The Better Regulation Executive’s Hampton Implementation Review Report, published in February 2010, concluded that the FRC “demonstrated a very high level of compliance with Hampton criteria across most areas of its activities”. This note reports on the actions we have taken in response to the Review at January 2011.

**Recommendations and FRC responses**

The Hampton Review’s Executive Summary identified five areas which the FRC might revisit and keep under review:

*Monitoring and demonstrating delivery of performance and outcomes*

The Review suggested that an important area of challenge for the FRC was the way in which we monitor and demonstrate delivery of performance and outcomes; and that we should re-evaluate our annual stakeholder survey and consider opportunities to utilise this to monitor future performance.

We are taking a number of steps that address this recommendation.

We have initiated a more informative and engaging approach to our Annual Report 2009/10, starting with the 2009/10 Report which we published in June 2010.

In our Plan 2010/11, also published in June 2010, we explained that, in addressing our priorities, we will:

- Articulate and promote the importance of the contribution that good corporate governance and transparent, high quality corporate reporting can make to economic competitiveness.

- Focus on the interaction between the regulatory requirements on market participants, responsible for governance and reporting decisions, and the usefulness and reliability of the information available to investors and others who depend on the quality of those decisions.

- Strengthen our links with investors and other stakeholders.

- Emphasise the importance of a strong evidence base for our regulatory approach.

We plan to undertake a stakeholder survey in 2011 which will focus on our effectiveness as a regulatory authority.
We will also review our approach to gathering evidence about the environment in which we operate, and our effectiveness as a regulatory body, to inform our planning and reporting processes. We will undertake this review on the basis of our updated mission statement.

As part of this review we will consider appropriate outcome indicators and output measures.

Engaging with stakeholders

The Review suggested that we should build on our efforts to broaden our stakeholder base to ensure greater involvement of small businesses, the investor community and other stakeholders.

We have taken a number of steps that address this recommendation, including actions relating to the investor community, small businesses and users of actuarial information.

Action in relation to the investor community has focused on the updated UK Corporate Governance Code and the new Stewardship Code, which involved extensive consultation with the investor community, which has demonstrated a significant level of support for the Stewardship Code. Details are at: [http://www.frc.org.uk/corporate/investorgovernance.cfm](http://www.frc.org.uk/corporate/investorgovernance.cfm). Our 2010/11 Plan reflects our commitment to the investor aspects of our work.

We have also considered our impact on smaller entities. The project on the future of financial reporting, on which we have consulted extensively, has important implications for reporting by smaller UK companies. The Accounting Standards Board (ASB) is proposing a new UK financial reporting standard, based on the International Financial Reporting Standard for small and medium sized enterprises (the FRSSE) amended to comply with Company law, which would be applicable to non-quoted companies. At present companies qualifying for the small companies’ regime could continue to apply the FRSSE. The ASB is seeking views on the proposed amendments and any appropriate alternatives, and is actively engaging with non-quoted companies of all sizes.

We have also taken steps to communicate with users as well as providers of actuarial information. The current year “Update for users of actuarial information” is particularly relevant to the governing bodies of insurers and pension schemes, but may also be useful for scheme sponsors, auditors and audit committees. The focus is on quality controls for actuarial work, understanding the business model and the way cash flows are projected and reported, and the way risks are assessed and managed.
Formalising our approach to cost benefit analysis

The Review suggested that the FRC could review its approach to evaluating the costs and benefits of our proposals: it was clear that costs and benefits were considered and debated, but more detailed analysis could add value, and the FRC could also make better use of post-implementation reviews.

Evaluating the possible costs and, in particular, the potential benefits of regulatory proposals is a challenge for regulators – particularly in areas where proposals derive to a significant extent from EU and other international developments – but it is a challenge which we have taken very seriously.

We have a number of steps that address this recommendation.

Since the Review was published we have published a major domestic proposal – the future of financial reporting – which was undertaken in close consultation with the Department for Business, Innovation & Skills (BIS). In developing the proposals, the ASB has been mindful of the approach to regulation adopted by the UK Government, including the introduction of the ‘One-in, One-out’ regulatory management system. The ASB has carried out a consultation stage Impact Assessment. Overall, the ASB believes the proposals will have a positive impact on financial reporting. In its view, the benefits of a more proportionate, transparent financial reporting regime, targeted to meet users’ and preparers’ needs, will in the long term generate cost savings. Detailed information on the consultation is available on our website at: http://www.frc.org.uk/asb/publications/documents.cfm.

Separately, the ASB has been working jointly with the European Financial Reporting Advisory Group (EFRAG) on a pro-active project to develop principles and a framework for assessing the effects of accounting standards, where the plan is to issue a Discussion Paper is scheduled for issue at the end of January/early February 2011.

We have recruited an economist, who joined the FRC in January 2011. Among the economist’s key roles will be to provide assistance for FRC teams in developing impact assessments, including cost/benefits analysis, for regulatory proposals, and to consider the impact of regulatory proposals that have been implemented.

Reviewing the scale of audit inspections

The Review suggests that we should carefully review the scale of inspections on auditors to ensure that they are proportionate and effective. It “highly commends” the Audit Inspection Unit (AIU) for the risk analysis supporting the targeting of its inspections.
Having regard to this recommendation, we will continue to appropriately target inspections, conduct them with regard to the burden on inspected entities, and report on them in a way that promotes good practice in individual firms and more broadly across the audit industry. We believe, therefore, that we will remain Hampton-compliant.

**Information on sustainability and narrative reporting**

The Review suggests that we may want to monitor sustainability information when contained in annual reports and to consider updating our existing guidance on narrative reporting if and when appropriate.

We have taken steps that respond to this recommendation.

Our 2010/11 Plan, published in June 2010, included projects to:

- Monitor sustainability information in annual reports and consider publishing guidance on sustainability reporting if and when appropriate.

- Lead a wide-ranging debate designed to stimulate improvements to narrative reporting, including disclosures in relation to business models.

The ASB has continued to monitor market comments and reports about the preparation of sustainability information contained in annual reports, and has met a number of organisations active in this area. A session on ‘integrated reporting’ was held at the National Standard Setters meeting in April 2010.

The ASB has also continued to monitor market comments and reports about narrative reporting contained in annual reports. In October 2010 the FRC responded to a BIS consultation on the future of narrative reporting. The FRC was represented at all the workshops hosted by BIS on this subject. In January the ASB submitted a response to a European Commission consultation on the ‘Disclosure of Non-Financial Information by Companies’.

**Other suggestions in the Review**

Two additional suggestions in the report – which are not included in the Executive Summary – are that:

- We should ensure that data requests to the Actuarial Profession are consistently applied as the FRC’s relationship settles down – Our response is that the POB will continue to request data only when necessary and appropriate.
We should review the possibility of using a broader range of sanctions across our remit. Our response is that a project to review our powers is included in our 2010/11 Plan, and it is well underway.

**Next steps**

We will remain strongly committed to the principles of good regulation and the Hampton principles and will review our compliance with those principles at appropriate intervals.

FRC
26 January 2011