

May 2013

Plan and Budget

2013–2016

The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent disciplinary arrangements for accountants and actuaries; and oversee the regulatory activities of the accountancy and actuarial professional bodies.

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Financial Reporting Council

Plan & Budget

2013–2016

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Foreword



2012 was a year of significant change for the FRC as we completed the process of internal reform, transforming the organisation into a fully integrated body with greater powers to act when new risks arise. The FRC sees the next year and beyond as an opportunity to build on the excellent work of the past year and use the reform of the organisation as a launchpad to achieve more. We have begun to see the fruits of the reform with greater co-operation and information-sharing resulting from the dismantling of previous barriers.

Our mission remains to foster investment through the promotion of high quality corporate governance and reporting. We need to continue to enhance our understanding of the capital markets and the needs of investors, to ensure our agenda is aligned with the need to maintain the UK's competitiveness in world markets and contribute to recovery. Developments in product and capital markets, institutional change and uncertainty, and a muted economic outlook all form part of the business context in which we operate and influence. As we look

forward, we must demonstrate the clear link between the quality of audit and accounting, and improved investor confidence and we must ensure that the strength and contribution to growth of capital markets is reinforced, not undermined by the work of regulators.

We recognise that our work does not fit into neat yearly cycles so we have based our Plan on a longer, three year, time horizon enabling us to focus on how we and our stakeholders move forward in line with the shifting UK and international agenda.

In support of our mission we will continue to:

- use our unique strengths and breadth to address issues in a cohesive and effective manner by working together within the FRC on governance, stewardship, accounting and actuarial standards and audit issues;
- use our monitoring work in the conduct area to identify new risks more effectively, to develop and apply the most appropriate remedies and to take firm action where necessary;
- help secure public confidence and trust by reinforcing our independence as a regulator and thought leader, across our full range of responsibilities; and
- build on our growing international influence.

While our independence is critical to our integrity and ability to undertake our work effectively we recognise the value and importance of working closely with other market participants, including the professions where we share common goals. Members of the professions are in the front line of ensuring good quality work and it is our job not just to oversee, but also to support their professional bodies in their vital work of encouraging high standards and tackling any shortfall in conduct.

The FRC must also retain and build its international influence in Europe and globally. While our traditional stakeholders remain a vital part of the focus of our activities we have witnessed the emergence of new and equally important stakeholders at an international level with whom we must engage and collaborate, including major investors such as sovereign wealth funds and new institutions such as ESMA and EIOPA.

We will devote further resources and effort to influencing international debate. We participate and lead in technical discussions, international regulatory debates and discussions with governments and parliamentarians across the EU and elsewhere. Our contribution is already recognised. For example, we welcome the fact that we have been appointed an inaugural member of the Accounting Standards Advisory Forum. We will seek to continue to hold a seat on the IAASB; we have recently chaired IFIAR and continue to make a strong contribution to that body.

We are proud of the strengths of the UK governance and reporting system and will continue to protect and promote these to secure investor confidence in the UK capital markets, the largest in Europe and of significant value across the globe. But here too, the challenge is to ensure that the UK can continue to demonstrate best practice in order to be able to influence the debate elsewhere.

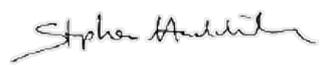
While our work continues to grow in value and importance we remain mindful of the economic pressures faced by our stakeholders. In recent years we absorbed the impact of significant Government spending cuts and managed our work with no increases in levies. With increasing demands on our time and resources we have set a budget for 2013/14 that enables us to discharge our obligations more effectively. We have managed this carefully to ensure that we can put in place the necessary resources to carry out our work while in most cases ensuring increases in levies do not exceed inflation. Our aim is always to limit budget and levy increases and while we face upward pressure on funding, this Plan does not set budget or levy increases beyond 2013/14. Staff costs though remain the biggest share of our costs. Our headcount is relatively small and will remain so. But we must bring on board people with the right skills and experience to enable us to perform our role fully.

Confidence in markets and companies remains critical for investors. Our work in the years ahead in driving behaviours, setting standards, monitoring conduct and taking disciplinary action where necessary, will be delivered in the context of a vision for corporate governance and reporting where the needs of investors are fully aligned with the outputs and activities of companies and stakeholders. Risk will always be an inherent and

indeed essential element of investment but better, more appropriate information flows built on trust should help to encourage intelligent risk-taking.



Baroness Hogg
Chairman



Stephen Haddrill
Chief Executive Officer

Section One Overview

Our mission

The FRC's mission – to promote high quality corporate governance and reporting to foster investment – has strong resonance in today's uncertain business climate. Building trust between investors and companies is a critical factor in supporting economic recovery. Our core belief, that good governance and reporting support investment and growth, gives us a strong voice in policy debate and links our work directly to economic and capital market outcomes. In the UK, in the EU and internationally we face a common set of concerns about the prospects for economic growth and about the regulation and resilience of markets in a globalised economy. The FRC has a distinct contribution to make in shaping the debate around these issues, demonstrating a clear link between high quality audit and accounting and investor confidence, and in articulating a powerful perspective informed by strong stakeholder relationships and independently gathered evidence.

Over the last two years, the FRC has been through a process of internal reform. With those reforms complete, the FRC now has the organisational structure and more of the legal powers it needs to continue to be an effective regulator and influencer, setting standards and taking firm action to monitor and enforce them. In this plan, we set out how we propose to develop our core activities to take advantage of the benefits of reform in ways which meet demands we face both existing and new; and to deepen our understanding of and engagement with the economic, business and policy context, in the UK and internationally.

The FRC's approach

The FRC will seek to maintain and grow our influence by improving the quality and relevance of what we do, and by investing in engagement and communication to maximise its impact. We will continue to build trust in the competence of auditors, accountants and actuaries by maintaining a strong monitoring and enforcement regime, taking action where necessary .

Evidence and analysis play a central role in the way we work. We want to make this stronger still. We need to be clear about where points of view including consultation responses are based on opinion and where they are based on fact and clear principles. We believe that this

is the best way to ensure the quality and effectiveness of the frameworks and activities we use to deliver our mission – and the best basis for evaluating the outcomes they produce.

The environment in which we operate is continually changing. We must develop and adapt to external changes which requires the FRC to look outwards. We will continue to invest in building our influence in the EU and internationally. We have established an office in Brussels to give us greater line of sight into European institutions and to enable us to engage more effectively on EU wide issues. The FRC has been appointed an inaugural member of the Accounting Standards Advisory Forum (ASAF) to work with other standard setting bodies across the globe to contribute constructively towards achieving the IASB's goal of globally accepted high-quality accounting standards acting as a critical friend. We hold a seat on the International Auditing and Assurance Standards Board (IAASB) and will seek to continue to do so. We have recently chaired the International Forum of Independent Audit Regulators (IFIAR), will continue to make a strong contribution and expect to become a member of its advisory council. We support BIS, the financial regulators and others in Europe.

Big challenges need a longer term perspective. So, for the first time, the FRC's annual plan has been prepared in the context of a three year time horizon. This plan sets out what we propose to deliver over the next year and indicates where we expect key projects to continue or begin beyond the annual planning horizon. This will enable us to communicate more consistently our long term plans and ensure that we maintain a broad and forward-looking perspective.

We will provide detail on the key projects and activities as they emerge and evolve. Success criteria will be established before individual projects are commenced and impact assessments undertaken when we issue new codes, standards or guidance.

Our workstreams

The FRC has identified a number of priority projects within its main workstreams which are critical to delivering our aims in this environment. The objectives, activities and

timelines for each of these are set out in the work plan in section two. Below we set out the overall rationale and aims for each workstream.

1. Conduct oversight

The majority of the FRC's staff and resources are devoted to fulfillment of our statutory obligations: monitoring and enforcement of accounting and auditing standards and oversight of the accounting and actuarial professions. These are mandatory activities which form the bedrock of our operations. We need to:

- ensure our actions, including further work on emerging issues and revisions to codes and standards, are informed by robust evidence
- provide more evidence from this work in response to increasing international demands from regulators and standard setters so that we are more effective in reaching our goals
- conduct thematic studies in response to emerging corporate reporting and audit issues, contributing to our influence over stakeholders through evidence and analysis
- conduct supervisory inquiries into events such as corporate failures or near-failures by gathering evidence on a timely basis so that we may better determine what action, if any, may be required
- manage a step increase in the speed and effectiveness of our disciplinary processes whilst at the same time clearing the backlog of cases
- create and develop the capacity to undertake aspects of an investigation cost-effectively in house rather than through external suppliers at higher cost
- develop the capacity to undertake new requirements to conduct periodic inspections of the auditors of companies outside the European Economic Area that have issued securities admitted to trading on EU regulated markets ('third country auditors') and to prepare for the monitoring and oversight of public bodies in the light of possible legislation for local public audit

2. Governance and Stewardship

We reviewed the Corporate Governance Code in October 2012 and published our annual monitoring in December. We will next consider updates to the Code in Autumn 2014 based on our monitoring findings. We will conclude the consultation on going concern issued following the Sharman report and produce guidance for stakeholders including investors. Having included a recommendation in the Code for companies to report on the diversity of their Boards we will consider further updates to the Code on this issue. The FRC will consult on whether guidance to Directors (Turnbull Guidance) needs to be further updated.

We issued the FRC's Stewardship Code in 2010 in the wake of the financial crisis and updated it in 2012. Its purpose is to emphasise the important role of asset owners and managers in engaging with companies over the long term. The principles of our Stewardship Code were upheld in the Kay report, which focussed on the key role of long term investors. But the importance of the concept of stewardship and its role in building trust is not universally accepted. We will:

- build support for our vision of stewardship including internationally
- clarify the contribution that is and should be made in each part of the investment chain to stewardship
- gather evidence about the effectiveness of our existing codes and standards relating to stewardship and how the concept should inform the development of corporate reporting and audit in future

3. Corporate reporting

The FRC's work on corporate reporting will focus on two key areas: relevance to investors and global accounting standards. In the UK we aspire to make annual reports more concise and relevant to the needs of investors. Part of the reaction to the financial crisis has been a growing trend to require additional disclosure to assist transparency and engender trust. This often results in reports which are overloaded and potentially more opaque. There has been some progress, including through the work of the Financial Reporting Lab, but much more remains to be done. We need to find a way

to prioritise the diverse demands made of company accounts, build acceptance that this can be made to work in most cases, and show leadership in driving implementation.

Progress on the goal of globally consistent accounting standards has stalled. We need a way forward. We will encourage the International Accounting Standards Board (IASB) to seize the opportunity to focus on high quality standards and to revisit some of its recent work, making timely improvements. We will seek research and evidence to influence the important IASB conceptual framework project.

To encourage high quality corporate reporting, the FRC will:

- develop our disclosure framework proposals including seeking to influence the IASB in developing disclosure principles
- provide input to the IASB's project on materiality
- report publicly and directly to the profession on the lessons to be learned from our reviews of approximately 300 sets of reports and accounts of UK companies
- influence EU directives and regulations which potentially restrict our ability to effect change
- promote more focussed reporting through specifically designed Financial Reporting Lab experiments. The Lab will also consider reporting in an e-enabled world
- continue to promote FRS 102 and develop an exposure draft of FRS 103 Insurance Contracts
- continue to support the development of globally accepted financial reporting standards that are principles based, of high quality and pragmatic

4. Audit quality and value

The FRC recognises the seriousness of the debate on the quality and value of audit that came to the fore with the financial crisis and shows no sign of abating. Our work on audit will fall into the following areas:

- getting the standards right, including appreciating the public's expectations of auditor reporting
- increasing the focus of the audit monitoring programme of the largest listed entities, whilst continuing to undertake inspections on a risk basis and fulfilling our statutory remit by applying effective oversight over the regulation of auditors by recognised professional bodies. We will review these recommendations in the light of the outcome of the Competition Commission's statutory audit services market investigation and any other requirements emerging from amendments to European audit regulations.
- using the knowledge gained from our audit inspection work, identify and explore emerging issues and undertake thematic projects
- looking at and beyond the current model under which auditors provide assurance on the truth and fairness of the financial statements to clarify and potentially enhance it. Areas for investigation include the potential need for greater assurance of narrative reporting, forward looking information – governance and controls
- ensuring the UK has credible plans in place to minimize the risk of and, if necessary, respond to any failure of a major audit firm

5. FRC's responsibilities for actuarial oversight and standards

Seven years ago, as a result of the Morris review of the role of actuaries, the FRC assumed responsibility for actuarial professional oversight and the setting of Technical Actuarial Standards (TASs). Much has changed in the intervening period – in the profession, in the markets where it operates and in the regulatory environment. In light of these developments, we need to test whether the framework for actuarial regulation remains appropriate. With the Institute and Faculty of Actuaries, we will conduct a programme of work across our regulatory activities and report publicly on our conclusions. The actuarial programme will cover:

- the future scope of FRC regulation, including the implications for actuarial regulation of changes in the role of actuaries
- the FRC's role in the oversight of the profession, including the level of public trust in the ethical standards of actuaries
- the integrity and coherence of domestic, European and international actuarial regulation

6. Economic and market context

The FRC will invest to further develop its ability to understand and influence key developments in the business, finance, economic and policy environment which constitute the context for so much that it does. We have so far identified the need to:

- invest in understanding the views of international investors and deepen our understanding of trends and developments in capital markets and investor behaviour
- continue to develop and publish for discussion our understanding of the extent to which our work should differentiate between financial services and other sectors
- strengthen our understanding of investor rights and its implications for stewardship

Engagement and influencing strategy

All of our priority projects will need their own engagement and influencing strategies to be effective. We have well developed relationships with key stakeholders including members of the accountancy and actuarial professions, financial regulators and policymakers. The FRC has identified further stakeholder groups whose interests and activities interact with ours in almost every area and with whom we need to build relationships as strong as those with existing stakeholders:

- Internationally – the FRC has established good working relationships with the global standard setting bodies which it will continue to pursue. But we believe we can achieve more by extending our networks laterally to include bodies and individuals who themselves exert direct influence. We also need

to recognise the significant role which international bodies play in influencing debate in Europe and adjust our influencing strategy accordingly and participate actively in international forums. We will work closely with other UK participants in international debates in order to reflect UK interests as effectively as possible. Our recent appointment as an inaugural member of the Accounting Standards Advisory Forum is evidence of our growing influence at international level

- Europe – we established a Brussels office in 2012 and since then have seen a step change in the quality of our engagement in EU affairs. We are committed to investing further to extend, deepen and strengthen our influence in Europe
- Financial regulators and policy makers – recognising the far-reaching implications of developments in financial regulation internationally and in the UK, we will work closely with the Department for Business, Innovation & Skills, Her Majesty's Treasury, the Bank of England, Financial Conduct Authority, Prudential Regulation Authority, Department for Work and Pensions and the Pensions Regulator to ensure we play our role fully
- Investors – the message of our stakeholder survey was that we have more to do to have the impact we want with the investor community. We will review our investor outreach mechanisms and act to address this

We will continue to work closely with our existing key stakeholders where we have strong existing links, including:

- Company boards and others in the business community, including users and preparers of UK company financial statements, who both contribute to and benefit from high standards of corporate governance and reporting
- Members of the accountancy and actuarial professions, who through their work make an essential contribution to the quality of corporate governance and reporting in the UK – and their professional bodies working with the FRC in their regulatory role to encourage high standards

Section Two Work Plan 2013–2016: Proposed Major Projects and Activities

Title of Project	Regulatory activities			
Objective/ expected outcomes	Effective, proportionate and independent investigative monitoring and disciplinary procedures that provide confidence to market participants	2013/14	2014/15	2015/16
Main activities for gathering evidence and influencing outcomes	Ensure our actions, including further work on emerging issues and revisions to codes and standards, are informed by robust evidence	✓	✓	✓
	Provide more evidence from our conduct work in response to increasing international demands from regulators and standard setters so that we are more effective in reaching our goals	✓	✓	✓
	Conduct thematic studies in response to emerging corporate reporting and audit issues, contributing to our influence over stakeholders through evidence and analysis	✓	✓	✓
	Conduct supervisory inquiries into events such as corporate failures or near-failures by gathering evidence on a timely basis so that we may better determine what action, if any, may be required	✓	✓	✓
	Ensure the effective and proportionate operation of the newly reformed accountancy and actuarial disciplinary schemes. We will manage a step increase in the speed and effectiveness of our disciplinary processes whilst at the same time clearing the backlog of cases	✓	✓	✓
	Create and develop the capacity to undertake aspects of an investigation cost-effectively in house rather than through external suppliers at higher cost	✓	✓	✓
	Commence cycle of periodic inspections of third country auditors	✓	✓	✓
	Commence our work on public sector audits	✓	✓	✓

Title of Project	Stewardship			
Objective/ expected outcomes	High quality corporate governance and stewardship which fosters trust in the way companies are run	2013/14	2014/15	2015/16
Main activities for gathering evidence and influencing outcomes	Define what is meant by stewardship in different contexts	✓		
	Establish a clearer evidence base about the relationship between stewardship, corporate reporting and auditing, making clear the contribution that is and should be made in each part of the investment chain to stewardship	✓	✓	
	Influence global standard setters to enshrine the centrality of stewardship – making the case for the International Financial Reporting Standards (IFRS) conceptual framework to include this explicitly and review audit standards for consequential changes	✓	✓	
	Monitor the impact of the Stewardship and Corporate Governance Codes, carrying out research where needed	✓	✓	✓
	Assess the impact and effectiveness of September 2012 changes to the Codes, related guidance and audit standards	✓	✓	
	Finalise revised guidance on risk management and internal control and going concern	✓		
	Respond to the Kay review, setting out what the FRC has done and will do	✓		
	Influence legislation and other measures coming out of the EU Company Law Action Plan that will have an impact on Corporate Governance, (securities law chain, proxy voting agencies and reporting on governance being key topics)	✓	✓	
	Research and report on good practice in board evaluation	✓		
	Review Codes in line with the two year cycle taking account of remuneration and other developments		✓	✓

Title of Project	Corporate reporting			
Objective/ expected outcomes	High quality corporate reporting, providing fair balanced and understandable information which is concise, relevant and focused on stewardship	2013/14	2014/15	2015/16
Main activities for gathering evidence and influencing outcomes	Ensure appropriate UK input to the International Accounting Standards Board's (IASB's) standard setter forum, especially amendments to IFRS9, leases, insurance and IFRS for SMEs	✓		
	Consider the feedback to the FRC Discussion Paper on Disclosure and identify actions	✓	✓	
	Review the role of materiality in implementing accounting and audit standards, while ensuring that the FRC's monitoring of corporate reports and audits continues to focus on key issues and significant risks	✓		
	Report on the lessons to be learned from the approximately 300 corporate reports reviewed by the FRC and engage with directors on securing improvements in financial reporting	✓	✓	✓
	Increase our ability to influence EU directives and regulations which potentially restrict our ability to effect change	✓		
	Seek to produce more focused reporting through specifically designed Financial Reporting Lab experiments. The Lab will also consider reporting in an e-enabled world	✓	✓	✓
	Influence developments in the IFRS Conceptual Framework	✓		
	Develop narrative reporting guidance to support BIS regulations, moving towards a more concise, relevant and principles based approach which also takes account of the integrated reporting framework	✓		
	Implement new UK General Accepted Accounting Practices (GAAP) standards, deliver XBRL taxonomies and develop insurance solutions and Statement of Recommended Practices (SORPs)	✓	✓	

Title of Project	Audit quality and value			
Objective/ expected outcomes	Foster high quality audit and confidence in the value of audit	2013/14	2014/15	2015/16
Main activities for gathering evidence and influencing outcomes	Ensure the implementation of the October 2012 changes for auditors is effective	✓	✓	
	Increase the focus of the audit monitoring programme of the largest listed entities, whilst continuing to undertake inspections on a risk basis and fulfilling our statutory remit by applying effective oversight over the regulation of auditors by recognised professional bodies	✓	✓	✓
	Contribute to the quality and value of audit by monitoring and reporting on the quality of approximately 100 audits, the majority of which will relate to the largest audit firms	✓	✓	✓
	Ensure independent and effective oversight and regulation of the UK professional bodies in their regulation of the UK audit profession	✓	✓	✓
	Implement our new regulatory power to impose sanctions where poor quality audit is identified	✓		
	Leverage our knowledge gained through routine audit firm inspection to identify emerging issues that should be considered for a thematic study	✓	✓	✓
	Review the current and future role and accountability of auditors to consider potential areas of clarity, depth and extension. Potential areas for investigation include narrative reporting, forward looking information, governance and controls	✓	✓	✓
	Respond to the Competition Commission's recommendations, as appropriate	✓		
	Develop and implement plans to mitigate risks associated with audit market concentration	✓		
	Continue to influence and lead the work with the International Forum of Independent Audit Regulators (IFIAR), the European Audit Inspection Group (EAIG) and Colleges of Regulators	✓	✓	✓
	Influence the outcome of the draft EU Auditing Directive and Regulation	✓		
	Update the Audit Quality Framework	✓	✓	
	Issue a best practice note on audit tendering	✓		
	Influence international standards for auditors	✓	✓	✓

Title of Project		Actuarial oversight and standards		
Objective/ expected outcomes	High quality actuarial practice; integrity, competence and transparency of the actuarial profession	2013/14	2014/15	2015/16
Main activities for gathering evidence and influencing outcomes	Clarify the contribution of actuarial work and actuarial regulation to the FRC's mission	✓		
	Review the scope of FRC regulation, including Technical Actuarial Standards (TASs)	✓	✓	
	Assess the implications for actuarial regulation of changes in the roles of actuaries	✓		
	Establish the most effective way for the profession to build public trust in the ethical standards of actuarial work	✓		
	Establish effective oversight of the quality of regulatory engagement with actuarial firms	✓		
	Seek to ensure the integrity and coherence of UK, European and International actuarial regulation	✓	✓	✓
	Establish the FRC's regulatory role in connection with actuarial methodologies	✓		

Title of Project		Economic and market context		
Objective/ expected outcomes	Ensure the FRC understands and influences the key developments in its economic, business and finance environment	2013/14	2014/15	2015/16
Main activities for gathering evidence and influencing outcomes	Develop a framework for the FRC to relate its work to the differing needs of UK and international investors	✓	✓	
	Deepen the FRC's understanding of trends and developments in capital markets and investor behaviour, to better its understanding of how the link between risk and capital structure impacts the effectiveness of stewardship and governance	✓	✓	
	Develop further the FRC's understanding of the continuing impact of the financial crisis on corporate governance and reporting, identifying areas for further work where needed	✓		
	Continue to develop and publish for discussion our analysis as to whether banks, in view of their systemic importance, should be subject to differentiated codes and standards and whether there are wider applications of our standards to banks, taking into account the findings of the parliamentary commission	✓		
	Strengthen the FRC's understanding of investor rights and its implications for stewardship by looking at the relevance of proportionate investor rights, including protection of different types of investors	✓		

Section Three Budget 2013/14

The FRC's annual budget is set at a level that reflects our judgement on the resources we need to fulfill our mission – to promote high quality corporate governance and reporting to foster investment – and the way in which we should most effectively deploy those resources.

Our budgetary arrangements for 2013/14 are set out below. They distinguish between core operating costs and costs which are recovered directly from the accountancy professional bodies. The latter cover much of our conduct activity and vary according to changing external factors, notably the number and complexity of the public interest cases that fall within the scope of our disciplinary arrangements. They also distinguish between our responsibilities in relation to codes and standards corporate governance, corporate reporting and auditing and our responsibilities for actuarial standards and regulation.

Our overall budget for 2013/14 is shown in Table 1. Central overheads are apportioned between the different blocks of activity:

Table 1

£m	2012-13 Budget	2012-13 Expected	2013-14 Budget
Income in relation to:			
Corporate governance, reporting and audit	12.4	12.9	14.3
Actuarial standards and regulation	2.9	2.9	2.3
Audit quality review	2.8	2.4	2.9
Accountancy case costs	4.0	5.8	5.0
Total	22.1	24.0	24.5
Expenditure in relation to:			
Corporate governance, reporting and audit	12.8	13.3	14.3
Actuarial standards and regulation	2.8	2.4	2.3
Audit quality review	2.8	2.4	2.9
Accountancy case costs	4.0	5.8	5.0
Total	22.4	23.9	24.5

For all our activities we seek to maximise the value that we add for our wide range of stakeholders, including those who contribute directly to our costs through our funding arrangements. We seek to ensure strict control of our costs. We are also conscious that the impact of the wider costs for those covered by the regulatory framework for corporate governance and reporting is significantly greater than the direct cost of FRC regulation. By focusing on better regulation principles and promoting them internationally, we believe that we can, over the medium term, contribute to a reduction in those wider costs.

Our Plan identifies what we see as the current challenges for all those involved in corporate governance and reporting in the UK, and the importance of an effective and proportionate response from the FRC. To ensure that we can make that response we are proposing an increase in the resources for our core regulatory activities in relation to corporate governance, corporate reporting and auditing standards (i.e. not including specific conduct work that is separately charged to the accountancy profession.) The growth in costs in this core area will be 9% compared to the current financial year.

In order for the FRC to properly resource the priorities identified in the plan, we will need to increase our headcount. Total headcount is budgeted to increase from an actual full time equivalent (FTE) total of 114 on 31st March 2013, to a projected total of 126 FTE by 31st March 2014. Of this increase, the Codes and Standards Division will grow by net three FTE and the Conduct Division by net six FTE.

Core operating costs in relation to corporate governance, reporting and auditing

Our core operating costs and the funding provided by each main funding group for the period 2009/10 (when the Government started significantly to reduce their contribution) to 2013/14 are as follows:

Table 2

£m	2009-10 Actual	2010-11 Actual	2011-12 Actual	2012-13 Expected	2013-14 Budget
Funding requirement	12.3	12.5	12.9	13.3	14.3
Funds provided by:					
Preparers	6.7	7.6	7.4	7.9	8.9
Accountancy profession	4.5	4.7	4.7	4.5	4.9
Government	2.3	1.2	0.5	0.5	0.5
Total	13.5	13.5	12.6	12.9	14.3

Note: Differences between core operating costs and funding provided reflect transfers to and from general reserves each year.

The increase in the budget for this element of our activities in 2013/14 follows primarily from our intention to strengthen our conduct activities. The proposed additional resource will enhance our ability to:

- Respond to the increasing demands from EU, international and other national regulators and standard setters for evidence from our conduct work and thereby influence EU and international developments.
- Further develop our expertise in monitoring reporting and auditing in relation to financial institutions.
- Conduct thematic studies in response to emerging corporate reporting and audit issues.
- Conduct supervisory inquiries into events such as corporate failures or near-failures to better determine what action might be required.
- Discharge our new auditor sanctioning powers and proportionate powers in relation to the accountancy regulatory bodies we regulate.
- Plan for the regulation of local authority audit.

In addition, it is our intention to manage a step increase in the speed and effectiveness of our disciplinary processes whilst at the same time clearing the back-log of cases. We are also planning to undertake aspects of disciplinary investigations in-house rather than through external suppliers. This will help us to manage as efficiently as possible the costs associated with our investigations, which will continue to be met by the accountancy professional bodies.

We are also increasing resources to enhance:

- The FRC's strategic, analytical and research capacity - including our work to influence EU initiatives within the Corporate Governance and Company Law Action Plan and other EU and international developments.
- Our work on the Sharman Report and the value of audit
- Our work in setting codes and standards for corporate governance and reporting.
- The continuing work of the Financial Reporting Lab

We believe that to secure the necessary resources as shown in Table 2 we should increase the minimum rate of the preparers levy by 2.8 % and all other rates by 8.5% as set out in Section Four.

The contribution from the accountancy professional bodies will increase by 8.9% compared to the actual contribution received in 2012/13. The increase over the amount requested for 2012/13 will be 4.3%.

There is to be no change in the Government contribution.

Actuarial standards and regulation

The budget for 2013/14 is shown in Table 3. Our activities and hence our future annual budgets for actuarial standards and regulation will be finalised in the light of our current work with the Institute and Faculty of Actuaries to consider whether the framework for actuarial regulation remains appropriate. In addition we have assumed no significant new disciplinary cases arise in 2013/14.

Expenditure is therefore set to reduce in 2013/14 compared to the current year as set out in Table 3.

Table 3

£m	2012-13 Budget	2012-13 Expected	2013-14 Budget
Actuarial Standards and Regulation			
Core Operating costs	1.9	2.0	2.1
Actuarial disciplinary case costs	0.8	0.4	0.2
Increase to actuarial case fund	0.2	-	-
Total	2.9	2.4	2.3
Funds provided by:			
Actuarial Profession	0.3	0.3	0.2
Insurance levy	1.3	1.3	1.05
Pension levy	1.3	1.3	1.05
Total	2.9	2.9	2.3

Note: Differences between core operating costs and funding provided reflect transfers to and from general reserves each year.

Audit Quality Review

The costs identified in Table 1 above include only the specific and variable costs of audit quality reviews. They are met by the individual Recognised Supervisory Bodies (RSBs) with which the firms that are subject to reviews are registered.

The fixed overheads of the audit quality review team (such as accommodation and shared IT systems) are included in our core operating costs.

For 2013/14, we are planning to expand the audit quality review team to ensure that we have the necessary skills and capacity to monitor and report on the quality of audits of public interest entities in the UK, including contributing to supervisory inquiries and thematic studies.

The budget for 2013/14 also reflects the costs and income associated with the additional work for the Crown Dependencies which started in 2011/12.

Table 4

£m	2012-13 Budget	2012-13 Expected	2013-14 Budget
Audit Quality Review			
Core Operating costs	3.5	3.2	3.6
Less income generated	-0.7	-0.8	-0.7
Total	2.8	2.4	2.9
Funds provided by:			
Accountancy Profession	2.8	2.4	2.9
Total	2.8	2.4	2.9

Accountancy disciplinary case costs

The costs shown in Table 1 above include only the specific and variable costs of accountancy cases taken by the FRC. The FRC's related fixed overheads (such as staff, accommodation and shared IT systems) are included in core operating costs.

Accountancy disciplinary case costs are funded by the accountancy professional bodies to which the individuals or firms which are subject to each case belong within the terms of a formal case costs agreement. Case costs are forecast on the basis of the available information on actual or prospective cases. The accuracy of the forecast will depend on assumptions made as to the progress of cases and is therefore subject to a degree of uncertainty.

The forecast costs for 2012/13 are now expected to be £5.8m compared with the original estimate of £4.0m, with number of current cases flowing through to 2013/14. We expect that the costs associated with the accountancy disciplinary arrangements will be broadly the same over the next twelve month period as we continue to make progress in concluding these cases.

Table 5

£m	2012-13 Budget	2012-13 Expected	2013-14 Budget
Accountancy disciplinary Case Costs			
Expenditure	4.0	5.8	5.0
Total	4.0	5.8	5.0
Funds provided by:			
Accountancy Profession	4.0	5.8	5.0
Total	4.0	5.8	5.0

Reserves

General reserves

The general reserve stood at £3.2m at the end of March 2013. In the financial year 2012/13 we produced a small surplus and in 2013/14, we plan to produce a balanced budget.

We believe that this level will be appropriate for 2013/14 given the risks associated with those elements of the accountancy disciplinary scheme which are not covered by the arrangements with the professional bodies.

The general reserve includes an amount to cover our actuarial responsibilities of £0.9m at March 2013. This rose by £0.5m in 2012/13 because costs during the year were lower than forecast. A balanced budget is proposed for 2013/14.

Case cost reserves

The FRRP case fund will remain unchanged, at £2m.

During the financial year 2011/12 £0.6m was added to the case fund for actuarial cases bringing the balance to £2.0m by March 2012. We plan to maintain the fund at this level through to the end of 2013/14.

Table 6

Reserves	Accountancy General Reserve	Actuarial General Reserve	Total General Reserve	FRRP Case Reserve	Actuarial Case Reserve	TOTAL Case Reserve	GRAND TOTAL Reserve
Balance at 31/03/2010	2.1	0.1	2.2	2.0	1.0	3.0	5.2
Surplus (defecit) in 2010/11	1.2	0.0	1.2	0.0	0.4	0.4	1.6
Balance at 31/03/2011	3.3	0.1	3.4	2.0	1.4	3.4	6.8
Surplus (defecit) in 2011/12	-0.6	0.3	-0.3	0.0	0.6	0.6	0.3
Balance at 31/03/2012	2.7	0.4	3.1	2.0	2.0	4.0	7.1
Surplus (defecit) in 2012/13	-0.4	0.5	0.1	0.0	0.0	0.0	0.1
Balance at 31/03/2013	2.3	0.9	3.2	2.0	2.0	4.0	7.2
Surplus (defecit) in 2013/14	0.00	0.04	0.0	0.0	0.0	0.0	0.0
Balance at 31/03/2014	2.3	0.9	3.2	2.0	2.0	4.0	7.2

Section Four Levies 2013/14

Preparers levy

The levy applies to publicly traded companies, large private entities and public sector organisations and is used to raise a proportion of the FRC's annual funding requirement and the UK contribution to the International Accounting Standards Board (IASB).

Funding requirement

For 2013/14, our funding requirement is as follows:

Table 7

£m	FRC requirement		Plus IASB contribution		= Preparers levy	
	2012-13 Expected	2013/14 Budget	2012-13 Actual	2013/14 Budget	2012-13 Actual	2013/14 Budget
Levy group						
Publicly traded companies	5.1	5.8	0.5	0.6	5.6	6.4
Large private companies	2.4	2.6	0.2	0.2	2.6	2.8
Public sector organisations	0.4	0.5	0.1	0.1	0.5	0.6
Total	7.9	8.9	0.8	0.9	8.7	9.8

Preparers levy rates for 2013/14

The amounts payable under the preparers levy for individual organisations are determined through a minimum levy and further amounts for organisations above a certain size, with the rate per £m declining in five levy bands aligned with the levy arrangements operated by the Financial Conduct Authority (FCA). Details of the levy are published on our website.

The rates we will apply are shown in Table 8.

In the light of the feedback from the consultation, the minimum rate will be increased by 2.8% rather than 4.4% as proposed. This will largely benefit the smaller publicly traded companies and public sector organisations. As proposed, the rates for the organisations subject to the other levy bands will be increased by 8.5% compared to those applied in 2012/13.

Table 8

Band	Organisation size * £m	2012/13 levy rate per £m	Proposed 2013/14 levy per £m
1 Minimum levy Further amounts based on size*	Up to 100m	£948	£972
2	100m-250m	£8.45	£9.17
3	250m-1,000m	£5.46	£7.00
4	1,000m-5,000m	£4.60	£4.99
5	5,000m-25,000m	£0.077	£0.084
6	>25,000m	£0.015	£0.016

*Size is either based on market capitalisation, published turnover, or overall expenditure depending on the type of organisation

To illustrate the effect of the rates we will apply, the following table shows the calculation of the levy for a publicly traded company with a market capitalisation of £1bn.

Example 1: UK London Stock Exchange Main Market Company							
Market capitalisation as at 30 November: £1,000,000,000							
Tariff data : £1,000,000,000							
Levy rate		2012-13	2012-13 Levy calculation		2013-14	2013-14 Levy calculation	
Band 1	Min fee up to £100m	£948	£948	£948	£972	£972	£972
Band 2	100m-250m	£8.45	150 x £8.45	£1,268	£9.17	150 x £9.17	£1,376
Band 3	250m-1,000m	£5.46	750 x £6.45	£4,838	£7.00	750 x £7.00	£5,250
Band 4	1,000m-5,000m	£4.60			£4.99		
Band 5	5,000m-25,000m	£0.077			£0.084		
Band 6	>25,000m	£0.015			£0.016		
Total levy				£7,053			£7,598

The following table shows the changes in our preparers levy rates since 2009/10. In general the rates have not been increased over this period. The increase in the amount raised through the levy is largely as a result of including large private entities and public sector organisations within its scope.

Table 9

Preparers Levy Rates							
	2009/10 £	2010/11 £	2011/12 £	2012/13 £	2013/14 £	2013/14 compared to 2012/13 % change	2013/14 compared to 2009/10 % change
Band 1 Min fee	980	1,028	980	980	972	+2.8%	-1.0%
Band 2	9.39	8.83	7.68	8.45	9.17	+8.5%	-2.4%
Band 3	7.17	6.74	5.86	6.45	7.00	+8.5%	-2.4%
Band 4	5.12	4.81	4.18	4.60	4.99	+8.5%	-2.5%
Band 5	0.0853	0.08	0.07	0.077	0.084	+8.5%	-2.1%
Band 6	0.0171	0.016	0.014	0.015	0.016	+8.5%	-4.8%

Aligning the levy categories with the UK Listing Regime

For 2013/14 we will bring our levy arrangements in line with the FCA. We have previously defined three categories of listed company. The first comprised UK companies with a primary listing, subject to the 'comply or explain' rules relating to the UK Corporate Governance Code. The second comprised non-EEA overseas companies with a primary listing. The third comprised non-EEA overseas companies with a secondary listing. The second and third categories were not subject to the 'comply or explain' rules and were given a 50% discount on the levy.

The changes to the UK Listing Regime introduced in 2010 redefined the categories of company subject to the 'comply or explain' rules. Given the continuing emphasis that the FRC has, in consultation with our stakeholders, placed on our role in relation to corporate governance, we will now bring our levy categories into line with the revised rules. We will from 1 April 2013 manage the levy on the basis of the two categories defined by the Listing Regime: companies with a Premium Listing of equity shares required to 'comply or explain' against the UK Corporate Governance Code; and companies with a Standard Listing subject only to EU minimum standards and not therefore required to 'comply or explain' against the Code.

All companies with a Standard Listing, including UK companies will receive a 50% discount on the levy; while those companies with a Premium Listing, including overseas companies, will not receive the discount.

During 2013/14, the FRC will also review with the financial regulatory authorities whether those companies issuing other categories of securities, such as depositary receipts, which fall within the scope of FRC regulatory requirements should be subject to the preparers levy at a proportionate rate and with an appropriate discount.

Actuarial standards and regulation

For 2013/14, our funding requirement is as follows:

Table 10

Actuarial £m	2012/13 Budget	2012/13 Expected	2013/14 Budget
Funding Requirement	2.9	2.9	2.3
Funding group:			
Actuarial Profession	0.3	0.3	0.2
Pension Levy	1.3	1.3	1.05
Insurance Levy	1.3	1.3	1.05
Total Actuarial Funding	2.9	2.9	2.3

Insurance levy

The insurance levy will be allocated to insurance companies in the same proportion as the regulatory fees applied by the financial regulatory authorities and charged to insurance companies on the same invoice as their fees. In order to raise the funds we require we will reduce the insurance levy from 1.35% to 0.93% of the fees charged jointly by the FCA/Prudential Regulatory Authority – a reduction of 31%.

Pension levy

The pension levy will be allocated to schemes on the basis of their latest scheme returns to the Pensions Regulator. We will reduce the pension levy by 19% from £3.15 to £2.55 per 100 members.

Impact on funding groups

The following table gives an estimate of the number of organisations that will be affected by the changes in the FRC levy rates in 2013/14 based on the data available in April 2014:

Funding group/Change in rates compared to 2012/13	31% reduction in rates	19% reduction in rates	2.8% increase in rates	8.5% increase in rates	Total
Publicly-traded companies			1,200	700	1,900
Large private companies				500	500
Public sector organisations			200	700	900
Insurance companies	700				700
Pension schemes		2,000			2,000
Total	700	2,000	1,400	1,900	6,000
%	12%	33%	23%	32%	100%

Contact details

Policy and Planning Officer
Financial Reporting Council
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN
e-mail: **planning@frc.org.uk**

Fax: 020 7492 2301

For general information about the work of the FRC, please see our website at **www.frc.org.uk**

For any further enquiries, please contact us at the above address.



Financial Reporting Council

5th Floor, Aldwych House
71-91 Aldwych
London WC2B 4HN

+44 (0)20 7492 2300

www.frc.org.uk