Financial Reporting Council

December 2013

Draft Plan & Budget and Levy Proposals 2014/15

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.

The Financial Reporting Council Limited is a company limited by guarantee.
Registered in England number 2486368.
Registered Office: 5th Floor, Aldwych House, 71-91 Aldwych, London WC2B 4HN.

Financial Reporting Council

Draft Plan & Budget and Levy Proposals 2014/15

Section 1 Overview

Mission

Our **mission** is to promote high quality corporate governance and reporting to foster investment.

Our **strategies** to support this mission are:

- to create a framework that encourages trustworthy behaviour by directors and professionals and engagement with them by investors; and
- to encourage companies to produce trustworthy information that contributes to informed decisions.

In addition, we seek to build justified confidence internationally in the UK regulatory framework for corporate governance and reporting, including across the EU and other major capital markets. The breadth of our role gives us the opportunity to work closely with Government and other regulators in the UK and internationally in a joined-up way. We aim to provide leadership in international debate; to guard against damaging and unintended consequences of international regulation; and to promote justified confidence amongst international investors.

To deliver our strategies we committed earlier this year to six key priorities to be pursued over a three year period. These were to promote:

- High quality **corporate governance and stewardship** which foster trust in the way companies are run
- High quality **corporate reporting** that is fair, balanced and understandable
- **High quality audit and confidence in the value of audit**
- **Actuarial oversight and standards** which underpin high quality actuarial practice, and the integrity, competence and transparency of the actuarial profession
- Effective, proportionate and independent **investigative, monitoring and disciplinary procedures**
- Our ability to **understand and influence** key developments.

We deliver these priorities through a number of functions based on our legislative and other powers. In particular we set the UK Corporate Governance and Stewardship Codes; set standards for accounting, audit and actuarial work; monitor the quality of accounts and audits; operate a disciplinary scheme for accountants and actuaries and oversee the regulatory activities of their professional bodies.

We believe our strategic focus and priorities remain appropriate. In Section 2 we describe the progress we are making in this (the first year of our three year strategy) and how we will develop our work in 2014/15 in the light of our assessment of the public interest and changing economic circumstances.

Our regulatory approach

Across all its activities the FRC seeks to act in the public interest. Investors, insurance policyholders, pension scheme members, savers, employees, consumers, creditors, taxpayers, clients of professional accountancy and actuarial advice and other groups are affected by the issues we address through our work. Although each of these groups may define their requirements in different ways they all have an interest in high standards of governance and reporting.

Parliament has conferred the privilege of limited liability. In return the public has a right to expect high standards of accounting and reporting, supported by effective independent audit. In the listed sector in particular, investors provide equity without rights over the company's assets but against an expectation of high standards of governance and reporting of a standard that enables them to take good decisions as owners. Confidence in this system will help bring forward investment and underpin growth and prosperity.

While recognising that the public interest is wide, we have to set clear priorities so that we can use our resources effectively and efficiently; and can be proportionate in all our work - ensuring that we do not impose inappropriate burdens on business. The FRC focuses in particular on listed companies' behaviour and information and related professional activity where most investment is at stake. We also consider that the quality of reporting and auditing by smaller listed and AIM quoted companies is important for the integrity of the capital markets as a whole. In addition, we are very conscious that we exercise significant influence over the quality of reporting by non-listed entities through our role in setting UK and Irish Generally Accepted Accounting Practice (GAAP), the application of our auditing standards and monitoring of relevant accounts.

Actuarial work underpins much information provided to investors, including pension scheme members and trustees. Our oversight of the actuarial profession and our technical actuarial standards are designed to build confidence in the public interest in these areas.

Our core values as an organisation include reaching out to those we regulate and ensuring that we have a good evidence base so that our regulatory activities are proportionate. We rely on a high degree of input from our stakeholders in addressing the needs of investors and other users of information through our outreach events and Financial Reporting Lab activities. As a relatively small organisation of 130 staff, we rely on such input and we are grateful for the help we receive.

Our assessment of the current economic and market context

The UK economy is recovering from the impact of the financial crisis but threats to growth remain: slow growth in the Eurozone and a dip in economic activity in the emerging economies being just two. Overall, however, there is significant potential for investment growth in the UK. Overseas sources of finance also flow strongly into the UK and domestic savings are on the increase. The productive use of such sources of finance could reinvigorate our economy and do so sustainably by enhancing our economic capacity not just by boosting consumption.

However, continuing anxieties about the UK's prospects have held back corporate decisions to turn finance into investment. There are many factors underlying this situation but the key challenge for companies is to find the confidence to invest with the wholehearted support of their owners. There are a host of factors that need to work to this end: macroeconomic stability, consumer demand and a skilled workforce are just a few. The quality of, and trust in, corporate governance and reporting are very much part of the picture.

We therefore seek to assess the current strengths and weaknesses of corporate governance and reporting in the UK on a regular basis and use this analysis to drive our work. Our current view is that:

- The quality of governance amongst larger UK companies is generally sound; however the challenge of maintaining effective internal control and risk is considerable.

- We have concerns about whether companies, markets and policymakers take a sufficiently long-term view and we will be looking to provide thought leadership on the developing role of risk capital, and balance of rights and responsibilities, particularly in the European Union (EU).

- The quality of corporate reporting by major companies is generally strong, but many reports are still too cluttered and lack clarity in reporting on strategy, business models and risks. To some extent the lack of focus is the result of political and regulatory demands for more disclosure. We also continue to have concerns about the quality of reporting by some smaller listed and AIM quoted companies.

- The commitment by many investors to engagement with companies is rising but there is considerable room for improvement.

- The quality of auditing, on the evidence of our inspection reports, continues to show an improvement, most notably in relation to the very largest listed companies; but it remains variable overall and needs to improve in the banking sector in particular. The value of audit also continues to be questioned, not least as a result of the financial crisis.

- Confidence in the quality of actuarial work is high; this has been mostly supported by the findings of our recent post-implementation reviews of the impact of our standards in pensions and insurance. The existing framework for actuarial standards is broadly right but could be improved by developing principles to apply across a broader range of actuarial work through a coordinated framework with the Institute and Faculty of Actuaries (IFoA). However, we remain largely dependent on monitoring by the financial services regulators for our assessments and therefore, we need to improve access to and understanding of evidence to support a more rigorous assessment of actuarial quality.

Consultation Question 1

Do you agree with the FRC's assessment of the current strengths and weaknesses of corporate governance and reporting in the UK?

Section 2 Proposed Priorities for 2014/15

We do not believe that it is appropriate or proportionate to address every area where there is scope for some improvement; markets often drive the adoption of best practice themselves. Instead we intend to focus our efforts where we believe the need for improvement is greatest and we have reason to believe markets will not do the job on their own.

This section sets out our current work in each area of our three year strategy and indicates where we believe our work needs to be developed to address gaps and risks more effectively. We have proposed key indicators of our effectiveness.

Our updated Work Plan 2013/16 is at Annex A.

Corporate Governance: focusing on the long term

We last changed the UK Corporate Governance and Stewardship Codes in October 2012. Since then we have:

- Consulted on how the UK Corporate Governance Code should address risk management and reporting by listed companies, so as to implement Lord Sharman's proposals in relation to going concern. Our original proposals to implement Lord Sharman's report met adverse feedback on the approach we had taken, but not on the recommendations themselves. We are now consulting on a more integrated and less rigid approach; and

- Consulted on how the Code covers remuneration policies, following the implementation of legislative changes on remuneration policy and reporting.

During 2014/5, we will:

- In following up on this year's third annual report on UK Corporate Governance, consult on any specific proposals for amending the Code, including our response to the recommendations of the Competition Commission in relation to audits of FTSE 350 companies;

- Undertake an assessment of the quality of board succession planning, which is frequently identified in board reviews as an area where improvements can be made, and consider how to develop best practice;

- Take action to promote improvements in the quality of company "explanations" in relation to the UK Corporate Governance Code; and

- Consider the impact of the revised UK Corporate Governance Code including changes in relation to audit committee reports. The Financial Reporting Lab completed a project on reporting by audit committees in October 2013 and we expect that a follow up will be needed. Similarly we expect that the Lab will carry out a project to provide practical insight into risk management reporting once we have finalised new guidance in 2014.

As key indicators of our effectiveness we will consider:

- Evidence that at least 80% of the FTSE 350 companies are preparing their corporate reporting in accordance with the latest changes to the UK Corporate Governance Code such as audit committee reporting, audit retendering and diversity reporting; and

- Evidence for the improvement in the clarity of explanations given by the FTSE 350 companies for selected Code provisions against the criteria set out in the Code.

Investor stewardship: promoting effective investor engagement

The Stewardship Code is now three years old, with the most recent update in 2012. The initial objectives were to establish support for the Code and raise the profile of stewardship for fund managers and institutional shareholders. We feel that this has largely been achieved: there are now nearly 300 signatories to the Code, representing a significant percentage of UK equities.

However, we believe that the development of a stewardship culture requires behavioural change and that one of the keys to better implementation will be to generate demand from asset owners for stewardship work by fund managers and to improve their ability to differentiate between managers and to hold them to account. In short, the main focus for 2014/5 will be to improve implementation. We suspect that some institutions have signed up to the Code in name only and anecdotal evidence from companies suggests that engagement has not strengthened in all cases in terms of quantity or quality.

To achieve the changes in behaviour and transparency we seek, we will continue to:

- Work with the markets and investors in the UK and internationally to try to ensure that investors in the capital markets have the information they need to invest for the long-term;
- Lead the stewardship debate in the UK and internationally, including influencing the development of the new Shareholder Rights Directive; and
- Work with other regulators and the market to press fund managers and asset owners to provide better accounts of their engagement with companies and how they are meeting the expectations of clients and beneficiaries.

As key indicators of our effectiveness we will assess the impact of the Stewardship Code, drawing on the stewardship surveys undertaken by the Investment Management Association (IMA) and the National Association of Pension Funds (NAPF) and other evidence from companies and investors. In particular we will assess:

- the quantity and quality of engagement;
- the frequency and scope of reporting by asset managers to clients and levels of satisfaction with the quality of reporting;
- the number of Stewardship Code signatories with independent opinion on their engagement and voting processes who make those opinions available to clients; and
- the number of mandates awarded by asset owners to asset managers that explicitly refer to stewardship.

Corporate reporting: meeting the needs of investors for trustworthy and relevant information

In the past year, we have made considerable progress in providing guidance to boards, audit committees and preparers to enable them to produce corporate reports which are 'fair, balanced and understandable'. We set requirements for this in the UK Corporate Governance Code and reinforced the role of the auditor through complementary standards. In order to meet the needs of investors we have:

- Issued UK GAAP Financial Reporting Standards (FRS 100, 101 and 102) in March 2013. We also updated a version of the Financial Reporting Standard for Smaller Entities (FRSSE) in July 2013 to reflect FRS 100 for smaller entities. We consider that these standards support the FRC's focus of simplifying standards for UK private companies;
- o Alongside the Department for Business, Innovation & Skills (BIS), and in response to concerns raised by investors and others, issued a statement confirming that accounting standards are part of a legally binding corporate reporting framework that includes an overriding requirement to present a true and fair view. The FRC will continue to work with investors on this and any other issues that arise in relation to the effectiveness of the financial reporting framework
- Produced a framework for financial reporting aimed at improving the quality of disclosure in annual reports. This was also intended to influence the International Accounting Standards Board (IASB) which has since set up a project to take this forward.
- Continued to develop the Financial Reporting Lab. The Lab, which has grown in credibility and impact, provides a safe environment for companies and investors to explore innovative reporting solutions that better meet their needs.

Since launch, the Lab has issued seven project reports on diverse topics such as net debt and cashflow, remuneration reporting and audit committee reporting

- Increased our dialogue with key stakeholders on the issues arising from our monitoring, including the 2012/13 Corporate Reporting Review (CRR) activity review report which showed that there is good quality reporting amongst large public companies, in particular the FTSE 350. The issues raised in our reviews tend to relate to unusual or complex transactions. In the reports and accounts of some smaller listed or AIM quoted companies, our review highlighted more straightforward areas of non-compliance which may have occurred as a result of insufficient or inappropriate resource to address accounting issues.

During 2014/5, we will:

- Undertake our annual programme of reviews of corporate reports, directed at companies of economic significance where a material error could have implications not just for the individual company but for confidence in the market as a whole. We will also carry out thematic reviews on narrative reporting and progress on cutting clutter (including Financial Reporting Lab case studies)
- Initiate a project aimed at achieving over a three year period, a step change in the quality of reporting of smaller listed and AIM quoted companies. The FRC will target improvements by these companies in order to underpin confidence in the quality of reporting in the market as a whole
- Continue to influence the IASB's agenda, particularly its work on its Conceptual Framework and on the post implementation review of IFRS 3 on business combinations. Looking forward to the IASB's next agenda period, we plan to carry out research to influence developments in cashflow reporting and use of discount rates
- Publish through the Financial Reporting Lab reports on accounting policy disclosure and integration. We will also consider whether the Lab could make a contribution to the debate on the reporting of taxation and/or dividend capacity in groups. More radically, it will develop a project on how corporate reporting can best be adapted to take advantage of developments in technology and how information is shared with and analysed by the investment community
- Use the implementation of the UK GAAP to improve standards of reporting by non-listed entities. This work will cover the impact of the standards, clarifying policy intentions, overseeing Statements of Recommended Practice (SORPs) and keeping abreast of change to EU requirements. The accounting taxonomies for the new UK GAAP are being updated to enable companies to report in eXtensible Business Reporting Language (XBRL) format.

As key indicators of our effectiveness we will:

- Assess the take-up and quality of reporting under new UK GAAP, firstly for those companies who early adopt and secondly when the new standards become mandatory
- Publish our assessment of the quality of reporting based on our Corporate Reporting Review
- Assess the extent to which the development of IFRS is meeting its objectives in terms of user needs
- Evaluate the level of direct company and investment community participation in Financial Reporting Lab projects and conduct a study to assess the extent to which the Lab's reports are influential.

Enhancing the delivery and the future evolution of audit quality and value

We will continue to focus on the quality and value of audit and what measures may be needed for audit to meet evolving public expectations. During 2013/4, we have:

- Continued to promote audit quality through the detailed review of around 100 audit engagements, Proposed priorities for 2014/15

issuing public reports on our findings overall and on individual major audit firms. We have sought to improve the impact of our audit inspection work, by engaging more closely with audit committees and supplementing our routine audit inspections with thematic review of specific issues across all firms

- Monitored the effectiveness of audit tendering and promoted best practice in this area
- Contributed to EU and Competition Commission proposals to help ensure these reinforce audit quality as well as competition
- Introduced significant changes to improve the content of audit reports seeking to turn boilerplate into insight for investors
- Introduced revised auditing standards on using the work of internal auditors - creating a clearer division of responsibility between internal and external audit and prohibiting auditors from using internal audit staff directly as members of their team - to promote greater confidence in the integrity of the audit
- Updated guidance for auditors on risks to address in the audit of financial instruments, seeking to enhance investor confidence in the depth and reliability of the audit;
- Promoted professionalism and quality in the work of auditors through our oversight of the recognised supervisory bodies. Worked closely with the International Auditing and Assurance Standards Board (IAASB) to improve international auditing standards, participating actively in its projects on auditor reporting, audit quality, addressing information in the annual report and auditing disclosures in the financial statements.

During 2014/5, we will:

- Undertake our annual programme of work to monitor and report on the quality of approximately 125 individual engagements and to make appropriate use of our new regulatory powers to impose sanctions where poor quality audit work is identified
- Undertake a thematic review of progress made by the major firms in improving the auditing of banks and building societies
- Ensure independent and effective oversight of the regulation by the UK accountancy professional bodies of their members, particularly of those practising as statutory auditors. We will identify specific areas of focus based on the findings of our 2013/14 reviews
- Take a forward look at the quality and value of audit, providing thought leadership as to the scope, role and remit of audit in the public interest, how audit quality contributes to the value of audit and how that value is communicated to stakeholders. Early matters for consideration are the impact on the delivery of audit by firms for which the audit business is becoming a progressively less significant part; the effectiveness of the auditor's framework for ethics; and considering the implications of research findings on the skills and competencies of auditors in the future
- Review the operation and implementation of the audit firms' governance code
- Continue to contribute to the work of the IAASB, the International Forum of Independent Audit Regulators (IFIAR) and the European Audit Inspection Group (EAIG).

As key indicators of our effectiveness we will:

- Measure FRC's leadership of the debate on audit quality and value by seeking externally facilitated feedback
- Increase the number of audits inspected annually with a programme that aims to cover FTSE 350 audits on average every five years, while continuing to give due prominence to risk-based selection criteria and the audits of small entities

- Report on trends in audit quality as a consequence of enhancements to both auditing standards and our inspection activities.

Enhancing actuarial regulation and standards

The outcome of our 2013/14 review of actuarial regulation forms our medium-term agenda. We will continue to set technical standards, oversee the regulatory activities of the IFoA and operate a public interest disciplinary scheme. We have established a joint forum with other -regulators (the IFoA, the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and the Pensions Regulator) to enhance the way in which the FRC monitors and mitigates the public interest risks relating to actuarial work.

During the year, we completed post-implementation reviews of the impact of our Technical Actuarial Standards (TASs) in pensions and insurance, which concluded that they were broadly accepted by practitioners and that users had noticed an improvement in the quality of communication of actuarial information and advice which might be attributable to a number of factors, including the TASs. We will take account of the feedback we received in a substantive review of the standards framework and the TASs in 2014.

During 2013/14 we reviewed the accumulation rates being used in statutory money purchase illustrations (SMPIs) following our decision last year to introduce more professional judgement. We confirmed that this had not led to excessive rates being assumed. We consulted on changes to our actuarial standard (AS TM1) to allow more personalised SMPIs to be produced in line with the changes in Department for Work and Pensions (DWP) regulations.

During 2014/15, we aim to achieve the following:

- Develop, with the assistance of the joint forum, an actuarial risk map
- Based on that risk assessment review the approach to monitoring the quality of actuarial work
- Update the framework for TASs, including agreement on a more joined up approach with the IFoA on both technical and ethical standards based on the risk assessment – which we will pursue in 2015/16 through the development of specific standards
- Engage with the DWP and other regulators on the wider approach to defined contributions pensions disclosure, and conduct a fundamental review of AS TM1 including its role in relation to our own standards framework
- Work with the PRA and IFoA to influence the development of an effective competence and standards regime for the actuarial function and other actuarial roles in the run up to the implementation of Solvency II.

As a key indicator of our effectiveness we will:

- Assess user and practitioner confidence in the relevance, clarity and reliability of actuarial information and in the competence and integrity of the actuarial profession through independent surveys in 2014 and 2016.

Oversight, monitoring and enforcement activities

To ensure that these core activities continue to be delivered to a high standard, we have introduced a number of initiatives to enhance the efficiency, effectiveness and impact of our regular monitoring, investigation and disciplinary work, and to provide evidential underpinning for the key projects – all with a view to promoting improvements in the quality of reporting and audit.

Since 2012/13, we have:

- Introduced arrangements to facilitate the sharing of findings from both our corporate reporting and audit quality reviews to give us a more holistic picture of risk and the quality of reporting; and to ensure that the evidence from our conduct activities informs work on codes and standards

- Enhanced the effectiveness of corporate reporting reviews, moving to a more assertive approach with companies where necessary to achieve faster conclusions

- Focused audit quality reviews on the larger entities and audit firms

- Interacted more extensively with audit committees by:

  - Holding discussions with audit committee chairs at the outset of a number of audit quality reviews; and

  - Providing reports of audit quality review findings directly to audit committees

- Introduced the auditor regulatory sanctions procedures to ensure greater independence from the professional bodies

- Implemented changes to the Accountancy and Actuarial Disciplinary Schemes, provided sanctions guidance to Tribunals and enhanced the depth and breadth of the Professional Discipline team to provide a more effective and efficient disciplinary process

- Established a new capability to undertake supervisory inquiries that enhances the FRC's effectiveness by enabling a more timely response to potential issues and concerns as they emerge

- Started inspecting certain non-EU auditors ("third country auditors") of companies that are listed on UK markets but incorporated in countries outside the EU.

In 2014/15, we intend to build on these initiatives and begin to implement the recommendations of the Competition Commission. This will lead to a very significant expansion of our audit quality review inspection activities and will require considerable additional resources to undertake effectively. Consideration is currently underway as to how best to implement these recommendations and recruitment of additional resources has commenced.

We will also prepare to implement the requirements of the new Audit Directive which the EU is expected to agree early in 2014. These are likely to be significant for the remit of our audit quality review, oversight of audit regulation and ethical standards. And we will prepare for the implementation of local public sector audit inspection regimes in line with the anticipated legislation. We will begin to recruit and train additional staff to manage the increased workload.

In addition to the challenges we face in implementing the Competition Commission recommendations, it is likely that the EU will require that all inspections of auditors of public interest entities should be undertaken directly by ourselves. Currently we delegate the inspection of approximately 50 firms with ten or fewer public interest entity audits to the professional bodies. The resourcing implications of any change in this area, which could take effect as early as 2016, will be considered together with those required for the Competition Commission recommendations.

We have also introduced thematic inspections of certain audit areas, which are not typically a significant focus of individual engagement reviews. In 2013/14 we have conducted thematic inspections of Fraud Risks, Laws and Regulations and Materiality. We intend to build on this work further in 2014/15, including extending it to Corporate Reporting Review as described further above.

We will develop our inspections of third country auditors and expect to carry out five such inspections in 2014/15. We will also ensure that information is available for investors on the extent and scope of this work.

We are also preparing for the implementation of the new oversight arrangements for local public sector audits in line with recent legislation. The first inspections under these arrangements will take place in 2016.

As key indicators of our effectiveness we will:

- Respond effectively to the challenges of implementing the requirements of the Competition Commission, the EU and local public auditors in line with recent legislation
- Ensure that the auditor sanctioning scheme is operating effectively
- Demonstrate further progress in managing effective supervisory inquiries
- Demonstrate further progress in securing timely and effective outcomes from the professional disciplinary schemes
- Continue to work closely with the accountancy and actuarial professional bodies to support them in their vital role in promoting the highest ethical and technical standards for their members. We will continue to encourage them to take a strategic approach to their regulatory responsibilities and will in turn, engage with the professions in taking forward our priority projects.

Consultation Question 2

Do you agree the proposed priorities? (Noting that the FRC is preparing for a number of additional activities that it is expected to be required to undertake as a result of changes in European and UK law and Competition Commission proposals for enhanced audit inspections)

Consultation Question 3

Do you have any comments on our proposed effectiveness indicators?

Consultation Question 4

Are there any areas where you consider the FRC should reduce its activities?

Section 3 Draft Budget 2014/15

The FRC's annual budget is set at a level that reflects our judgement on the resources we need to fulfil our mission efficiently. Our funding arrangements for 2014/15 continue to be split between core operating costs which are under our immediate control and costs which are more dependent on external factors, notably the number and complexity of the public interest cases that fall within the scope of our disciplinary arrangements and also our audit quality review activities. They also split between our responsibilities in relation to corporate governance, corporate reporting and auditing and our responsibilities for actuarial standards and regulation. Funding requirements for each of these activities is provided by separate funding groups. This complex arrangement is not ideal but reflects the legislative framework under which our powers are established.

Our proposed overall budget for 2014/15 is shown in the following table[1]:

£m	2013-14 Budget	2013-14 Expected	2014-15 Budget
Total Income in relation to:			
Corporate governance, reporting and audit	15.1	15.6	17.4
Actuarial standards and regulation	2.3	2.3	2.3
XBRL	1.3	1.3	0.3
Audit quality review	3.5	3.3	4.8
Accountancy case costs	5.0	7.7	10.0
TOTAL	**27.2**	**30.2**	**34.9**
Gross Expenditure in relation to:			
Corporate governance, reporting and audit	15.1	15.6	17.4
Actuarial standards and regulation	2.3	2.3	2.3
XBRL	1.3	1.3	0.3
Audit quality review	3.5	3.3	4.8
Accountancy case costs	5.0	7.7	10.0
TOTAL	**27.2**	**30.2**	**34.9**

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. This approach requires us to exercise strict controls over our own costs but also to ensure that we have adequate resources to deliver the priorities we set in consultation with our stakeholders.

Our draft 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 accounting; and expect to incur increased costs over the next twelve months in relation to our accountancy disciplinary scheme as we continue to make progress in concluding the cases currently under consideration. In order to implement effectively the recommendations made by the Competition Commission following their review of the UK audit market, we are seeking additional funding in that area.

1 Note: The figures set out in this section are rounded to the nearest £0.1m

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

Our core operating costs and funding requirement for each of the main funding groups are summarised in the table below:

£m	2013-14 Budget	2013-14 Expected	2014-15 Budget
Funding Requirement	15.1	15.6	17.4
Funds provided by:			
Preparers	8.9	9.5	11.1
Accountancy Profession	4.9	4.9	5.0
Government	0.5	0.5	0.5
Other (incl publications income & interest earned)	0.8	0.7	0.8
TOTAL	**15.1**	**15.6**	**17.4**

The proposed increase in the budget for this element of our activities in 2014/15 follows primarily from our intention to strengthen key areas of both Codes & Standards and Conduct activities, whilst also covering an unavoidable increase in accommodation costs. The proposed additional resource will enhance our ability to:

- Lead the stewardship debate and work with the markets and investors in embedding good practice on stewardship in the UK and internationally, to enable investors in the capital markets to have the information they require in order to invest for the long-term
- Initiate a project aimed at achieving over a three year period, a step change in the quality of reporting of smaller listed and AIM quoted companies. The FRC will assist in the improvement by these companies in order to underpin confidence in the quality of reporting in the market as a whole
- Conduct a post-implementation review of UK GAAP in reviewing the impact of the standards including the quality of reporting
- Take a forward look at the quality and value of audit providing thought leadership on the scope, role and remit of audit in the public interest, how audit quality contributes to the value of audit and how that value is communicated to stakeholders. We will be commissioning and carrying out research, publishing discussion papers, making calls for evidence, engaging with stakeholders and developing and exploring proposals for change where necessary
- Conduct recently introduced thematic inspections of certain audit areas, which are not typically a significant focus of individual engagement reviews. We intend to build on this work further in 2014/15 including extending it to Corporate Reporting Review as described further above
- Prepare for the implementation of the new oversight arrangements for local public sector audits in line with recent legislation

- Provide evidence in developing effectiveness measures

- Relocate from our current offices. The FRC has been at its Aldwych House offices since 2004. The lease expires in 2014 and we have been unable to secure an extension on acceptable terms. We will therefore be relocating during 2014. Our accommodation costs will increase compared to the current position, but by a significantly lower amount than had we remained at Aldwych House under the terms put to us.

We believe that to secure the necessary resources to deliver our plan priorities, we should increase the rates we apply (to market capitalisation values) in calculating our preparers levy by between 2.2% for the smallest companies and 4.8% for the very largest. We propose to extend the scope of our funding arrangements to include the issuers of depositary receipts and to align other aspects of our funding model more closely with that of the FCA as set out in Section 4.

We are proposing to increase the contribution from the accountancy professional bodies by 2.2% in line with inflation. There will be no change to the Government contribution.

Core operating costs in relation to actuarial standards and regulation

The budget for 2014/15 is shown in the table below. There are no planned increases in the resources required to deliver the priorities as set out in the plan.

£m	2013-14 Budget	2013-14 Expected	2014-15 Budget
Funding Requirement	2.3	2.3	2.3
Funds provided by:			
Insurance funds	1.05	1.02	1.05
Pension funds	1.05	1.02	1.05
Actuarial profession	0.2	0.23	0.23
Other (incl publications income & interest earned)			
TOTAL	**2.3**	**2.3**	**2.3**

The priorities for the coming year will be:

- Developing a shared actuarial risk map and agreement on management and mitigation

- Enhanced access through the IFoA and other sources to key facts and trends in actuarial roles and methods used in the actuarial profession

- A shared understanding and a coordinated approach to monitoring the quality of actuarial work based on the risk assessment

- An updated framework for TASs.

Audit quality review

The costs of audit quality review identified in the table above include only the specific and variable costs of audit inspection. They are met by the individual Recognised Supervisory Bodies (RSBs) with which the firms that are subject to inspection are registered. The fixed overheads of our audit inspection activities (such as accommodation and shared IT systems) are included in our core operating costs.

In 2014/15 we are planning to expand the audit quality review team in order to implement effectively the recommendations made by the Competition Commission following their review of the UK audit market. Going forward we will seek to review FTSE 350 audit engagements on average every five years; and there will also be an expectation of more frequent reporting on mid-tier firms, roughly doubling the current frequency.

£m	2013-14 Budget	2013-14 Expected	2014-15 Budget
Funding Requirement	3.5	3.3	4.8
Funds provided by:			
Accountancy profession	2.9	2.4	4.1
Other (incl Audit Commission, Crown Dependencies	0.6	0.9	0.7
TOTAL	3.5	3.3	4.8

Accountancy disciplinary case costs

The costs shown above include only the specific and variable costs of accountancy cases taken by the FRC. The FRC's related fixed overheads (such as core 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 number of new cases and progress of cases and is therefore subject to a degree of uncertainty.

The forecast costs for 2013/14 are now expected to be £7.7m compared with the original estimate of £5.0m, with a large number of current cases flowing through to 2014/15. We expect that the costs associated with the accountancy disciplinary arrangements will be higher over the next twelve month period as we make progress in concluding these cases. As at December 2013 we have three cases at tribunal stage (including one at appeal) and a further five cases where a formal complaint has been served in advance of a tribunal hearing.

£m	2013-14 Budget	2013-14 Expected	2014-15 Budget
Funding Requirement	5.0	7.7	10.0
Funds provided by:			
Accountancy profession	5.0	7.7	10.0
TOTAL	**5.0**	**7.7**	**10.0**

Fines and cost awards received in respect of accountancy discipline issues are not retained by the FRC and do not contribute towards its funding.

XBRL taxonomy development

We became involved with the project to develop XBRL taxonomies that support the new UK GAAP standards in the early part of 2013/14. The project has secured funding and resources from Companies House, major accounting firms, BIS and the FRC.

The majority of the work on phase 1 of the development is expected to have been completed by the end of the current financial year with an allowance to complete the phase by June 2015.

£m	2013-14 Budget	2013-14 Expected	2014-15 Budget
Funding Requirement	1.3	1.3	0.3
Funds provided by:			
Government	0.6	0.6	
Companies House	0.7	0.7	0.3
TOTAL	**1.3**	**1.3**	**0.3**

Reserves

In total the FRC reserves stood at £7.6m at March 2013. Our budget for 2013/14 was prepared on the basis that we would break even in that year. We remain on track to achieve this. The budget for 2014/15 has also been prepared on a break-even basis.

Total reserves are expected to remain at £7.6m until the end of the 2014/15 financial year. The breakdown is set out in the following table:

£m	Balance at 31st March 2013	Change in year to March 2014	Balance at 31st March 2014 Expected	Change in year to March 2014	Balance at 31st March 2015 Budget
General reserves					
Corporate governance, reporting and audit	2.7	--	2.7	--	2.7
Actuarial standards and regulation	0.9	--	0.9		0.9
Sub total	3.6	--	3.6	--	3.6
Case funds					
Corporate Reporting Review	2.0		2.0		2.0
Actuarial discipline	2.0		2.0		2.0
Sub total	4.0	--	4.0	--	4.0
TOTAL	**7.6**	**--**	**7.6**	**--**	**7.6**

General reserves are maintained in order to enable the FRC to meet its obligations should there be unexpected reductions in funding received or to meet unexpected but necessary increases in core operating costs.

Case fund reserves are maintained to enable the FRC to meet higher than expected expenditure on legal fees in investigations or disciplinary actions over and above the amounts included in funding plans in any given year.

Consultation Question 5

Do you have any comments on our proposed budget for 2014/15?

Section 4 Proposed Levies 2014/15

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 IASB and the European Financial Reporting Advisory Group (EFRAG).

Funding requirement

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

	FRC requirement		plus	IASB contribution		=	Preparers levy	
	Forecast 2013/14	Budget 2014/15		Forecast 2013/14	Budget 2014/15		Forecast 2013/14	Budget 2014/15
Levy group	£m	£m		£m	£m		£m	£m
Publicly traded companies	6.1	7.7		0.6	0.6		6.7	8.3
large private companies	2.9	3.0		0.2	0.2		3.1	3.2
Public sector organisations	0.3	0.4		0.1	0.1		0.4	0.5
Total	**9.3**	**11.1**		**0.9**	**0.9**		**10.2**	**12.0**

Proposed levy rates

The amounts payable under the preparers levy 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 FCA levy arrangements. Details of the levy are published on our website at **http://www.frc.org.uk/funding.cfm.**

Overall receipts are determined by the FRC's funding requirement, the size of the levy population and the rates we charge.

For 2014/15, we propose to increase the minimum levy and the levy rates for organisations with a market capitalisation (or turnover where relevant) below £1 billion by 2.2%; and increase the levy rates for organisations with a market capitalisation of more than £1 billion by 4.9%.

To allow organisations to estimate the likely amount of the levy we have calculated provisional rates as follows:

Band	Organisation size (£)	Proposed 2014/15 levy rate per £m*	2013/14 levy rate per £m*
1 Minimum levy	Up to 100m	Min levy £992	Min levy £972
2	100m - 250m	£9.37	£9.17
3	250m - 1,000m	£7.15	£7.00
4	1,000m - 5,000m	£5.23	£4.99
5	5,000m - 25,000m	£0.088	£0.084
6	>25,000m	£0.0167	£0.016

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

Consultation Question 6

Do you have any comments on our proposed preparers levy rates for 2014/15?

Aligning the levy categories with the UK Listing Regime

In 2012/13 we consulted on certain changes to bring our levy arrangements in line with the FCA Listing Fees. In particular, from April 2013 we have operated 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. The main effect of this change was to remove the 50% discount from overseas companies with a premium listing and extend the discount to UK companies with a standard listing.

We believe that from April 2014 all companies with a Standard listing, including UK companies, should receive a 20% discount rather than 50% discount on the levy in line with the discount provided under the FCA listing fees.

Following our consultation as part of the preparation of the levy arrangements for 2013/14 we also propose to extend the preparers levy to cover depositary receipts but provide a 50% discount on the rates applied to companies with a Premium listing.

We will contact companies that will be affected by these changes to explain the likely impact on the levies they are asked to pay in 2014/15.

Consultation Question 7

Do you have any comments on our proposal further to align the FRC levy arrangements with the FCA Listing Fees?

Actuarial standards and regulation

Insurance levy

The insurance levy will be allocated to insurance companies in the same proportion as the FSA regulatory fees and charged to insurance companies on the same invoice as the FSA fees. We do not plan to increase the levy for 2014/15.

Pension levy

The pension levy will be allocated to schemes on the basis of their latest scheme returns to the Pensions Regulator. We do not plan to increase the levy for 2014/15.

Consultation Question 8

Do you have any comments on our proposals in relation to the insurance and pension levy rates for 2013/14?

Annex A Updated Work Plan 2013-2016

Title of project	Corporate governance and 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	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 IFRS conceptual framework to include this explicitly and review audit standards for consequential changes.	✓	✓	
	Monitor the impact of the UK Corporate Governance and Stewardship Codes, carrying out research where needed.	✓	✓	✓
	Assess the impact and effectiveness of September 2012 changes to the Codes, related guidance and audit standards.	✓	✓	
	Consult on possible changes to the UK Corporate Governance Code, including implementation of Competition Commission proposals, remuneration and risk management.	✓	✓	
	Finalise revised guidance on risk management and internal control and going concern.	✓	✓	
	Work with other regulators to press fund managers and asset owners to provide better accounts of their engagement with companies and how they are meeting client and beneficiary expectations.		✓	
	Influence legislation and other measures coming out of the EU Company Law Action Plan that will have an impact on Corporate Governance including the Shareholder Rights Directive.	✓	✓	
	Identify and spread best practice in succession planning.		✓	
	Take action to promote improvements in the quality of company "explanations" in relation to the UK Corporate Governance Code.		✓	

Title of project	Corporate reporting			
Objective/ expected outcomes	High quality corporate reporting, in accordance with the accounting framework, 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	Consider the feedback to the FRC Discussion Paper on Disclosure and identify actions.	✓	✓	
	Report on the lessons to be learned from the corporate reports reviewed by the FRC and engage with directors on securing improvements in financial reporting.	✓	✓	✓
	Supplement our detailed review of Annual Report and Accounts with thematic reviews of narrative reporting and cutting clutter		✓	✓
	Launch a project aimed at achieving, over three years, a step change in the quality of reporting of smaller listed and AIM quoted companies.		✓	✓
	Seek to produce more focused reporting through specifically designed Financial Reporting Lab experiments. Undertake a project on reporting in an e-enabled world. Conduct case studies with a focus on 'cutting clutter'. Contribute to the debate on taxation and/or dividend capacity reporting.		✓	✓
	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.	✓	✓	
	Carry our research to support the post-implementation review of IFRS 3 and to influence the IASB developments on cashflow reporting and discount rates.		✓	
	Issue new and maintain existing UK GAAP standards, monitor issues encountered in implementing new UK GAAP standards, implement any resulting changes.	✓	✓	✓
	Harness the implementation of UK GAAP as a means of addressing the standard of reporting by non-listed entities.		✓	
	Deliver a project to develop XBRL taxonomies.		✓	
	Oversee the development and approval of SORPs.		✓	
	Consider the role and use of discount rates in financial reporting.		✓	

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 on the audits of the larger 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 125 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 drivers of confidence in the value of audit, including review of the current and future role and accountability of auditors to consider potential areas for enhancing the clarity, depth and scope of the role. Potential areas for investigation include narrative reporting, forward looking information, governance and controls.	✓	✓	✓
	Respond to and implement the Competition Commission's recommendations, as appropriate.	✓	✓	✓
	Review how auditors act, and are required to act, in the public interest, including investigating options to amend the ethical requirements on auditors.	✓	✓	✓
	Review how audit quality contributes to the value of audit, how audit quality can be assessed and measured and how improvements to audit quality can be fostered, including considering updating the Audit Quality Framework.	✓	✓	✓
	Develop and implement plans to mitigate risks associated with audit market concentration.	✓	✓	
	Continue to influence and lead the work with the IFIAR, the EAIG and Colleges of Regulators.	✓	✓	✓
	Work with BIS to implement changes to the regulation of audit and to auditing and ethical standards arising from the EU Audit Directive.		✓	✓
	Consider the development of new standards for Client Assets and Investment Reporting (Standard on Investment Reporting) (which includes Quantified Financial Benefits Statements).		✓	✓
	Work with the PRA to support the implementation of the recommendations of the Parliamentary Commission on Banking Standards.		✓	
	Influence international standards for auditors, with particular emphasis on auditor reporting, audit of disclosures, the auditor's role in relation to narrative reports and the auditing of banks.	✓	✓	✓
	Conduct a thematic study into progress made by audit firms on improving the quality of auditors of banks and building societies		✓	

Title of project	Actuarial regulation 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	Review ASTM1, implement any resulting changes and seek to influence the debate on the wider approach to defined contributions pensions disclosure.		✓	✓
	Consult on the framework for TASs and implement any resulting changes.		✓	✓
	Improve our access through the IFoA and other sources to data and key facts and trends in actuarial roles and methods.		✓	✓
	Through the mechanism of the joint forum with our co-regulators - Joint Forum on Actuarial Regulation (JFAR) - develop a shared actuarial risk map.		✓	
	Develop, through the JFAR, a coordinated approach to the monitoring of the quality of actuarial work based on the risk assessment.		✓	✓
	Influence the development of an effective competence and standards regime for the actuarial function and other actuarial roles in the run up to the implementation of Solvency II.		✓	✓
	Seek to extend our engagement and influence internationally to promote independent and principles-based standards.	✓	✓	✓
	Commission an independent survey of confidence in actuarial work and the profession.		✓	
	Consider guidance on the development of models to support stress and scenario testing.		✓	

Title of project	Oversight, monitoring and enforcement 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.	✓	✓	✓
	Undertake periodic inspections of third country auditors.	✓	✓	✓
	Undertake inspections of public sector audits.	✓	✓	✓

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 to foster investment and rebuild trust.	**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, trust 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.	✓		

Contact Details

The consultation will close on 28 February 2014 and comments should be sent to plan@frc.org.uk

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

FRC

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

+44 (0)20 7492 2300

www.frc.org.uk