



Financial Reporting Council

2021/22

Draft Strategy and Plan & Budget



February 2021

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1 Introduction

Last year we set out a strategy to take the Financial Reporting Council (FRC) through a period of significant transformation to create the Audit, Reporting and Governance Authority (ARGA). Little did we know that a global pandemic was about to present us and all our stakeholders with new and unprecedented challenges.

During this period, our people have risen admirably to these challenges, and we have pursued our public interest role and supported investors, auditors and preparers of financial statements in navigating their way through the uncertainty created by the pandemic. Our transformation programme proceeded with vigour, implementing change not dependent on legislation, and developing the policy and resourcing options where legislation is required. We are confident that in the period between now and Government bringing forward consultation and then legislation we can continue with those findings of the three independent reviews (Kingman, Brydon and CMA) which are not dependent on legislation, and prepare the ground for legislative powers.

Our Strategy and Plan & Budget 2021/22 reflects our continuing commitment to fulfil our purpose whilst moving at pace towards becoming a more effective regulator, in anticipation of legislation to put ARGA on a statutory footing.

Increasing our capacity and undertaking new activities as recommended by the three independent reviews requires additional resources. In 2021/22 we expect our overall costs to increase by £6.8m, almost half of which funds the organisation's development and maturity, and half the establishment of the UK Endorsement Board (UKEB) following the UK's exit from the EU.

We recognise the need for proportionality in fulfilling our public interest obligations at a time of elevated uncertainty and we have balanced the need for growth in capacity and capability with the impact on levy-payers. Our recent investments have already been put to good use and welcomed by stakeholders as necessary steps in our transformation. By maintaining momentum as we deliver on our strategy, our intention is to create an organisation that is ready to become ARGA, fully formed, as soon as the legislation permits, whilst becoming increasingly effective and resilient.



Keith Skeoch
Chair, FRC



Sir Jonathan Thompson
Chief Executive Officer, FRC

February 2021



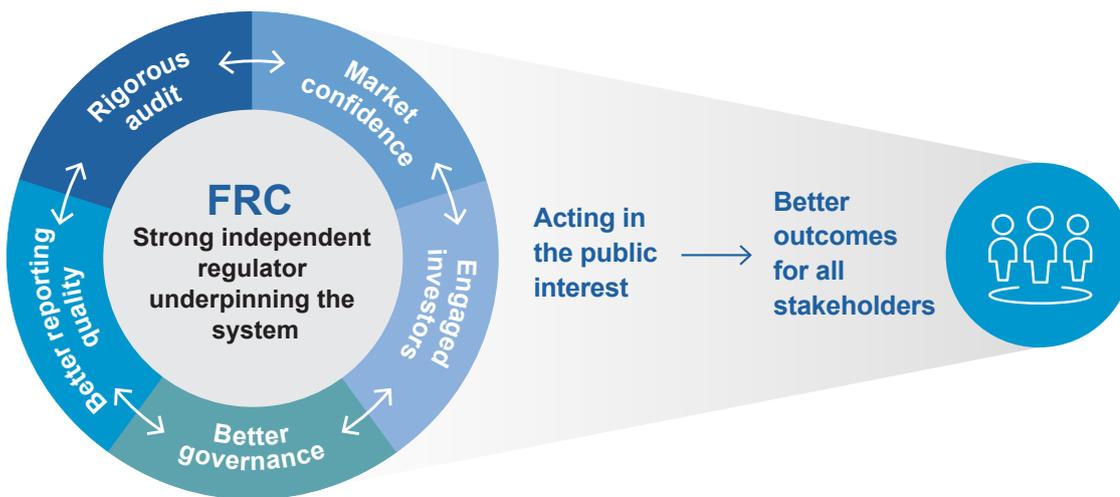
In 2021/22
we expect our
overall costs
to increase by
£6.8m

2 Purpose

2.1 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.

Building trust brings better outcomes for all stakeholders:



Delivering on our purpose will bring a variety of benefits. Improved outcomes, created by each of our regulatory activities are shown in the circle; each of which can positively reinforce others in the circle and contribute to overall benefits for a wide range of stakeholders such as greater transparency, increased trust in UK markets and a lower cost of capital for companies. Our direct stakeholders include companies, institutional investors, auditors, actuaries, accountants and their respective professional bodies. Our indirect stakeholders include retail shareholders, suppliers, employees, customers, communities, pensioners and savers, and financial institutions, all of whom have an interest in the health of companies and other organisations within our existing and future regulatory scope and in the success of the UK corporate sector as a whole.

We expect Government to set out proposals for ARGA to have a statutory general objective in line with our current purpose, supported by audit quality and competition objectives and a clear set of regulatory principles. This will allow for ARGA to determine how best to meet these objectives and principles, within the scope of the overarching purpose.

2.2 Our objectives

As we grow and change, our broad public interest purpose will remain the same and we will scale our capacity appropriately across the areas in our remit in order to achieve our core objectives:



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 we are 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.

During 2020 we supported the delivery of these objectives by increasing our capabilities across all of our core activities. The four divisions of the organisation are now in place and we will build on that framework in the year ahead – setting standards, supervising the application of standards, enforcing where needed and supporting the transformation of the organisation.

During 2020 our activities included creating a new stakeholder management and corporate affairs function, strengthening our supervision of audit firms to promote better audit quality, undertaking work to promote a more resilient audit market and setting up a competition policy team. We look forward to receiving the Government's proposals for the role ARGAs will play in ensuring appropriate choice and resilience in that market in due course. As we move out of the transition period following the UK's exit from the EU, we are also supporting the set-up and staffing of the UK's independent Endorsement Board for IFRS.

The improved capability we are delivering in 2020/21 provides a solid foundation on which to expand further, build our resilience and increase the pace of change towards becoming the new robust and independent regulator. We have assumed a further two-year transition period to the creation of ARGAs in 2023 in proposing this Strategy and Plan & Budget.

Although the legislative timetable to set up ARGAs is to be confirmed, we have established a well defined transformation programme to address the 155 recommendations of the three independent reviews. We have already implemented 34 and during 2021/22 the programme will focus on implementing those remaining recommendations not requiring legislation, many of which have already become embedded in our "business as usual" activities. These have already delivered benefits, for example in the streamlining of our governance structures and increased monitoring, supervision and enforcement capacity. We have invested in setting up FRC to become the new statutory regulator. We reported to the [BEIS Select Committee](#) in 2020 on our work plan.



We have
already
implemented

34
recommendations

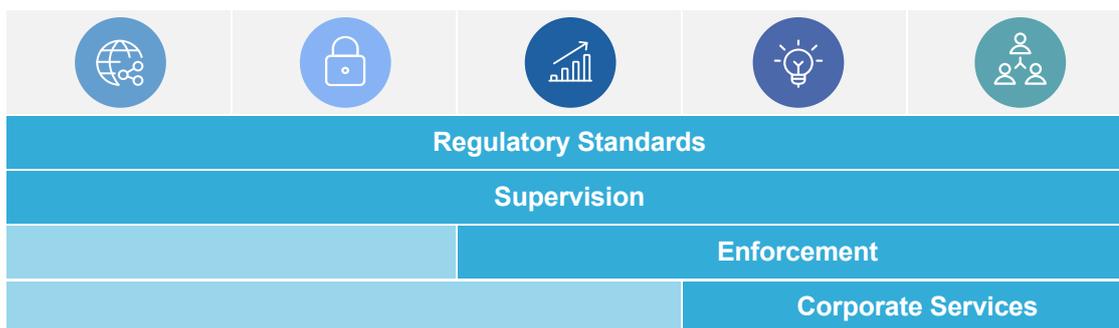
At the core of the independent reviews was a clear call to broaden both our role and responsibilities and deepen our supervisory regimes to provide greater assurance. The programme will also continue to support BEIS in developing legislation and implementing policy proposals as a result of the consultation process. This will require continuing investment, as our capacity and capabilities grow – leading to increased funding needs. From the current headcount of 358 by year end we plan to grow to 417 by March 2022, with some further growth in 2022/23 in Supervision in particular. Next year’s growth will be used to build teams and procedures for the activities that we can assume now, such as PIE auditor registration and operational separation, but also to prepare supervisory regimes in areas where we have some early understanding of the Government’s policy intentions but where we should not yet assume that additional supervisory responsibilities will fall on the FRC in 2022 or beyond.

During the transition, we will also be developing and implementing a new funding model for ARGAs, to be put on a statutory footing. We look forward to engaging with stakeholders on the principles and the details of ARGAs’ funding during the year.

Finally, in order to accurately measure and report transparently on performance against our objectives, we have agreed a set of KPIs. These will be reported both internally and externally during the course of the year.

+16%
The number of people we employ will increase by 16% to 417 by March 2022

2.3 Key outputs and initiatives for 2021/22



A number of our outputs and deliverables remain consistent year to year, particularly where they relate to our regulatory obligations. The list below highlights our key areas of focus for 2021/22, by each of the FRC’s divisions and aligned to the strategic objectives:

Regulatory Standards

Develop and maintain UK and Ireland accounting standards (GAAP) in a timely fashion, whilst also ensuring that the UK endorsement process for IFRS provides accountability and transparency by establishing due process oversight.

Issue a feedback statement and next steps following the FRC’s report on the Future of Corporate Reporting.

Develop and maintain UK auditing standards through adopting and, where appropriate, augmenting international standards, to support the delivery of high-quality audit.



Work to operationalise the audit market competition policy proposals set out in the Government's consultation, ahead of legislation.

Develop our actuarial policy function, carrying out a post-implementation review of Technical Actuarial Standards (delayed from 2020) and supporting the Joint Forum on Actuarial Regulation.

Provide actuarial expertise to the Supervision and Enforcement divisions in an effective manner.

Undertake assessments of performance against the UK Corporate Governance Code, the UK Stewardship Code and the Wates Corporate Governance Code for Large Private Companies.

Subject to the outcome of Government consultation, consult on revisions to the UK Corporate Governance Code and associated guidance ahead of legislation.

Deliver FRC Lab reports on stakeholder reporting and s172 of the Companies Act 2006, risk, uncertainties and scenarios, and performance metrics.

Deliver improvements to the FRC's stakeholder engagement function, including through a refreshed communications strategy and increased use of digital platforms.

Support the FRC's transformation into ARGA through establishing a programme of work aimed at reviewing and revising standards, codes and guidance, where appropriate, in advance of legislation.

Build our technology and innovation outreach and embed digital into our core policy areas.

The independent reviews included recommendations for ARGA to take on two new functions: audit committee supervision and actuarial monitoring. The timetable for taking on these functions is dependent on the results of Government consultation and remains uncertain. Any new functions will require policy support from the Regulatory Standards division and the Supervision division will be responsible for supervision and monitoring activities.

Supervision

Taking a risk-based approach, maintain the scope and number of reviews undertaken:

- 140-150 Audit Quality Reviews (AQR) in 2021/22; and
- 240-260 Corporate Reporting Reviews (CRR) in 2021/22.

Use thematic and cross-market reviews to promote improvements in corporate reporting, audit quality and audit market resilience.

Build and deepen our forward-looking supervision of the major audit firms (including governance, systems and audit quality control, risk management and culture), identifying priorities for each firm to improve audit quality and to hold them accountable for delivering them.



Further develop our oversight of the professional bodies, taking over the decision-making function of PIE audit firm and auditor registration as a tool for our supervision of audit firms.

Further develop and share our views on what constitutes high quality audit, including in response to changing circumstances, such as the impact of Covid-19.

Support the FRC's transformation programme, delivering reforms where they can be taken forward ahead of legislation, PIE audit firm/auditor registration and operational separation of Big 4 audit practices from the rest of the firm.



Enforcement

Deliver robust, fair and transparent regulatory outcomes whilst continuing to monitor the impact of the Covid-19 pandemic, ensuring a proportionate and risk-based response in the public interest.

Deliver investigations and enforcement action in an increasingly timely manner, focusing on those within our power responsible for preparation of financial statements, and their audit.

Create long-term behavioural changes by working closely with the Supervision and Regulatory Standards divisions to deliver a holistic regulatory approach.

Promote improvements through communicating clear and impactful messages in our enforcement outcomes, highlighting those firms that have demonstrated their commitment proactively to identify, remediate and report where standards are not met, or ethical failures occur.

Support the transformation of the organisation into ARGA by working collaboratively with internal and external stakeholders.

The independent reviews included new enforcement regime recommendations for directors, accountants and potentially actuaries. The division will work alongside BEIS and the transformation programme to develop the framework for these regimes, subject to the results of Government consultation.



Corporate Services

Deliver the supporting pillars of a new robust and independent regulator by delivering further the organisational and operational maturity – across risk and assurance, business resilience (including contingency planning and testing), revenue and budget management, and information management and security.

Support organisational growth and increased capabilities to set a medium-term workplace strategy to encompass career development and progression, with learning and development, aligned to the strategic objectives, and refresh the organisation's culture and values, in particular in the light of the high level of growth and recruitment and the lessons of the pandemic.



Review and set the medium-term IT and information management strategy and implement the recommendations to support organisational resilience and effective decision-making, drawing on the data and intelligence available.

Embed the new governance arrangements and support the new board and NEDs in discharging their responsibilities

Continue the range of expert support services – legal, finance and risk, HR, IT, and economics, research and data analytics, including to the UKEB.



2.4 What will success look like?

We are keen to be transparent on the deliverables being funded from the budget, and to track the progress against targets and our expenditure. The following KPIs will be supported by a wide range of public reports on outcomes and trends we oversee and identify, for example, disclosing the quality of the audits we review and the lessons learnt, identifying both the scope of investigations and enforcement and the lessons to be drawn to firms' attention, areas of good practice and that can be improved from our corporate reporting reviews – including corporate governance and stewardship codes. In 2020 we will have published around 30 such public reports on our work.

The KPIs on which we propose to report at the end of the year will include:

Supervision and monitoring 	Enforcement 	Financial and operational performance 
<ul style="list-style-type: none"> • Number of AQR reports completed. • Number of CRR reports completed. • Complaints against professional bodies for auditors, accountants and actuaries are investigated and responded to by the professional oversight team within 6 weeks. • Constructive engagement cases concluded within 12 months. 	<ul style="list-style-type: none"> • Enforcement cases settled, closed or investigation concluded within 2-year target. 	<ul style="list-style-type: none"> • Operating costs against budget. • Recruitment against budget. • FRC complaints responded to within SLA timeframe. • Research projects undertaken.

In our reports we will set out our progress but also add commentary and context, including updates on our transformation programme.

3 Operational structure, governance and resourcing

3.1 Our business model

In 2020 we restructured the FRC into four divisions aligned with our purpose and objectives, each led by an executive director:

Regulatory Standards 	Supervision 
<ul style="list-style-type: none"> • Lead the development of public and technical policy, informed by influential investor and stakeholder engagement. • Set codes, standards and guidance that support high quality corporate reporting, corporate governance and stewardship, auditing and actuarial work. • Drive innovation in the public interest for our stakeholders. • Influence international standard-setting and collaborate with other regulators. • Utilise stakeholder engagement and corporate affairs to consult with and inform all our stakeholders on the remit and activities of the FRC. 	<ul style="list-style-type: none"> • Deliver our statutory responsibilities for corporate reporting review and as the competent authority in respect of statutory auditors and the audit market. • Monitor the application of corporate reporting and audit standards and hold to account those that fail to meet these standards. • Promote improvements and innovation in corporate reporting and auditing work. • Promote a more resilient audit market.
Enforcement 	Corporate Services 
<ul style="list-style-type: none"> • Drive the application of high standards in corporate reporting, auditing and actuarial work through proportionate and risk-focused enforcement action where it is in the public interest. • Promote improvements and innovation in these areas by communicating clear and impactful messages through enforcement cases and publications, and through the setting and monitoring of effective non-financial sanctions. 	<ul style="list-style-type: none"> • Support the regulatory divisions by providing a robust and resilient framework for the delivery of the FRC's wider objectives. • Support the FRC's transformation to a modern, forward-looking regulator as trusted partner and adviser to the business and through our partnership with BEIS.

3.2 Our governance

During 2020 we consulted on changes to our governance structure designed to streamline the number of councils and committees and support greater executive-led decision-making. These changes will take effect in 2021. Having appointed an interim Chair in October 2020, we aim with the support of BEIS to have a permanent Chair and a full complement of non-executive directors.

As the body responsible for maintaining and monitoring compliance with the UK Corporate Governance Code, it is our intention to continue to report against the Code whilst also taking into consideration the provisions of relevant public sector governance codes.

On 8 February the Financial Reporting Council (Miscellaneous Provisions) Order 2021 was laid before Parliament. This will formalise the requirement for the FRC to comply with the Regulators' Code.

We already comply voluntarily with the Regulators' Code and follow its six key principles in how we act as a regulator and deliver on our objectives as described above, seeking to be:

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

During 2021/22 we will consider how any additional statutory regulatory principles should be reflected in our operations when we formally become ARGAs.

3.3 Our people

As with many organisations 2021/22 continues to be a period of unprecedented change for our people. During the enforced working from home period in 2020 our recruitment activity held strong, maintaining the momentum we planned for, and as at 31 December 2020 we had welcomed 60 new colleagues to the FRC.

All our people rose brilliantly to the challenge of the sudden switch to homeworking. Supported by our investment in IT, staff were able to switch to remote working with minimal disruption to our operations. In 2021/22 we plan to develop our approach to the workforce and workplace, including initiatives around values and culture, and utilise our People Forum and extensive colleague feedback to embrace these new ways of working where they bring operational benefits, minimise any increased risk and ensure that the FRC remains a vibrant place to work, where all our people can thrive. As part of our workforce planning, we will build in organisational agility where possible, increasing our ability to deploy resource across divisions where it is most needed and flexing to meet peaks in activity.

Our planned growth has enhanced our capacity and capabilities across all divisions, bringing in new skillsets and different perspectives. Building on the work we commenced in 2020/21 to align our purpose, values and behaviours, we will focus on our learning and development offering, including new leadership training. Recognising that our activities need to better reflect the diversity of wider society, we will also continue to improve our work on diversity and inclusion with the support of our Diversity & Inclusion Committee and our Wellbeing Group. Finally, we will undertake a review of our people policies as we move to more home-based working on a permanent basis, as our people want, and in accordance with our office location decisions.



We
welcomed
60 new
colleagues

We will build on the improved capacity across all our functions through an increase in headcount in 2021/22 of 59 people (budget increase in 2020/21: 109). We anticipate that this growth will take us much of the way towards meeting the expectations for ARGA's scope and remit. However, any need for additional growth through 2022 and beyond will be determined by the nature and timing of future legislative proposals which remain uncertain.

3.4 The impact on resources

To deliver on our stated strategy and move further towards an operating model that will support the scope and remit of ARGA will require an increase in headcount. The argument for us to be a more effective regulator is not legislation-dependent. Although the timing remains uncertain, we are confident that the Government's consultation will set a clear direction of travel and provide support for an increase in the scope and volume of many of our existing activities, as well as new or enhanced functions. BEIS has reviewed and approved this plan and budget.

We will seek to align our budget to our funding structure so that it is clear to those stakeholders who fund us how they are contributing to the funding of each activity. This will ensure that when we do move to a statutory funding model, levy-payers are less likely to see a sudden and significant change in their contributions.

As we consider how best to allocate new resource required to deliver new functions and transformation activities, we anticipate scaling up first in our Regulatory Standards division, to support the creation of new frameworks, standards, codes and guidance. Increases in the size and scope of our Supervision and Enforcement divisions will follow, but will be dependent on the outcome of Government consultation and legislation. Until the Government's public policy position is clearer, we cannot accurately estimate how much further growth in Supervision and Enforcement is required, but it will be significant. We have deferred this growth until at least 2022/23 and the Government's propositions are clearer, and we will consult in next year's Plan and Budget.

This coming year, one area for particular attention, and where we propose to further invest to deliver a step change, is in enhancing and reinforcing our IT infrastructure, in particular information management strategies. We have commissioned an independent review to inform this. Ahead of the new responsibilities of ARGA, our aim is to maximise the value of the information and data that is available to FRC, both internally and from external sources, to enhance our market intelligence capability, and enable more evidence-based decision-making as supervisor or standard-setter. This includes developing our staff for these demands, but across our functions we are working on ARGA's employer proposition creating a development and progression framework fit for a modern statutory regulator to attract and retain the best people.

Regulatory Standards (increase headcount by 9 to 76)

- a. New capacity to support due process oversight of the UK Endorsement Board.
- b. Expansion of international standard-setting influencing ability and XBRL support.
- c. Support for transformation activities including policy development and implementation.
- d. Expansion of FRC Lab capabilities to incorporate innovation and technology skillsets.

Supervision (increase headcount by 16 to 165)

- a. Creation of a new Audit Firm Supervision function.
- b. Expand professional oversight activities of relevant institutes and professional bodies to include registration of third country auditors after leaving the EU, and equivalence and adequacy assessments (see Annex 2), and preparation for new accountancy oversight function.
- c. Further increase resources for Audit Quality Reviews and Corporate Reporting Reviews to support planned increase in scope.
- d. Addition of staff to the Audit Market Supervision team to support audit market monitoring activities in pursuit of the anticipated new competition objective.

Enforcement (increase headcount by 4 to 76)

- a. Further increase the number of forensic accountants, lawyers and experienced auditors to maintain the timeliness of investigations and conclusion of enforcement cases in the context of the expected increase in case volumes/complexity over time.

Corporate Services (increase headcount by 20 to 79)

- a. Expand legal capacity in the General Counsel's team to support transformation activities such as draft legislation, policy support and MoUs.
- b. Further enhance human resources capacity to support recruitment and business partnering activities, as well as the management of progression and succession, learning and development, and staff engagement on values.
- c. Reinforce our IT resource to achieve enhanced resilience and security.
- d. Further enhance our Finance & Planning team to support increased activity, enhanced monitoring and reporting and plans for a new levy and funding structure.
- e. Expand the Economics & Analytics team to support impact assessment and new policy development, and market monitoring activities.

Overall, the combined budgeted cost of the FRC and the UK Endorsement Board (below) will increase by 15% to £52.2m (2020/21: £45.4m). The number of people we employ will increase by 16% to 417 by March 2022 (budgeted March 2021 headcount: 358). Further detail is set out in Annex 1.

4 UK Endorsement Board

The UK Endorsement Board (UKEB) has been set up by the Government as an independent body, to endorse and adopt new or amended International Financial Reporting Standards issued by the International Accounting Standards Board. It is accountable to the Secretary of State for its technical endorsement work and to the FRC in respect of due process oversight of its activities and use of its resources. Endorsement is not an FRC function. We are, therefore showing the costs of the UKEB separately in Annex 1, below. Overall, the UKEB considers it needs a total of 21 staff to undertake its responsibilities, an increase of 10 on its March 2021 budget headcount of 11. In setting its budget, the UKEB consults with the FRC and follows the FRC's budgeting processes. However, the approval of the UKEB's budget is a matter for the Secretary of State. For 2021/22, the Secretary of State has agreed the budget in Annex 1.

In 2020/21 BEIS agreed that the costs associated with the UKEB set up could be met from the FRC's existing reserves. For 2021/22, this will no longer apply, and we will have to raise the necessary full cost of the UKEB through the FRC's funding arrangements.

5 Annex 1 – Expenditure and funding 2021/22

Expenditure

During the 2021/22 year, we will require a budget of £52.2m (Table 1). This will enable us to expand our regulatory functions in line with the recommendations of the independent reviews and discharge our professional oversight role following EU Exit. We will also seek funding for the work of the UKEB as agreed with BEIS.

Table 1: Regulatory activities	2020/21 Budget £m	2021/22 Budget £m	Change £m
Supervision			
Audit Quality Review	9.8	9.8	-
Corporate Reporting Review	5.4	6.2	0.8
Audit Firm Supervision	0.0	1.9	1.9
Audit Market Supervision	1.6	2.1	0.5
Professional Oversight			
Professional Oversight	4.0	4.1	0.1
Third Country Auditors – Registration	0.7	0.8	0.1
Enforcement Core Costs	4.2	5.2	1.0
Regulatory Standards			
Corporate Governance and Stewardship	1.4	1.7	0.3
Accounting and Reporting Standards	2.7	2.9	0.2
Audit & Assurance Standards	3.0	2.6	(0.4)
Financial Reporting Lab	1.2	1.5	0.3
Stakeholder Engagement	1.8	2.6	0.8
FRC Taxonomies	0.2	0.3	0.1
Actuarial			
Standards	1.5	2.0	0.5
Professional oversight	0.2	0.2	-
Total Core Costs	37.7	43.9	6.2
Enforcement Case Costs	5.0	5.0	-
Actuarial Investigation costs	0.4	0.4	-
Total FRC Costs	43.1	49.3	6.2
UK Endorsement Board	2.3	2.9	0.6
Total	45.4	52.2	6.8

The key areas in which we will increase expenditure in 2021/22 are in audit regulation and enforcement. Following EU exit, the UK Endorsement Board will commence its work.

A key part of achieving our organisational objectives in 2021/22 is ensuring that we have the right number of professional staff and this is where the bulk of the increased cost will be focused. The expansion of the organisation will also see a further investment in our IT and information management and communications with a strategic focus on future requirements.

Table 2: Expenditure type	2020/21 Budget £m	2021/22 Budget £m	Change £m
Staff costs	27.4	34.7	7.3
Restructuring costs	1.1	0.5	(0.6)
NED and Committee Member Fees	1.3	1.5	0.2
Facility costs	2.9	2.3	(0.6)
IT & Website	1.4	1.6	0.2
Travel	0.6	0.6	-
Conferences	0.2	0.3	0.1
Recruitment	1.2	0.8	(0.4)
Training	0.3	0.3	-
Legal / professional / audit	1.2	1.8	0.6
Research	0.5	0.5	-
All others (see note)	1.7	1.5	(0.2)
FRC Taxonomies	0.2	0.3	0.1
Total	40.0	46.8	6.8
Actuarial Investigation Costs	0.4	0.4	-
Audit and Accountancy Case Costs	5.0	5.0	-
Total	45.4	52.2	6.8

*All others include EFRAG membership, depreciation, subscriptions, professional memberships, and general office costs

Table 3: Expenditure by Division	2020/21 Budget £m	2021/22 Budget £m	Change £m
Supervision	14.9	17.7	2.8
Regulatory Standards	7.5	9.0	1.5
Enforcement	2.8	3.4	0.6
Corporate Services*	13.2	14.5	1.3
Sub Total	38.4	44.6	6.2
Case Costs	5.4	5.4	-
UK Endorsement Board	1.6	2.2	0.6
Total 4	5.4	52.2	6.8

* Corporate costs are distributed proportionally against the regulatory activities in Table 1 above

Headcount

Headcount as of 31 December 2020 compared to that budgeted for 31 March 2021 and 31 March 2022 is as follows:

Division	December 2020	March 2021	March 2022
Regulatory Standards	58	67	76
Supervision	126	149	165
Enforcement	49	72	76
Corporate Services	58	59	79
Total FRC	291	347	396
UK Endorsement Board	11	11	21
TOTAL	302	358	417

Funding

In order to secure the necessary resources from market participants we have set a funding requirement of £52.2m. This represents an increase of £6.8m on last year's funding requirement from market participants. Our 2020/21 funding requirement was met in part through a £2.3m contribution from reserves to fund the initial costs of the UKEB. We will consider how the remaining reserves may be best utilised in future as we transition to ARGAs.

We have allocated the funding requirement as follows:

Table 4: Funding sources	2020/21 Budget £m	2021/22 Budget £m	Change £m
Audit and Accountancy funding groups			
RSB contribution to AQR	9.3	9.3	-
RSB Contribution to AFMAS	1.6	4.0	2.4
NAO & Crown Dependencies	0.5	0.5	-
CCAB contribution	7.1	10.4	3.2
CIMA	0.8	0.8	-
Contribution to Enforcement case costs	5.0	5.0	-
Companies (Other accounts preparers)	16.1	18.8	2.7
Actuarial funding groups			
Insurance companies	0.9	1.2	0.3
Pension schemes	0.9	1.2	0.3
IFoA	0.2	0.2	-
Publications, XBRL and TCA registration fees	0.7	0.8	0.1
FRC contribution to EB from Reserves	2.3	-	(2.3)
Total	45.4	52.2	6.8

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 contributions reflect the full cost of the oversight and audit and assurance activity, which we consider better aligns with the profession's activities that are the subject of this work.

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 the Secretary of State is able to 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 amount we request through the preparers levy by 16.8%, which will require an increase of 24% in the rates we apply. This is partly due to the drop in FTSE market capitalisation from the previous year following the effects of Covid-19. As in previous years we will continue to raise £0.9m for the IFRS Foundation alongside our levies.

	Organisation size per £m of market cap*	2021/22 Preparers levy rate
Minimum fee for all companies	Up to 100m	£1,576
Additional fees based on the following levy bands		
1	100m - 250m	£15.48
2	250m - 1,000m	£11.80
3	1,000m - 5,000m	£11.42
4	5,000m - 25,000m	£0.1859
5	> 25,000m	£0.0352

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

Organisation	2021/22 levy
UK AIM company with £100m market cap	£788
Private company with £750m turnover	£4,899
Premium listed company: £10bn market cap	£59,358

Pension levy for 2021/22

The FRC pension levy applies to all Defined Benefit and Defined Contribution schemes with 5,000 members or more. We will raise £1.2m from the pension levy in 2021/22 and we will confirm the levy rate to be applied after receiving the data on scheme membership provided by the Pensions Regulator.

Insurance levy for 2021/22

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 will raise £1.2m 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.

6 Annex 2 – Audit regulation: equivalence and adequacy assessments

Audit regulation involves the principles of 'equivalence' (where another country is deemed to apply a consistent standard of oversight) and 'adequacy' (where another country is deemed adequate for the purposes of sharing information). Equivalence and adequacy decisions were previously made by the European Commission on the UK's behalf. Following EU exit, the UK will need to make its own equivalence and adequacy decisions in relation to third country audit regimes. BEIS has asked the FRC to undertake equivalence and adequacy assessments in order for it to make those decisions, and to raise the necessary funds from market participants. We estimate that the FRC's costs for this work in 2021/22 will total £180k.

With the agreement of BEIS, we propose that the cost of adequacy assessments should be met by the CCAB (50%) and the preparers levy (50%). Equivalence assessments should be funded as follows: TCA registration fee (10%), the CCAB (45%) and the preparers levy (45%). We will be issuing a further consultation in relation to our proposals for funding equivalence assessments and the proposed regulations that will give effect to these arrangements.

The fee for each registered TCA will increase by £85 per year. The proposed fees are shown in the table below.

Annual fee payable by a registered third country auditor			
Number of audit clients	Type of registration as a third country auditor		
	Equivalent registration	Transitional registration	Full registration
0 - 9	£1,221		£2,357
10+	£2,925		£5,765

Further information about our funding is available on our website at www.frc.org.uk/funding



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