

February 2020

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# Draft Plan and Budget 2020/21

The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting 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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# Financial Reporting Council, Strategy 2020 (Draft for consultation)

## 1 Introduction

The Financial Reporting Council (FRC) is going through a period of significant and sustained change. In the last year three independent reviews have made far-reaching recommendations to the Government which impact on our purpose and objectives, our work programmes and the roles and responsibilities of those we regulate amongst other key issues. While the Government has yet to formally respond to all of the recommendations, the broad direction of travel is clear and the FRC needs to take interim steps to respond appropriately with its existing powers.

This Strategy sets out our initial response and the steps we can take now, but will be replaced in 2021 with a longer-term strategy once the Government's final positions on several key public policy issues are finalised. To implement this Strategy will require additional resources and that is also set out, with an indication of further expansion in later years.

Simon Dingemans  
Chair, FRC

Jonathan Thompson  
Chief Executive Officer, FRC

February 2020

## **2 Our Purpose**

***The purpose of the FRC is 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.***

Corporate Governance includes investor stewardship.

There are a wide range of organisations responsible for implementing the relevant codes and standards including companies, audit firms and investors all of whom are important stakeholders for the FRC. Within this group there are a range of professionals including accountants and actuaries whom we can hold directly to account.

However, the public interest is wider, as shareholders, suppliers, employees, customers, communities and financial institutions all have a stake and an interest in the health of companies within our existing regulatory scope. The failure of a major company impacts society widely, not only in losses incurred by shareholders and the resultant impact on the investments and pensions of a wide range of people, but also on individuals, jobs, communities, the environment and society.

## **3 Our Objectives**

Our core objectives will be;

1. To set high standards in corporate governance and stewardship, corporate reporting, audit and actuarial work and assess the effectiveness of the application of those standards, enforcing where in the public interest.
2. To promote improvements and innovation in these areas, exploring good practice with a wide range of stakeholders.
3. To transform the organisation into a fit-for-purpose, independent regulator.

The FRC will promote a more resilient audit market and in due course the Government will decide our role in ensuring appropriate competition in that market. We have anticipated that we will need to enhance our capacity and capability to respond to this.

In order to achieve these objectives, we will need to monitor the application of the standards, hold parties to account and, where in the public interest, enforce. We will need to anticipate and act on emerging risks, forge stronger relationships with investors and take their views into account.

Promoting high standards involves setting standards at the right level and encouraging good practice. We will strive to continue our record of highlighting good practice, innovation and improvement, both within the UK and looking beyond to global examples which are relevant to the UK. In all areas we will strive to be more transparent within current powers about our work and its potential impact.

The FRC has a key role in translating international standards for the UK and influencing international standards through membership of a range of global and regional bodies. We will continue this. As the UK leaves the EU, we will implement UK arrangements in accordance with Government decisions.

## **4 Regulatory Principles**

We will comply with the Regulators Code and have adopted the following six principles in how we will act as a regulator.

1. Act independently and with integrity
2. Fair but tough
3. Forward looking
4. Innovative
5. Proportionate and evidence based
6. Transparent

## **5 Our Business Model**

As a result of redefining our purpose, principles and objectives we will move forward with a revised business model and reorganise the FRC into four Divisions;

- 5.1 Regulatory Standards and Codes – pulling together all areas of our business that set and influence standards and codes and promote good practice, including international liaison and translation.**

- 5.2 Supervision – monitoring and assessing compliance with the applicable laws, codes and standards set and ensuring that audit firms prioritise actions to improve audit quality and promote resilience of the audit market.**
- 5.3 Enforcement – holding to account in the public interest those responsible for breaching required standards.**
- 5.4 Corporate Services – run the FRC effectively, as a public body in line with Government expectations of an independent regulator and the laws and regulations that apply to it.**

## **6 Our People**

Our people are our strength and we have been working over a number of years to improve our culture and diversity.

Our starting point has been to better align our purpose, values and behaviours. This strategy further develops our purpose and reconfirms our values, which were developed through discussion and debate across the organisation.

We 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 appropriate experience, so that they have the authority to deliver across a wide range of disciplines. As we expand, we will continue to focus on developing our people and recruiting new colleagues with the requisite skills. We will consider our learning and development strategy as well as our promotion and recruitment processes.

The FRC is a diverse organisation in many respects. But we can always do more and we will continue to do so – particularly in the way we pay and reward our people and make sure that everyone is treated fairly.

## **7 Priorities For 2020**

### **7.1 Regulatory Standards and Codes**

1. Promote the Stewardship Code, support signatories to the Code and ensure significant take up. Assess early reporting of implementation.
2. Undertake an annual assessment of adherence with the Corporate Governance Code as well as the Wates Code for private companies.
3. Update the Corporate Governance Code and/or related guidance for enhanced requirements on internal controls, risk management, going concern and resilience/viability.
4. Publish a thought leadership paper on the Future of Corporate Reporting.
5. Deliver FRC Lab projects on Technology and Future Horizons in reporting.
6. Update UK GAAP for recent international developments.
7. Launch a post-implementation review of the Technical Actuarial Standards.
8. Support the government's green finance strategy to embed climate-related issues into corporate reporting and investment decision making.
9. Assist the Government with creating new structures for setting accounting standards after leaving the EU.

### **7.2 Supervision**

1. Taking a risk-based approach, increase the scope and number of Audit Quality Reviews (from 130 in 2019/20 to between 145-165 in 2020/21) and Corporate Reporting Reviews (from 215 in 2019/20 to between 240 and 260 in 2020/21) undertaken.
2. Improve transparency by publishing more information about these individual reviews as well as thematic reviews on key cross-market issues e.g. climate reporting.
3. Build and deepen our supervision of the major audit firms, including governance, structure, audit quality management, culture and resilience.
4. Expand oversight of the professional bodies with decision-making about auditor registration moving to the FRC.

### **7.3 Enforcement**

1. Deliver robust, fair and transparent regulatory outcomes.

2. Continue to improve the timeliness of our work.
3. Report on regulatory outcomes and progress through the Annual Enforcement Review and public messaging.
4. Conclude our Carillion related factual investigations and decide upon any enforcement action required.

#### **7.4 Corporate Services**

1. Deliver within budget.
2. Improve management information and publish externally on an agreed regular basis.
3. Improve staff morale and wellbeing.
4. Deliver an integrated communications and stakeholder management strategy to ensure we get the insights we need to develop policies, maximise the impact of our work and regularly and clearly communicate with our stakeholders.
5. Assess organisational capability gaps and close them.
6. Monitor risks to achieving our objectives and put controls in place to mitigate where possible.

#### **7.5 Reform**

1. Work with BEIS on any Consultation Documents in response to the Kingman and Brydon Reviews.
2. Work with BEIS on their response to the Competition and Markets Authority assessment of competition in the audit market.
3. Deliver change in line with Kingman recommendations with existing powers or take major steps towards them, subject to 1.
4. Integrate all reform for the FRC into a transformational programme with appropriate governance.

### **8 Our Governance**

The governance of the FRC is being streamlined. In the first half of 2020 we will implement a two-tiered governance system, removing entirely the existing third tier and moving to more executive led decision making where appropriate. The number of Board members is being reduced and refreshed through natural changes in rotation, producing leaner decision making and oversight arrangements.

### **9 The Impact on Resources**

This Strategy takes the first of what will be several steps forward in the FRC delivering against the recommendations of the three independent reviews. When the Government formally responds to all three with its proposals, and potentially legislates for agreed change, further developments in all aspects of this Strategy will be needed. That will be set out in a 2021 Strategy when there is more clarity.

In the interim, to deliver against this Strategy we will need to increase the number of people working in the following areas.

#### Regulatory Standards and Codes

- Support the implementation of the updated Corporate Governance and Stewardship Codes and Wates Principles and monitor and assess compliance.
- Implement a UK Endorsement Board for IFRS on leaving the European Union.

#### Supervision

- Increase resources working on Audit Quality and Corporate Reporting Reviews by 25% to improve coverage and respond to risk.
- Develop and deepen audit firm supervision.
- Expand oversight of professional bodies and take initial steps on auditor registration governance as recommended in the Kingman Review.

#### Enforcement

- Increase the number of forensic accountants and lawyers to speed up the investigation and conclusion of enforcement cases.
- Enhance the case examination function to speed decision making over whether to open an investigation or use other methods of constructive engagement to resolve the situation.

#### Corporate Services

- Enhance resources in human resources given the overall expansion of the size of the FRC.
- Implement a market intelligence function to inform other aspects of our work to ensure a more proportionate and risk based regulatory approach.

Overall therefore the budgeted cost of the FRC is planned to rise from £41.7m to £47.2m (13.2%) and the number of people from 255 (March

2020) to 355 by the end of March 2021. Further detail is set out in Annex 1.

# 1 Annex 1 - Expenditure and funding

## 1.1 Expenditure

Delivering our Strategy for 2020/21 will require a budget of £47.2m (Table 1). This will enable us to expand our regulatory functions in line with the recommendations of the Independent Review, and to establish new arrangements for endorsing IFRS and discharging our professional oversight role following EU Exit.

The key areas in which we are increasing expenditure in 2020/21 are in audit regulation, monitoring the quality of corporate reporting, and enforcement.

<b>Table 1: Budget - Expenditure type</b>	<b>2019/20 Budget</b>	<b>2020/21 Budget</b>
	<b>£m</b>	<b>£m</b>
Staff costs	26.1	29.4
NED's and Committee Member Fees	1.3	1.4
Facility costs	2.6	2.9
IT & Website	0.9	1.3
Travel	0.6	0.6
Conferences	0.2	0.2
Recruitment	0.3	1.1
Training	0.3	0.3
Legal / professional / audit	1.8	2.3
Research	0.4	0.4
All others	1.6	1.7
FRC Taxonomies	0.2	0.2
<b>Total</b>	<b>36.3</b>	<b>41.8</b>
Actuarial Investigation Costs	0.4	0.4
Audit and Accountancy Case Costs	5.0	5.0
<b>Total</b>	<b>41.7</b>	<b>47.2</b>

## 1.2 Funding

In order to secure the necessary resources from market participants we have set a funding requirement of £47.2m, in line with the budget.

We have allocated the funding requirement as follows:

<b>Table 2: Funding sources</b>	<b>2019/20 Budget £m</b>	<b>2020/21 Budget £m</b>
<b>Audit and Accountancy funding groups</b>		
RSB contribution to AQR funding	8.3	9.0
NAO & Crown Dependencies	0.6	0.5
CCAB contribution	4.4	8.2
CIMA	0.7	0.9
Contribution to enforcement case costs	5.0	5.0
Contribution to AFMAS	1.2	1.6
<b>Accounts preparers</b>	<b>14.5</b>	<b>16.5</b>
<b>Actuarial funding groups</b>		
Insurance companies	1.1	1.0
Pension schemes	1.1	1.0
IFoA	0.2	0.2
Publications, XBRL and TCA registration fees	0.7	0.7
BEIS contribution to EB	0.0	2.6
Provision for additional costs	3.9	-
<b>Total</b>	<b>41.7</b>	<b>47.2</b>

The proposed funding requirement represents an increase of 13% over the total funding requirement for 2019/20, which provided for an additional £3.9m to cover costs arising from EU exit and the implementation of the Independent Review. In practice we have not sought additional EU exit or Kingman funding during 2019/20. The proposed funding requirement therefore represents an increase of 25% over the funding we ultimately sought to raise in 2019/20 (£37.8m).

The audit and accountancy profession's contributions are 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 FRC requests preparers, pension and insurance levy payments on the basis that the levies are non-statutory and collected on a voluntary basis. Should the system of voluntary payments prove unsustainable we would request that the Secretary of State make regulations to put the FRC's levies on a statutory basis. The Companies (Audit, Investigations and Community Enterprise) Act 2004 includes provisions to enable this.

We are proposing to increase the preparers levy rate by 18% so we can generate an extra £2.0m towards the proposed funding requirement:

	<b>Organisation size per £m of market cap*</b>	<b>2020/21 Preparers levy rate</b>
Minimum fee for all companies	Up to 100m	£1,316
Additional fees based on the following levy bands		
1	100m - 250m	£12.92
2	250m - 1,000m	£9.85
3	1,000m - 5,000m	£9.53
4	5,000m - 25,000m	£0.1552
5	> 25,000m	£0.0294

The following tables gives an indication of the amounts that will be charged to different types of entities:

<b>Organisation</b>	<b>2020/21 levy</b>
UK AIM company with £100m market cap	£658
Private company with £750m turnover	£4,091
Premium listed company: £10bn market cap	£49,558

### 1.3 Pension levy for 2020/21

The FRC pension levy applies to all Defined Benefit and Defined Contribution schemes with 5,000 members or more. We are proposing to raise £1.0m from the pension levy in 2020/21 and we will confirm the levy rate to be applied after receiving the data on scheme membership provided by the Pensions Regulator.

### 1.4 Insurance levy for 2020/21

The insurance levy is allocated to insurance companies as a proportion of

the FCA and PRA regulatory fees and requested on the same invoice as the FCA/PRA fees. We are proposing to raise £1.0m from the insurance levy in 2020/21 and we will apply the levy rate necessary to secure this as proportion of the FCA/PRA fees.

Further information about our funding is available on our website at [www.frc.org.uk/funding](http://www.frc.org.uk/funding)

Comments on this document should be emailed to [FRC.Plan.Budget@frc.org.uk](mailto:FRC.Plan.Budget@frc.org.uk)



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