

Deputy Head of FRC Delivery Unit
Financial Reporting Council
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17 February 2017

By email to plan@frc.org.uk

Dear Sir or Madam

Draft Plan & Budget and Levy Proposals 2017/18 ('draft plan')

We welcome the opportunity to provide our views on the FRC's draft plan for the year ahead. This letter sets out some general comments on your strategic agenda; the appendix gives comments on a number of the specific questions set out in the consultation paper.

Every year, the communications firm Edelman carries out an extensive global study on the public's trust in four key institutions: business, government, NGOs and the media. This year's report makes for depressing reading. "Trust", it says, "is in crisis throughout the world". It found that the majority of those surveyed "believe that the current overall system has failed them – it is unfair and offers little hope for the future."

In this context, the role of the FRC is difficult, but critically important. Its fundamental objective is to promote a sense of trust in business, leading to lower costs of capital and encouraging growth and investment. We believe the FRC has the opportunity to take a leadership role in restoring trust in UK business, promoting better behaviour to improve society and make the UK more attractive for inward investment.

The FRC has influence over a number of building blocks that affect trust in business, including corporate reporting, corporate governance, executive pay and the audit (and actuarial) profession. Its challenge is to consider whether it has the appropriate powers and influence over each building block, how to allocate its resources across them, and what its messages to market participants and the wider public should be.

It should consider, for example:

- Whether there is a case for extending its powers, to cover the entirety of a company's Annual Report and Accounts, including any disclosures on the board's application of section 172 of the Companies Act as to how companies fulfil their broader societal and employee obligations. We have included other suggestions around changes to corporate reporting in the appendix.
- How it balances its spend across each of the building blocks, and whether it does so in an optimal way.
- Increasing its outreach activities to improve communication with a broader range of corporate stakeholders, including Chairmen, CFOs, General Counsels and Company Secretaries, as well as with Audit Committees.

As one of the major audit firms, we recognise that the audit profession also has an important role to play, and that the sense of distrust described above can sometimes extend to audit. We would welcome the opportunity to work collaboratively with the FRC to increase trust in audit – and business more broadly – through both constructive action and the tone of our dialogue.

Please contact David Barnes on 020 7303 2888 or at djbarnes@deloitte.co.uk if you would like to discuss any of our points in more detail.

Yours faithfully

A handwritten signature in black ink that reads "David Barnes". The signature is written in a cursive style with a large initial 'D' and 'B'.

David Barnes
Deloitte LLP

Appendix

1) Do you have any comments on our proposed priorities and work programme for 2017/18?

Audit

- We welcome the FRC's support to consider how the use of data analytics and technology can improve the effectiveness and efficiency of audit. We suggest that this is linked to its work with the IAASB – recognising that it requires investment, so international approaches (whether by the large networks or suppliers to smaller firms) are likely to be required.

Corporate reporting

- We are happy with the priorities set out in the draft plan. In addition:
 - We believe that corporate reporting should address broader matters (for example social, environmental, community) as these are important to sustainable long-term value creation, and there is a strong case for the FRC to take a more proactive role in overseeing the annual report and accounts as a whole. This could entail developing best practices on s172 reporting and an assurance framework for auditors over their responsibilities for reviewing the front half of the report.
 - Similarly, the FRC could focus more on the quality of reporting of risks and their mitigation (for example relating to cyber security), and consider developing models and best practice.
 - Investors frequently express concern over the length of companies' annual reports. The FRC could usefully consider whether a shorter, more engaging reporting format could be adopted (possibly in addition to the existing format).

Actuarial

- The new regime is a helpful development of the initial framework of standards.
- The Joint Forum on Actuarial Regulation and the Institute and Faculty of Actuaries play important roles; the main challenge for the FRC, as a UK body, is achieving effective influence internationally. The FRC's engagement with the Actuarial Association of Europe is helpful; the International Actuarial Association is also important.

Enforcement

- We would welcome the opportunity to provide views on the proposed review of enforcement speed and effectiveness.

2) Do you have any comments on our proposed effectiveness indicators?

- Regarding the indicators set out at the top of page 6 in relation to the promotion of high quality corporate governance and effective investor stewardship:
 - We suggest that the audit committee reporting indicator should also focus on the reporting of the audit committee's oversight of the effectiveness of risk management and internal control systems.
 - The indicator relating to company culture is worthy of further consideration. As well as looking at surveys by market commentators, it would also be appropriate to seek evidence that boards have been focusing on culture and putting it on their agendas.

3) Are there any areas where the FRC could reduce its proposed activities without reducing the overall impact of FRC regulation?

- In last year's plan, the FRC referred to consulting on whether independent oversight of the actuarial profession remains necessary and appropriate. As this has not been mentioned in this year's plan, it is not clear whether this is going ahead.

4) Are there any significant risks to the quality of corporate governance and reporting in the UK which are not addressed in the proposed work programme?

- It is critical that the FRC supports the Government in achieving an appropriate outcome on corporate governance reform and corporate law. While broader factors reporting is well captured by the strategic report and non-financial reporting, we suggest that the FRC needs to do more in relation to a) better investor stewardship; and b) the quality of broader data, which now constitutes over 90% of the data used by the capital markets participants. These are critical to the efficient operation of capital markets today. Further information on our views is given in Deloitte's report '[Thinking allowed on the Future of Corporate Reporting](#)'.

5) and 6) Do you have any comments on our proposed budget or levy rates?

- The increased level of detail around expenditure is helpful.
- We have a general concern when budgeted amounts increase at a rate higher than the level of inflation. Whilst we appreciate the reasons for staff cost increases, we assume there will not be a further significant increase for the 2018/19 period associated with the FRC's Competent Authority role, the acceleration of its enforcement activities and the development of the Corporate Governance framework.