



March 2020

STRATEGY 2020/21

BUDGET AND LEVIES 2020/21

The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. 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

1. Introduction	1
2. Our Purpose	2
3. Our Objectives	2
4. Regulatory Principles	3
5. Our Business Model	4
6. Our People	4
7. Our Approach to Reform	5
8. Key Outputs For 2020/21	5
A. Regulatory Standards and Codes	5
B. Supervision	6
C. Enforcement	7
D. Corporate Services	7
E. Reform	7
9. Our Governance	8
10. The Impact on Resources	8
Regulatory Standards and Codes (increase headcount to 67)	9
Supervision (increase headcount to 149)	9
Enforcement (increase headcount to 72)	9
Corporate Services (increase headcount to 59)	9
Annex 1 - Expenditure and funding	11
10.1 Expenditure	11
Table 1: Regulatory activities	11
Table 2: Expenditure type	14
10.2 Headcount	16
Division	16
10.3 Funding	17
Table 3: Funding sources	17
Table 4: Preparers Levy's 2020/21	19
Table 5: Entity Indication Values Table	20
10.4 Pension levy for 2020/21	20
10.5 Insurance levy for 2020/21	20

Financial Reporting Council, Strategy 2020

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 these 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, which we will take forward through our Plan and Budget 2020/21, sets out our initial response and the steps we can take now. It reflects the positive comments we received following our public consultation in February and 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. In response to stakeholders' feedback we have provided greater detail on our budget and funding, with an indication of further expansion in later years.

Simon Dingemans

Chair, FRC

Sir Jonathan Thompson

Chief Executive Officer, FRC

March 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 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, notably 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 through the impact on individuals, jobs, communities, the environment and society. Acting in the public interest means we will consider the interests of all stakeholders in corporate health and increase their involvement in our work.

3. Our Objectives

Our core objectives are;

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 them proportionally where it is 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.
4. 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 them. We will need to anticipate and act on emerging risks, forge stronger relationships with investors and other stakeholders and take their views into account. We have established a stakeholder management function and plan to expand this, and our engagement, during 2020/21.

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. Following the UK's exit from the EU, we will implement appropriate independent 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:

- Act independently and with integrity
- Fair but tough
- Forward looking
- Innovative
- Proportionate and evidence based
- Transparent.

5. Our Business Model

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

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.

Supervision – monitoring and assessing compliance with the applicable laws, codes and standards that we set; ensuring that audit firms prioritise actions to improve audit quality; supervising the work of professional institutes; and promoting the resilience of the audit market.

Enforcement – proportionately holding to account, in the public interest, those responsible for breaching required standards.

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 with colleagues 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. Our Approach to Reform

We have fully embraced the need to change recommended by the Kingman Review, the review by the Competition Market Authority (CMA) of the Audit Market and the Brydon Review.

By the end of 2019/20 we will have fully implemented over 20 of the 83 recommendations of the Kingman Review and have begun to implement over 35 more. In the remaining areas primary legislation is required to create ARGAs and give them formal powers to implement fully the recommendations. We have begun preparatory work in these areas and await the Government's decisions on whether it will implement those remaining areas of public policy that require legislation.

On the CMA review of the Audit Market we have been engaged with BEIS on working up alternative remedies for Ministers and await decisions in due course. On the Brydon review we have begun preparatory work on all the recommendations and are engaged with BEIS on advice to Ministers on the potential for their implementation over time. We await a Government response during 2020 to provide clarity on the way forward, potential legislative change and a timetable. We are working on the basis that the recommendations which do not require legislative change are ones we should pursue and have begun work, with relevant parties, on how we might implement those recommendations.

8. Key Outputs For 2020/21

A. Regulatory Standards and Codes

- I. Promote the Stewardship Code, support signatories to the Code and ensure significant take up. Assess early reporting of implementation.

- II. Undertake an annual assessment of adherence with the Corporate Governance Code as well as The Wates Corporate Governance Principles for Large Private Companies.
- III. Update the guidance for the UK Corporate Governance Code and/or related enhanced requirements on internal controls, risk management, going concern and resilience/viability.
- IV. Publish a thought leadership paper on the Future of Corporate Reporting.
- V. Deliver FRC Lab projects on Technology and Future Horizons in reporting.
- VI. Update UK GAAP for recent international developments.
- VII. Launch a post-implementation review of the Technical Actuarial Standards and establish the necessary capacity to undertake regulatory duties over actuaries.
- VIII. Support the Government's green finance strategy to embed climate-related issues into corporate reporting and investment decision making.
- IX. Consider the merits and otherwise of endorsing a framework to measure the impact of companies on society and the environment
- X. Assist the Government with creating new structures for setting accounting standards after leaving the EU, specifically the UK Endorsement Board.
- XI. Establish an audit market monitoring function and devise an appropriate strategy

B. Supervision

- I. 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.
- II. Improve transparency by publishing more information about these individual reviews as well as thematic reviews on key cross-market issues e.g. climate reporting, the use of technology by audit firms and audit quality indicators.
- III. Build and deepen our supervision of the major audit firms, including governance, structure, audit quality management, culture and resilience and report views on each firm accordingly.
- IV. Expand oversight of the professional bodies and make significant progress on moving decision-making about auditor registration to the FRC in line with the Kingman Review recommendation.

- V. Develop and publish the FRC's views on what constitutes good external audit.

C. Enforcement

- I. Deliver robust, fair and transparent regulatory outcomes.
- II. Continue to improve the timeliness of our work and ensure more enforcement cases deliver their primary reports to related parties within two years.
- III. Report on regulatory outcomes and progress through the Annual Enforcement Review and public messaging.
- IV. Conclude our Carillion related factual investigations and decide upon any enforcement action required.

D. Corporate Services

- I. Deliver within budget.
- II. Improve management information and publish externally on an agreed regular basis.
- III. Improve staff morale and wellbeing.
- IV. 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.
- V. Assess organisational capability gaps and close them.
- VI. Monitor risks to achieving our objectives and put controls in place to mitigate where possible.

E. Reform

- I. Work with BEIS on any Consultation Documents in response to the Kingman and Brydon Reviews.
- II. Work with BEIS on their response to the CMA assessment of competition in the audit market and implement agreed remedies as appropriate.

- III. Deliver change in line with Kingman recommendations (and Brydon recommendations after the Government response in 2020) with existing powers or take major steps towards them, subject to 1
- IV. Integrate all reform for the FRC into a transformational programme with appropriate governance.

During 2020/21 we will agree a set of Key Performance Indicators and publish both the KPI's and our performance against these more frequently than once a year in the Annual Report.

9. Our Governance

The governance of the FRC is being streamlined in accordance with the Kingman Review recommendations. 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.

We will enhance our stakeholder management capability during the year to ensure that we take account of a wide range of views on our work, including the development of Codes and Standards, best practice and innovation. We will continue to ensure there is appropriate consultation on our work to feed into the new governance arrangements.

10. 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 (increase headcount to 67)

- a. Support the implementation of the updated UK Corporate Governance and Stewardship Codes and Wates Principles and monitor and assess compliance (+6 people).
- b. Implement a UK Endorsement Board for IFRS at the end of the transition period after leaving the EU (+9 people).

Supervision (increase headcount to 149)

- a. Increase resources for Audit Quality Reviews (+14 people) and Corporate Reporting Reviews (+10 people) by 35% to improve coverage and respond to risk.
- b. Develop and deepen audit firm supervision (+4 people).
- c. Expand oversight of professional bodies and take initial steps on auditor registration governance (+11 people) as recommended in the Kingman Review (plus a project team of 6 people).

Enforcement (increase headcount to 72)

- a. Increase the number of forensic accountants (+13 people or seek strategic partnership) and lawyers (+6 people) to speed up the investigation and conclusion of enforcement cases.
- b. Enhance the case examination function (+3 people) that determines whether to open an investigation or use other methods of constructive engagement to resolve the situation.

Corporate Services (increase headcount to 59)

- a. Enhance resources in human resources given the overall expansion of the size of the FRC (+3 people).
- b. Implement a market intelligence function to inform other aspects of our work to ensure a more proportionate and risk based regulatory approach (+4 people).
- c. Implement an organisational transformation programme to deliver the changes agreed by BEIS Ministers (+3 people)

Overall, therefore, the budgeted cost of the FRC will increase by 9% to £45.4m (2019/20: £41.7m). The number of people we employ will increase by 46% to 358 by March 2021 (March 2020: 245). Further detail is set out in Annex 1.

The budget for 2019/20 was set on the basis that we might incur costs of up to £3.9m above the cost of our core regulatory activities arising from EU exit and the implementation of the Kingman Review. In practice we did not incur those additional costs, notably through the delay in establishing the IFRS Endorsement Board, which is now among our priorities and included in our budget for 2020/21. As a result of slightly slower than planned recruitment, and savings on other costs, we are projecting a small surplus, of £0.5m, for 2019/20.

March 2020

Annex 1 - Expenditure and funding

10.1 Expenditure

Delivering our Strategy for 2020/21 will require a budget of £45.4m (Table 1). This will enable us to expand our regulatory functions in line with the recommendations of the Kingman Review, establish new arrangements for endorsing IFRS and discharge our professional oversight role following EU Exit.

Table 1: Regulatory activities	2019/20 Budget	2020/21 Budget
AUDIT AND ASSURANCE	£m	£m
Audit Quality Review	9.7	9.8
Audit & Assurance Standards	2.1	3.0
Audit Firm Monitoring and Supervision	1.2	1.6
PROFESSIONAL OVERSIGHT		
Professional Oversight	2.8	4.0
Third Country Auditors – Registration	0.3	0.7

Enforcement Core Costs	3.3	4.2
CORPORATE GOVERNANCE & REPORTING		
Corporate Governance and Stewardship	1.3	1.4
Accounting and Reporting Standards	3.5	2.7
Corporate Reporting Review	5.0	5.4
Financial Reporting Lab	1.0	1.2
Stakeholder Engagement	-	1.8
FRC Taxonomies	0.2	0.2
ACTUARIAL		
Standards	1.8	1.5
Professional oversight	0.2	0.2

IFRS		
EU IFRS Endorsement Board	1.4	2.3
EU Exit & Kingman	2.5	
TOTAL CORE COSTS	36.3	40.0
Enforcement Case Costs	5.0	5.0
Actuarial Investigation costs	0.4	0.4
TOTAL	41.7	45.4

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

The bulk of our expenditure will continue to be on staff. As we expand in 2020/21, we will be spending more on recruitment and will invest in the necessary IT and other support costs.

Table 2: Expenditure type	2019/20 Budget	2020/21 Budget
	£m	£m
Staff costs	26.1	27.4
Restructuring costs		1.1
NED's and Committee Member Fees	1.3	1.3
Facility costs	2.6	2.9
IT & Website	0.9	1.4
Travel	0.6	0.6
Conferences	0.2	0.2
Recruitment	0.3	1.2
Training	0.3	0.3
Legal / professional / audit	1.8	1.2
Research	0.4	0.5

All others (see note)	1.6	1.7
FRC Taxonomies	0.2	0.2
Total	36.3	40.0
Actuarial Investigation Costs	0.4	0.4
Audit and Accountancy Case Costs	5.0	5.0
Total	41.7	45.4

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

10.2 Headcount

Headcount at 29 February 2020 compared to that planned for 31 March 2021 is as follows:

Division	Feb-20	Mar-21
Regulatory Standards and Codes	50	67
Supervision	99	149
Enforcement	40	72
Corporate Services	48	59
Total FRC	237	347
EU Endorsement Board	2	11
TOTAL	239	358

10.3 Funding

In order to secure the necessary resources from market participants we have set a funding requirement of £45.4m, in line with the budget.

We have allocated the funding requirement as follows:

Table 3: Funding sources	2019/20	2020/21
	Budget	Budget
	£m	£m
Audit and Accountancy funding groups		
RSB contribution to AQR funding	8.3	9.3
NAO & Crown Dependencies	0.6	0.5
CCAB contribution	4.4	7.1
CIMA	0.7	0.8
Contribution to enforcement case costs	5.0	5.0
Contribution to AFMAS	1.2	1.6
Companies (Other accounts preparers)	14.5	16.1

Actuarial funding groups		
Insurance companies	1.1	0.9
Pension schemes	1.1	0.9
IFoA	0.2	0.2
Publications, XBRL and TCA registration fees	0.7	0.7
BEIS contribution to EB	0.0	2.3
Provision for additional costs	3.9	-
Total	41.7	45.4

As noted above, the funding requirement represents an increase of 9% over the total funding requirement for 2019/20, which included £3.9m to cover costs arising from EU exit and the implementation of the Kingman 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 20% 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 will 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 amount we request through the preparers levy by 11%, which will require an increase of 14% in the rates we apply:

Table 4: Preparers Levy's 2020/21

	Organisation size per £m of market cap*	2020/21 Preparers levy rate
Minimum fee for all companies	Up to 100m	£1,272
Additional fees based on the following levy bands		
1	100m - 250m	£12.48
2	250m - 1,000m	£9.52
3	1,000m - 5,000m	£9.21
4	5,000m - 25,000m	£0.1499
5	> 25,000m	£0.0284

The FCA are changing the cut-off point for the tariff data used in calculating their levies to end-September and in order to facilitate the collection process we are making the same change. For the 2020/21 levies, the tariff data will therefore be as at end-September 2019.

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

Organisation	2020/21 levy
UK AIM company with £100m market cap	£636
Private company with £750m turnover	£3,952
Premium listed company: £10bn market cap	£47,878

Table 5: Entity Indication Values Table

10.4 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 will raise £0.9m 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.

10.5 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 will raise £0.9m 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

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