0 | 2.0 | 2.0 |
| Actuarial case costs fund | 2.0 | 2.0 | 2.0 |
| Total | 10.1 | 11.8 | 11.8 |

Funding

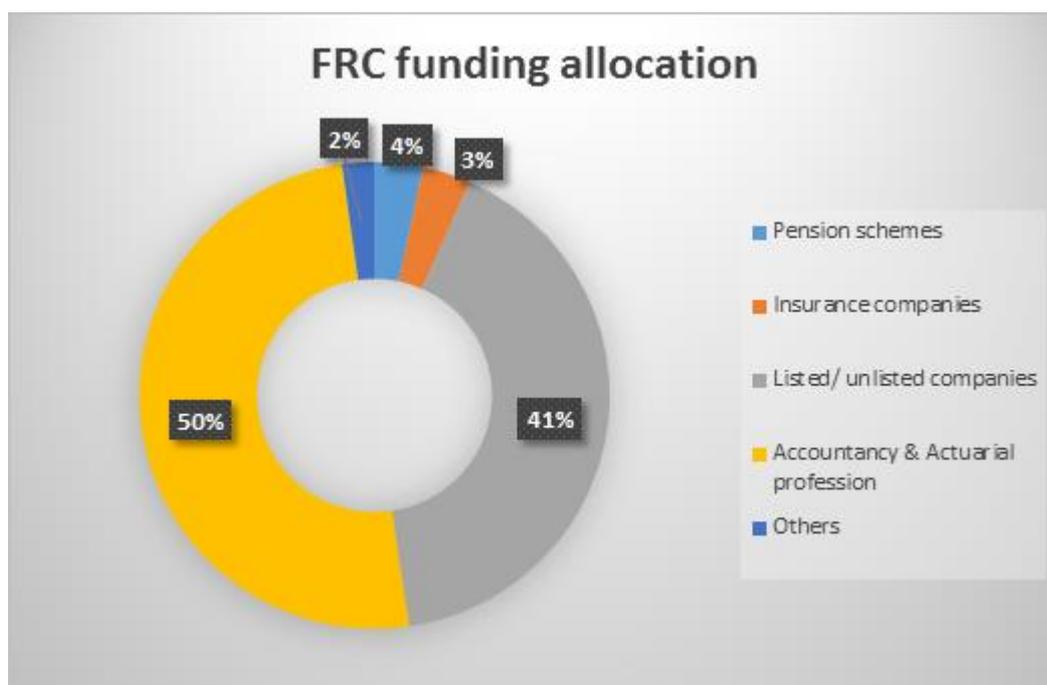
The following table sets out our funding requirement by funding group in 2018/19:

| Table 4 | 2017/18 Funding requirement | 2017/18 Forecast | 2018/19 Funding requirement |
|---|--|-----------------------------|--|
| | £m | £m | £m |
| FRC total expenditure | 35.3 | 34.5 | 36.3 |
| Proposed additions to/(call on) reserves | 0.7 | 1.7 | 0.0 |
| | | | |
| Total funding requirement | 36.0 | 36.2 | 36.3 |
| Funded by: | | | |
| Audit and accountancy funding groups | | | |
| RSB contribution to AQR funding | 6.5 | 6.8 | 7.0 |
| Other AQR income | 0.8 | 0.8 | 0.9 |
| Contribution to standards & oversight | 4.2 | 4.2 | 4.1 |
| CIMA | 0.8 | 0.8 | 0.7 |
| Case costs | 5.0 | 5.0 | 5.0 |
| Audit firm Supervision - RSB contribution | | | 0.6 |
| Preparers levy | 14.8 | 14.8 | 14.8 |
| | | | |
| Actuarial funding groups | | | |
| Insurance levy | 1.4 | 1.5 | 1.2 |
| Pension levy | 1.4 | 1.5 | 1.2 |
| IFoA | 0.2 | 0.2 | 0.2 |
| | | | |
| Unspent prior year (forecast) | 0.4 | 0.0 | 0.0 |
| Publications and other income | 0.5 | 0.6 | 0.6 |
| | | | |
| Total | 36.0 | 36.2 | 36.3 |

Consultation question

- 4) Do you have any comments on our draft budget and funding requirements for 2018/19?

Five - Levy proposals 2018/19



Accountancy professional bodies

The accountancy profession's contribution is paid by the Consultative Committee of Accountancy Bodies (CCAB), whose members are ACCA, CAI, CIPFA, ICAEW, and ICAS; and by CIMA which contributes to the FRC's funding requirement under the terms of a separate agreement with the FRC.

The ICAEW, ICAS, ACCA and CAI are Recognised Supervisory Bodies (RSB) for audit under Schedule 10 of the Companies Act 2006. The FRC, as the audit competent authority, delegates certain audit regulatory tasks to each RSB under a Delegation Agreement. Schedule 10 of the Companies Act 2006 and each Delegation Agreement also place an obligation on a RSB to fund the FRC's performance of any tasks that have not been delegated where these relate to the regulation of auditors registered with that RSB. This covers the costs of the FRC's audit review activities, audit enforcement activities and standard-setting procedures and from 2018/19 our audit firm monitoring approach. If the FRC's audit investigation and sanctions work results in a statutory fine under the Statutory Auditors and Third Country Auditors Regulations 2016 (SATCAR), that fine would be required by those regulations to be paid to the Secretary of State.

Case costs under the accountancy scheme (which would previously have covered cases that are now be subject to the SATCAR arrangements) are met by the individual participating body to which the members or firms that are the subject of each case belong. In the event of disciplinary complaints being brought, the disciplinary tribunals have powers to award costs against those found guilty of misconduct. Any fine income received or legal costs awarded to

the FRC in relation to disciplinary cases subject to the accountancy scheme are returned to the participating bodies which met the related case costs.

Our Audit Quality Review team carries out work under contract and receives payment from the PSAA, the National Audit Office and fees levied on Recognised Auditors registered in the Crown Dependencies. In 2019 funding for our new responsibilities to monitor local public audit will be provided by the relevant accountancy bodies.

Preparers levy

The preparers levy is the annual levy we charge to:

- companies listed on the London Stock Exchange with a Premium or Standard listing.
- UK companies quoted on AIM and listed on ISDX (previously known as PLUS) Market group.
- large private entities with a turnover of £500m or more.
- Global Depository Receipt (GDR) issuers.
- Government Departments, local authorities and other public sector organisations.

The total amount of the preparers levy for 2018/19 will be £14.8m. In addition to this the FRC will aim to collect the UK contribution to the funding of the International Accounting Standards Board, totalling £0.9m in 2018/19.

The amounts payable are determined through a minimum levy and further amounts for organisations above a certain size, with the rate per £m declining in five levy bands, aligned with the FCA levy arrangements. The amounts finally charged to individual levy payers are based on their market capitalisation as at the end of November 2017 (for listed companies), and on the latest available data on turnover for other companies, and annual gross expenditure for public sector organisations.

We are proposing to reduce the minimum fee and the levy rates for levy bands one to five by 2.5% for organisations within our preparers levy funding group:

| | Organisation size per £m* | 2018/19 Preparers levy rate |
|-------------|----------------------------------|------------------------------------|
| Minimum fee | Up to 100m | £1,044 |
| 1 | 100m - 250m | £10.23 |
| 2 | 250m - 1,000m | £7.80 |
| 3 | 1,000m - 5,000m | £7.55 |
| 4 | 5,000m - 25,000m | £0.1229 |
| 5 | > 25,000m | £0.0233 |

Discounts: Main market companies with a Premium listing pay the full levy; companies with a Standard listing receive a 20% discount. UK AIM quoted and ISDX listed companies receive a 50% discount. Private entities with a turnover of more than £500m receive a 50% discount. Public sector organisations receive a 75% discount. The following table gives examples of the levy that will be charged to different types of entity:

| Organisation | 2018/19 levy |
|--|---------------------|
| UK AIM company with £100m market cap | £522 |
| Private company with £750m turnover | £3,239 |
| Premium listed company: £25bn market cap | £41,085 |

We are proposing that Global Depository Receipt issuers should pay the same levy as in 2017/18: £3,450 for companies that have designated the UK as their home competent authority and £2,750 for other issuers. The FCA's Home Competent Authority list is available at <http://www.fsa.gov.uk/ukla/hcaList.do>.

Actuarial standards and regulation

During 2017/18, we collected more than originally estimated from the insurance and pension levies. We are therefore proposing to reduce the amounts we seek through these levies in 2018/19 compared to the amounts we would otherwise have requested. As a result, the amounts we request in 2019/20 and 2020/21 may increase compared to 2018/19 depending on the outcome of the planned consultation on future IFoA arrangements for monitoring the quality of actuarial work. As we note in the introduction to this strategy document, we will work with the IFoA to establish a future funding model for this public interest activity and consult on any changes.

Insurance levy for 2018/19

The insurance levy is allocated to insurance companies as a proportion of the FCA and PRA regulatory fees and charged on the same invoice as the FCA/PRA fees. We are proposing to raise £1.2m from the insurance levy in 2018/19 and we will confirm the levy rate to be applied in the first quarter of 2018 on the basis of the FCA/PRA fees once these are confirmed.

Pension levy for 2018/19

The FRC pension levy applies to all Defined Benefit and Defined Contribution schemes with 5,000 members or more. We are proposing to raise £1.2m from the pension levy in 2018/19 and we will confirm the levy rate in the first quarter of 2018 after considering the data on scheme membership provided by the Pensions Regulator.

Institute and Faculty of Actuaries (IFoA)

When we took on responsibilities for actuarial standards and regulation in April 2006 it was agreed that the IFoA would contribute a share equivalent to 10% of the cost of our actuarial activities. We have maintained this approach for 2018/19. However, our budgeted 2018/19 expenditure includes £0.1m of possible funding for the professional body in respect of its proposed actuarial monitoring programme - on which it will consult in 2018/19.

Third Country Auditors – Registration and renewal fees

A third country auditor seeking registration in the UK must pay to the FRC a fee upon application and an annual fee thereafter for renewal of its registration in accordance with the Third Country Auditors (Fees) Instrument 2011. This fee is based upon our anticipated costs to administer the regime. The amounts payable are determined by the anticipated cost of processing applications from each of the three categories of registration; Equivalent, Transitional or Article 45. Audit firms from countries which have not been assessed as having audit oversight, monitoring and discipline regimes equivalent to those of the European member states or regimes which are moving in that direction involve the greatest amount of processing and therefore incur the highest fees. From 1 April 2018, we are not proposing to change the registration and renewal fees. The proposed fee structure is set out below.

| | 0-9 relevant clients | | 10+ relevant clients | |
|----------------|-----------------------------|---------------|-----------------------------|---------------|
| | Equiv/trans | Art 45 | Equiv/trans | Art 45 |
| 2018/19 | £1,136 | £2,272 | £2,840 | £5,680 |

Other income

The FRC also generates income from its publications, including from electronic rights. The XBRL project is funded by HMRC, the Charity Commission and UK Companies House. We also receive some bank interest on our deposits

Consultation question

5) Do you have any comments on our levy proposals for 2018/19?

Comments should be emailed to David Andrews at d.andrews@frc.org.uk



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