

FRC's draft plan, budget and levy

Submission from The Association of Investment Companies

The Association of Investment Companies (AIC) welcomes the opportunity to respond to the Financial Reporting Council's (FRC) draft plan and budget.

The AIC represents 346 closed-ended investment companies with assets under management of over £123 billion. Investment companies have their shares admitted to trading on public stock markets. The AIC's members are predominantly listed on the Main Market of the London Stock Exchange. Some have shares admitted to trading on the Specialist Fund Market; others are quoted on AIM.

The AIC's members include UK investment trusts, Venture Capital Trusts, UK REITs and non-EU companies. Our non-EU members are primarily Channel Islands domiciled.

The majority of our members report against the AIC's Code of Corporate Governance (the AIC Code) which has been tailored to reflect the characteristics of the sector. The AIC Code is endorsed by the FRC as an alternative means for members to meet their obligations in relation to the UK Corporate Governance Code (the UK Code).

Question 1 – Do you have any comments on the regulatory approach we are proposing for our new three year strategy?

The AIC **supports** the FRC's commitment to not changing the codes and standards for the 2016/19 strategy period and its intention to reduce regulatory burdens. It **supports** the government's objective not to gold-pate any new regulations.

It is particularly important that the FRC continues to represent the UK's position on corporate governance and reporting in Europe. It is essential to maintain the 'comply or explain' framework that governs our regulatory regime. There should not be a move towards a more prescriptive system.

The AIC **supports** the collaborative approach that the FRC intends to take by strengthening its engagement with stakeholders. Both companies and investors should work collaboratively to shape the regulatory approach. The FRC should give appropriate weight to both groups to ensure the perspective of long-term investors is appropriately taken into account.

Question 2 – Are there areas of our work where we could reduce the regulatory costs we impose without compromising the quality of corporate governance and reporting in the UK?

The AIC **supports** the FRC's objective to reduce the regulatory costs imposed on companies. We will consider what areas the FRC might focus on to achieve this and engage with officials as appropriate.

Question 3 – Do you have any comments on the FRC's proposed projects and activities in 2016/17?

The FRC proposes to focus on investor stewardship during 2016/17. The AIC **recommends** that this project also takes into account the work of governance agencies. These agencies are taking a greater role in shareholder voting research and analysis but remain unregulated. The AIC **recommends** that the FRC seeks to work with these agencies to encourage disclosure of the essential features of their methodology, the information sources used and the nature of the dialogue they have with issuers which would shed light on their practices.

For example, the FRC should seek to ensure that governance agencies allow companies sufficient time to respond appropriately to any issues raised. They should ensure that any questions or issues that arise in relation to companies with unusual or different market characteristics can be sufficiently explained prior to any voting decision being made.

The AIC has previously responded to the following individual consultations that the FRC highlights in this paper:

- Enhancing confidence in audit;
- Improving the quality of reporting by smaller listed and AIM quoted companies;
- Auditing and ethical standards: implementation of the EU Audit Directive and Regulation; and
- UK board succession planning.

Question 4 – Are the proposed indicators helpful in assessing progress towards the FRC's objectives; and are there other indicators that should also be taken into account?

The AIC **agrees** that the indicators identified by the FRC are suitable overall. However, we have a few comments on specific indicators below.

Corporate governance

The FRC proposes considering “*relevant evidence of greater focus on the importance of company culture from surveys by market commentators*”.

The AIC does not support the use of third party data in assessing this. It is unclear which surveys will be used. Questions will arise about the integrity of the source data, such as:

- For what purpose was the data initially collated for?
- Where has the data come from and how is it verified?
- Is the data up to date and how frequently is it refreshed?

The AIC **recommends** deleting this indicator and relying on the other indicators identified which, when taken together, will give a good indication of the culture of a company.

Investor stewardship

The FRC should seek to include some work on governance agencies within its 2016/17 work plan. Please see our response in question 3.

Corporate reporting

The AIC **supports** the FRC's intention to “*continue to influence the IASB's agenda and work on its Conceptual Framework and its standards on financial instruments...*” The FRC should seek to inform and influence EU and international standard setters to promote the interests of UK companies and users of corporate reports.

In general the AIC **supports** the indicators identified by the FRC for assessing the quality of corporate reporting. However, further information is needed to assess whether “*evidence on the quality of reporting from surveys by other market commentators*” is an appropriate indicator. For example, which surveys will be used from which commentators and what was the original purpose of those surveys?

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To discuss the issues raised in this paper please contact:

Guy Rainbird, Public Affairs Director
guy.rainbird@theaic.co.uk, 020 7282 5553

Lisa Easton, Technical Manager
lisa.easton@theaic.co.uk, 020 7282 5611