Quoted Companies Alliance

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Dear Sirs,

Draft Plan & Budget and Levy Proposals 2017/18

We welcome the opportunity to respond to the FRC's consultation on its Draft Plan & Budget and Levy Proposals for 2017/18.

The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance Financial Reporting Expert Group has examined your proposals and advised on this response. A list of members of the Expert Group is at Appendix A.

Response

Q1 Do you have any comments on our proposed priorities and work programme for 2017/18?

Although we generally support the proposed priorities and work programme for 2017/18, we encourage the FRC to define the concept of quality and how it will be measured.

We note that one of the FRC's priorities for 2017/18 is to update the UK Corporate Governance Code following 'concerns about trust in business'. Although we strongly support the FRC's mission of promoting high quality corporate governance, a further revision of the Code, in such a short timescale after the last revision in 2016, is a direct contradiction to the FRC's Strategy for 2016/19, which states that the FRC will avoid changes to codes and standards 'for at least the remainder of the strategy period, and longer if possible'.

We therefore urge the FRC to be clear in any future consultation about what has arisen during the course of 2016/17 to cause the change in strategy and how this indicates a systemic flaw or weakness, as opposed to an isolated example of malpractice. Changes in codes and standards impose a cost on business and should only be made when there is clear evidence to support the change being made.

We welcome the intention to look at enhancing the speed and effectiveness of the FRC's enforcement role and recommend that the FRC review the timeline for Corporate Reporting Reviews (CRR), in order to take into account the resources of smaller companies.

A CRR often focusses on reviewing the financial information of larger companies in the early part of the year. One consequence of this practice is that smaller companies are notified that their annual accounts will be reviewed at a later stage in the year, leading to them having less time to respond to CRR prior to their next accounts being due. We encourage the FRC to review this practice in such a way that smaller companies are given sufficient time to organise their resources, so that they can effectively respond to a CRR enquiry.

Q2 Do you have any comments on our proposed effectiveness indicators?

As a general comment, there should be a more clearly defined and measurable link between the proposed effectiveness indicators and the proposed priority.

For example, for the priority 'Promoting high corporate reporting', we do not consider 'Our views on the development and impact of international standards' to be an effectiveness indicator. A more appropriate indication of effectiveness would be how successfully the FRC has influenced the International Accounting Standards Board (IASB) towards its stated view.

Q3 Are there any areas where the FRC could reduce its proposed activities without reducing the overall impact of FRC regulation?

We continue to support the FRC's aim of effective, but proportionate, regulation and encourage the FRC to continue taking into account the cost effectiveness of its activities. We note the comment in the FRC's Strategy for 2016/19 regarding the intention to remove regulatory burdens wherever possible and look forward to commenting on any specific proposals brought forward.

Q4 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?

The complexity of accounts can reduce confidence in financial reporting. If accounts can only be understood by specialists in financial reporting, non-expert users can draw incorrect conclusions about the sustainable level of a business's cash generation. The FRC should utilise its influence within the IASB and its responsibility for FRS 102, to improve the understandability of financial accounts by users who are not technical experts in financial accounting.

Q5 Do you have any comments on our proposed budget?

The proposed budget shows an increase in expenditure of 5.3% - considerably in excess of the level of inflation. We acknowledge that part of the increase is due to the FRC's role as the competent authority for audit regulation and the resulting expansion of the scope of its responsibilities. Nonetheless, this alone does not fully explain the increase in costs, which appear to be across the range of the FRC's activities. We encourage the FRC to be more transparent about the reason for above inflation increases in future to allow for meaningful comment.

Furthermore, we note the plans for the FRC to increase its level of reserves and the impact of this increase on the levies being raised. Whilst we understand the need for the FRC to maintain a certain level of reserves, past history does not suggest that the current levels of reserves are inadequate and hence we do not support the planned increase.

Q6 Do you have any comments on our proposed levy rates?

Although we did not expect increases in levy rates to be so sharp in one year, we nonetheless welcome the fact that smaller companies have been taken into consideration and that the increases in the minimum fee and levy rates for listed companies with a market capitalisation of less than £1bn will be limited to 2.5%.

We welcome the proposal that any rises will be applied in a proportionate way, with small and mid-size quoted companies not bearing a disproportionate share of the increased cost.

If you would like to discuss our response in more detail, we would be happy to attend a meeting.

Yours faithfully,

Tim Ward
Chief Executive

APPENDIX A

Quoted Companies Alliance Financial Reporting Expert Group

Matthew Stallabrass (Chairman)	**Crowe Clark Whitehill LLP**
Matthew Howells (Deputy Chairman)	Smith & Williamson LLP
Jonathan Compton	BDO LLP
Amy Shepheard	Deloitte LLP
Neil Armstrong	Frontier Developments PLC
Gary Jones	Grant Thornton UK LLP
Anthony Carey	Mazars LLP
Joseph Archer	PKF Littlejohn LLP
Andrew Westbrook	RSM
Donna Caira	Saffery Champness
Edward Beale	Western Selection Plc