

Appendix A has since been updated. See roles and responsibilities publication at: <https://www.frc.org.uk/Roleandresponsibilities>



January 2014

The FRC and its Regulatory Approach

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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1. Introduction

This document sets out:

- our mission and supporting strategies;
- our functions and powers;
- our remit and the public interest;
- our approach to regulation;
- our governance; and
- our funding.

2. Our Mission and Supporting Strategies

The FRC's mission is to promote high quality corporate governance and reporting to foster investment.

Why have we landed on this mission? The capital markets are important to the health and growth of the economy. Our functions contribute to the effective functioning of the capital markets. We help ensure that investors have what they need to place their money with reasonable confidence that any risk is taken on an informed basis and managed as well as it can be. In turn, the entities in receipt of that investment can have the confidence to invest in their own strategies and work forces.

We believe that this confidence should be based on

- Effective boards who communicate well
- Robust and effective accounting, reporting, auditing and actuarial standards
- Useful and reliable annual reports and accounts, assurance reports and other information produced by accountants and actuaries
- Well regulated accountancy and actuarial professions

Our suite of functions contributes to each of the above elements and is based on strategies designed to support:

- trustworthy behaviour by directors and professionals and engagement with them by investors, and
- 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.

3. Our Functions and Powers

Our supporting strategies are delivered through our core functions which, we believe, contribute to trustworthy behaviour and trustworthy information and enable us to play a significant role in influencing the wider regulatory framework in the UK, EU and internationally.

We promote high standards of behaviour by boards and investors by setting the UK Corporate Governance and Stewardship Codes. The UK Corporate Governance Code is based on the underlying principles of good governance: accountability, transparency, probity and a focus on the sustainable success of an entity over the longer term. It includes a clear principle that boards should provide annual reports and other information that is trustworthy and so present a fair, balanced and understandable assessment of the company's position and prospects. The Stewardship Code sets out the principles of effective stewardship by investors which help build confidence in the system and give force to the 'comply or explain' system on which the Corporate Governance Code is based as well as increasing accountability to clients and beneficiaries;

We promote trustworthy behaviour through setting UK standards for accounting, audit and actuarial work and providing guidance on narrative reporting, contributing to high quality international standards, and through the work of the Financial Reporting Lab;

We promote trusted behaviour and information by:

- monitoring the quality of accounts published by public companies in line with the legal framework including accounting standards and the overriding requirement to give a true and fair view; making clear our expectations of how companies and other entities should approach financial reporting and regularly highlighting the matters we regard as particularly important;
- monitoring and reporting publicly on the quality of the audit of listed and other major public interest entities and the policies and procedures supporting audit quality at the major audit firms in the UK and determining proportionate sanctions where necessary; and highlighting key messages on audit quality for audit firms and audit committees; and
- oversight of the regulatory activities of the accountancy and actuarial professional bodies and through our own independent disciplinary arrangements for public interest cases involving accountants and actuaries, as well as by cooperating with other bodies – such as the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and the Pensions Regulator (tPR) – which rely on the professionalism of their work.

Our role in both setting codes and standards and monitoring their implementation gives us an informed view of the effectiveness of our codes and standards, including their impact on the quality of financial reporting and audit. Over time, this will help us maintain a 'continuous improvement loop' between our various functions.

Our functions derive from a number of sources. A number of statutory powers have been delegated directly to the FRC and directly to the FRC's Conduct Committee. Some of our functions are supported by statutory obligations on other parties to meet our requirements and/or participate in arrangements provided by the FRC. Some of our functions have no statutory backing but derive their authority from widespread support from, and voluntary arrangements with, our stakeholders. A table of our functions and powers can be found at Annex A.

4. Our Remit and the Public Interest

The various groups of society which constitute the public include investors, creditors, savers, insurance policy holders, pension scheme members, employees, consumers, suppliers, clients of professional accountancy and actuarial advice and taxpayers. Those groups benefit from a well-functioning and stable economy in which their individual and collective interests are respected. A well regulated system of corporate governance and reporting (supported by corporate governance, stewardship, accounting, auditing, actuarial and ethical codes, standards and guidance; the inspection and review of the application of those standards; the disciplining of any culpable failures and the oversight of the professional bodies) contributes to such a well-functioning and stable economy.

5. Our Regulatory Approach

We believe that market participants and their professional advisers, encouraged by the investor community, have the primary responsibility for achieving high standards of governance and reporting. Our approach is based as far as possible on facilitation rather than dictation and on principles rather than rules.

We are very clear that no system of regulation can ever eliminate the possibility of corporate reporting or governance failures; we believe that it is impossible to achieve zero failure and any attempt to do so would stifle rather than facilitate growth. Where there are failures our approach is, acting within our powers, to facilitate rectification and learning by experience but to pursue culpable failures where there is evidence for doing so.

In discharging our responsibilities

- we operate independently of those whose activities we regulate and with the support of the Government and our other stakeholders;
- we focus on issues of material significance to investors and users of the capital markets in relation to the quality of corporate governance and reporting;
- we are driven by evidence, fairness and proportionality in deciding what action to take; and

- we report openly on these activities and the reasons for them unless doing so could damage the public interest.

Specifically, we have regard to the principles of good regulation set out in the Legislative and Regulatory Reform Act 2006 and supported by the Regulators' Code: We seek to be:

Transparent:

- We set out clearly and publicly the principles and policy objectives we seek to uphold and how these are consistent with our mission.
- We publish the minutes of our Board meetings and our Council meetings.
- We publish our codes and standards procedure. In developing our codes and standards, we publish drafts of proposed documents and seek feedback before reaching conclusions. We report the feedback we receive and the rationale for our conclusions.
- We publish our conduct procedures and many of the decisions reached in accordance with those procedures. Disciplinary Tribunal hearings are open to the public.

Accountable:

- We consult on our proposed Annual Plan & Budget.
- We publish an Annual Report in accordance with best practice in the corporate sector. Our Annual Report includes a report upon the discharge of our responsibilities and is laid before Parliament.

Proportionate:

- We act proportionately when exercising our powers, including carrying out inspections, pursuing investigations or reporting.
- We take account of the cooperation of and/or actions taken by any party or parties involved in any enforcement proceedings.
- We have regard to the need for our codes and standards to be applied in a proportionate manner in different circumstances. We carry out and publish impact assessments and adopt, where possible, principles that can be applied appropriately and at reasonable cost.

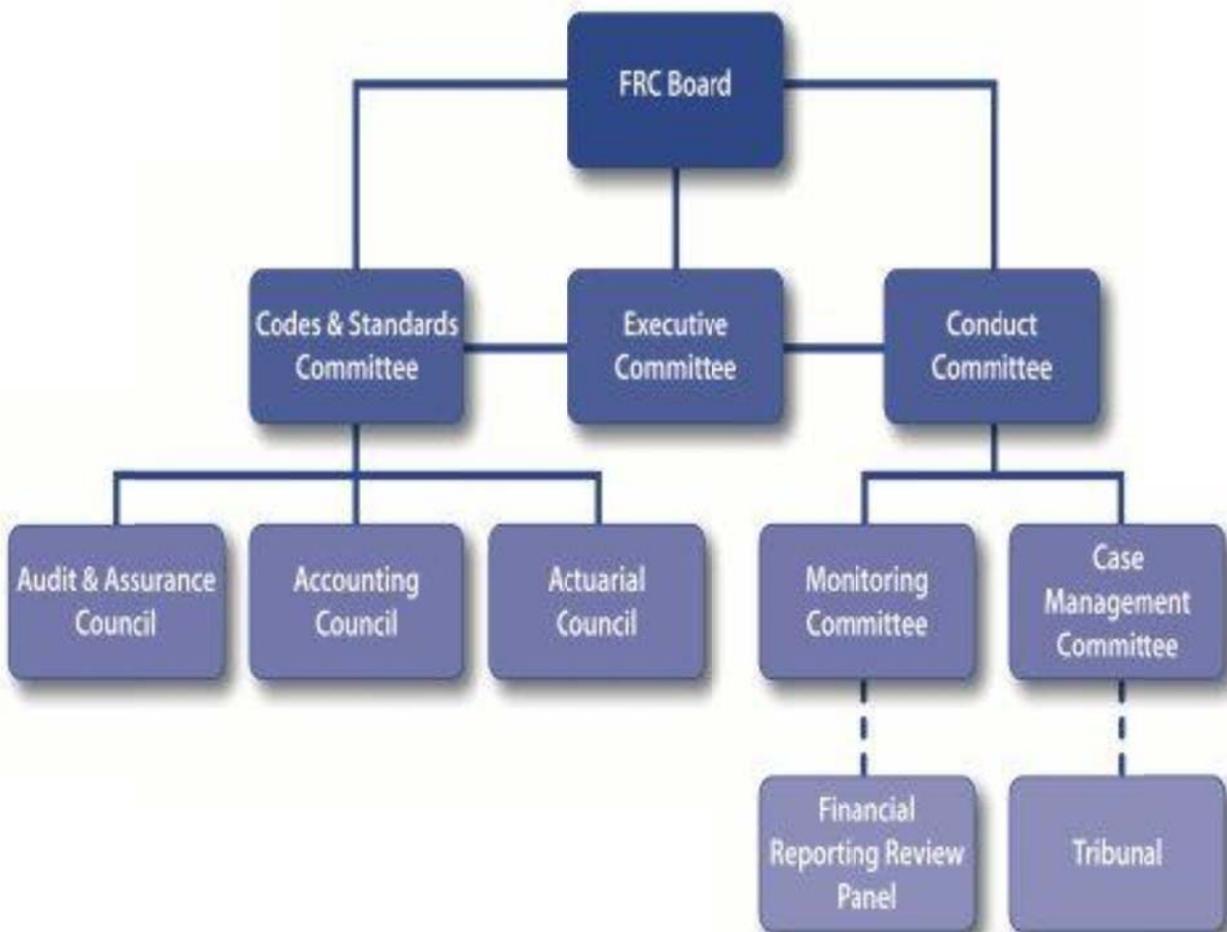
Consistent:

- We base the action we take on the purpose and principles of the law, regulation, code or standard that we are considering. Our decisions are evidence based.
- We act in a timely manner, having proper regard to the legitimate interests of all affected parties and the wider UK regulatory framework.

Targeted:

- We exercise our powers to promote adherence by accountants and actuaries to the applicable standards and the fundamental principles of their respective professions to enhance confidence in their ability to discharge their professional responsibilities in the public interest.
- We adopt a risk based approach to our monitoring activities and target our regulatory activities only at cases in which action is needed.
- We have regard to the likely impact, both intended and unintended, on stakeholders of our proposed actions.

6. Our Governance



The Board is responsible for the philosophy and overall strategy of the FRC and its management and culture, including its Citizenship Values as well as determining the nature and extent of the significant risks to be taken in achieving the FRC's strategic objectives.

Regulatory powers reserved to the Board include the issuing and maintenance of codes and/or standards for corporate governance, stewardship, corporate reporting, accounting, auditing, assurance services and actuarial work; the exercise of the functions of the Secretary of State under Part 42 Companies Act 2006 and the exercise of the functions of the Independent Supervisor appointed under Part 42 Companies Act 2006.

The Board is supported by three governance committees (the Audit, Remuneration and Nominations Committees) and by the Executive Committee, the Conduct Committee and the Codes & Standards Committee.

The Board comprises the Chairman and Deputy Chairman, who are appointed by the Secretary of State for Business, Innovation and Skills, the Chief Executive, the Chairs of the Conduct and Codes & Standards Committees, the Chairs of the Accounting, Actuarial and Audit & Assurance Councils, non-executive Directors and Executive Directors of Conduct and Codes & Standards.

The Executive Committee is responsible for

- recommending strategic direction to the FRC Board;
- providing day to day oversight of the work of the FRC, its operational policies and protection of the FRC reputation;
- overseeing the implementation of the FRC business plan;
- advising the FRC Board on the budget, business plan, Board agenda and management of the organisation; and
- debating and resolving issues affecting the Codes and Standards and Conduct divisions.

The Conduct Committee is responsible for

- exercising the functions delegated to the Conduct Committee by the Secretary of State under the Companies Act 2006 and the Companies (Audit, Investigations and Community Enterprise) Act 2004;
- advising the Board on the exercise of the functions delegated to the Board by the Secretary of State under the Companies Act 2006;
- advising the Board on the approach to be taken to non-statutory oversight of the actuarial and accountancy professions;
- overseeing the FRC's conduct work with the objective of promoting high quality corporate governance and reporting;
- exercising the functions delegated to the Conduct Committee in accordance with the Accountancy and Actuarial Schemes;

- deciding whether to commence a supervisor inquiry, determine the scope of any such inquiry and what, if any, action to be taken on its conclusion;
- identifying and assessing the current, emerging and potential risks to the quality of corporate governance and reporting in the UK and approving the adequacy of actions to mitigate those risks; and
- appointing members of the Financial Reporting Review Panel, the Monitoring Committee and Case Management Committee.

The Codes & Standards Committee is responsible for

- advising the Board on maintaining an effective framework of UK codes and standards for governance, accounting, auditing and actuarial work;
- monitoring international developments to ensure appropriate and effective UK input into international standard-setting;
- identifying and assessing the current, emerging and potential risks to the quality of corporate governance and reporting in the UK and approving the adequacy of actions to mitigate those risks;
- approving operating plans for the FRC's codes and standards activities and overseeing the quality of work and delivery of the principal elements of those plans;
- appointing members to the Accounting, Audit & Assurance and Actuarial Councils and overseeing the appointment of any groups by the Councils; and
- overseeing the work of the Councils in accordance with the strategic direction provided by the FRC Board, ensuring that the resources of the whole of the FRC relevant to a particular issue are properly deployed.

Our Governance Bible can be found on the FRC website at

<http://frc.org.uk/Our-Work/Publications/FRC-Board/Governance-Bible.pdf>

7. Our Funding

We raise our funds through a voluntary levy which enables us to operate our funding arrangements flexibly and at a modest cost. We consult on our levy proposals each year alongside the budget for the coming year and through extensive consultation with the levy groups. Once the budget has been set and published, and we have the necessary final data on the levy groups, we publish the finalised levy rates.

Section 17 Companies (Audit, Investigations and Community Enterprise) Act 2004 provides a power for the Secretary of State to make regulations enabling the FRC to recover its costs through a statutory levy. On the basis of the levies received by the FRC to date, it has not been necessary for the Secretary of State to exercise this power.

Corporate governance, reporting and audit

Core operating costs

Core operating activities cover all our activities in relation to corporate governance, reporting and audit other than audit quality review, disciplinary cases and Conduct Committee (corporate reporting review) case costs. The costs of our core operating activities, and any contribution to our general reserves, in relation to corporate governance, reporting and audit are currently met by three funding groups: the accountancy profession, preparers of accounts (through the preparers levy), and Government.

Audit Quality Review costs

Audit Quality Review costs include only the specific and variable costs of the Audit Quality Review team and are met by the individual Recognised Supervisory Bodies with which the firms that are subject to inspection are registered.

Accountancy Disciplinary Scheme case costs

Accountancy disciplinary scheme case costs include only the specific and variable costs of cases taken by FRC. Case costs are met by the individual participating accountancy bodies to which the members or firms that are the subject of each case belong. We collect these costs from the relevant body during the conduct of the case. Any fine income received or legal costs awarded to the FRC in relation to disciplinary cases are returned to the participating bodies which met the related case costs.

Conduct Committee Case Costs Fund

Conduct Committee case costs include only the specific and variable costs of cases which the Conduct Committee decides to take to Court or prepares to take to Court. The other costs of corporate reporting review (principally staff, office accommodation and shared IT systems) are included in core operating costs. Case costs are met in the first instance from the Conduct Committee case costs fund, which is then replenished in the following financial year on the same basis as the costs of the core operating activities (accounting, auditing and corporate governance).

Actuarial standards and regulation

Our funding in relation to actuarial standards and regulation is different from that in relation to accounting, auditing and corporate governance. A single arrangement applies to both core operating costs and actuarial disciplinary case costs. They are met from an annual contribution from the actuarial profession and levies on insurance companies and pension schemes.

Core operating costs

Core operating activities cover all our activities in relation to actuarial standards and regulation other than disciplinary case costs. They include a proportion of our overheads.

Actuarial disciplinary case costs

Actuarial disciplinary case costs include only the specific and variable costs of actuarial cases. We maintain a fund to cover actuarial case costs. The level of the fund is kept under review in the light of experience of the number and size of cases. The contribution that is required to maintain the fund at an appropriate level is reviewed each year. Any fine income received or legal costs awarded to the FRC in relation to disciplinary cases are used to replenish the fund. Should the fund exceed the target level, the excess is used to meet the FRC's actuarial operating costs, thereby reducing the costs to the funding groups.

Reserves

We maintain reserves to meet unforeseen expenditure and in recognition of the fact that the FRC has entered into a number of long term financial commitments. Separate reserves are maintained in relation to our responsibilities for accounting, auditing and corporate governance and our responsibilities for actuarial standards and regulation.

Annex A – The FRC’s Functions and Powers

| Function | Responsibility | Powers |
|--|----------------|--|
| Issuing accounting standards. | FRC | <p>The FRC is the prescribed standard issuing body for the purposes of section 464 Companies Act 2006. Further, accountants are expected to comply with accounting standards in accordance with the relevant accountancy body bye laws.</p> <p>Relevant FRC Procedure: Codes & Standards Procedure: http://frc.org.uk/About-the-FRC/Procedures/Regulatory-policies.aspx</p> |
| Addressing unsatisfactory or conflicting interpretations of accounting standards. | FRC | <p>The CCAB bodies (ACCA, CIPFA, ICAEW, ICAI, and ICAS) and CIMA expect their members to observe the consensus reached by the FRC on relevant issues.</p> |
| Setting standards and giving guidance for the performance of external audit and in relation to the independence, objectivity and integrity of external auditors and providers of assurance services. | FRC | <p>The arrangements provided by the FRC amount to “appropriate independent arrangements”. In order to achieve recognised supervisory body status a supervisory body must participate in appropriate independent arrangements as prescribed in statute – paragraphs 10, 10A and 22 of Schedule 10 Companies Act 2006. The recognised supervisory bodies require registered auditors to adopt FRC standards.</p> <p>Relevant FRC Procedure: Codes & Standards Procedure: http://frc.org.uk/About-the-FRC/Procedures/Regulatory-policies.aspx</p> |
| Setting actuarial standards. | FRC | <p>MoU between the FRC and the Actuarial Profession supported by provision within the bye laws and disciplinary schemes of the actuarial bodies requiring its members to comply with the standards set by the FRC.</p> <p>Relevant FRC Procedure: Codes & Standards Procedure: http://frc.org.uk/About-the-FRC/Procedures/Regulatory-policies.aspx</p> |
| Independent oversight of the regulation of the auditing profession by the recognised supervisory and qualifying bodies. | FRC | <p>The Secretary of State has delegated to the FRC, in accordance with section 1252 Companies Act 2006, his powers under Part 42 of the 2006 Act.</p> |
| The regulation and registration of third country auditors. | FRC | <p>The Secretary of State has delegated to the FRC, pursuant to section 1252 Companies Act 2006, his powers under sections 1239 to 1247 of, and Schedule 12 to the Act.</p> |

| Function | Responsibility | Powers |
|---|----------------|--|
| Independent supervision of Auditors General | FRC | <p>The Secretary of State has appointed the FRC as the “Independent Supervisor”, under section 1228 Companies Act 2006, for the purposes of sections 1229 to 1238 of the 2006 Act.</p> <p>Relevant procedure: Statement of Arrangements for the Supervision of the Comptroller & Auditor General includes Regulations and Disciplinary Procedure Rules.</p> <p>http://www.frc.org.uk/FRC-Documents/POB/Signed-statement-of-arrangement-and-MOU.pdf</p> |
| Monitoring the quality of audits of economically significant entities. | FRC | <p>The arrangements for independent monitoring provided by the FRC amount to “appropriate independent arrangements”. In order to achieve recognised supervisory body status a supervisory body must participate in appropriate independent arrangements as set out paragraphs 13 and 23 of Schedule 10 Companies Act 2006.</p> |
| Determination of sanctions pursuant to failures found during monitoring inspections. | FRC | <p>The arrangements to determine sanctions where members of the supervisory bodies have not complied with the body’s rules in relation to statutory audit amount to “appropriate independent arrangements”. In order to achieve recognised supervisory body status a supervisory body must participate in appropriate independent arrangements as set out paragraphs 13 and 23 of Schedule 10 Companies Act 2006.</p> <p>Relevant procedure: Auditor Regulatory Sanctions Procedure http://frc.org.uk/Our-Work/Publications/Audit-Quality-Review/Auditor-Regulatory-Sanctions-Procedure.pdf</p> |
| Independent oversight of the regulation of the accountancy profession by the professional accountancy bodies. | FRC | <p>The CCAB bodies and CIMA have given a commitment to consider carefully FRC recommendations and either implement them within a reasonable period or give reasons in writing for not doing so.</p> |
| Independent oversight of the regulation of the actuarial profession by the professional actuarial bodies. | FRC | <p>MoU between the FRC and the Actuarial Profession including a commitment by the Actuarial Profession to consider carefully POB recommendations, implement them within a reasonable period or give reasons in writing for not doing so.</p> |

| Function | Responsibility | Powers |
|---|-----------------------|--|
| Ensuring that the provision of financial information, including directors' reports, by public and large private companies complies with Companies Act requirements. | FRC Conduct Committee | <p>The FRC's Conduct Committee is an authorised body under section 457 Companies Act 2006 for the purposes of section 456 of the 2006 Act.</p> <p>Relevant Procedure: Conduct Committee Operating Procedures For Reviewing Corporate Reporting http://frc.org.uk/Our-Work/Publications/FRRP/Operating-procedures.pdf</p> |
| Monitoring compliance with accounting requirements of listing rules by issuers of listed securities. | FRC Conduct Committee | <p>The FRC's Conduct Committee is the prescribed body under section 14 Companies (Audit, Investigations etc) Act 2004.</p> <p>Relevant Procedure: Conduct Committee Operating Procedures For Reviewing Corporate Reporting http://frc.org.uk/Our-Work/Publications/FRRP/Operating-procedures.pdf</p> |
| Providing an independent investigation and discipline scheme for matters relating to accountancy firms or members of the accountancy professional bodies which raise or appear to raise important issues affecting the public interest. | FRC | <p>The arrangements for independent investigation and/or disciplinary hearings provided by the FRC amount to "appropriate independent arrangements". In order to achieve recognised supervisory body status a supervisory body must participate in appropriate independent arrangements as set out in paragraphs 16 and 24 of Schedule 10 Companies Act 2006. Further, the bye laws of each of the CCAB bodies and CIMA provide that their members are subject to the accountancy scheme.</p> <p>Relevant procedure: Accountancy Scheme http://www.frc.org.uk/Our-Work/Publications/Professional-Discipline/The-Accountancy-Scheme-(Effective-1-July-2013).pdf</p> |
| Providing an independent investigation and discipline scheme for matters relating to members of the actuarial profession which raise or appear to raise important issues affecting the public interest. | FRC | <p>The bye laws of the actuarial professional bodies provide that their members are subject to the FRC's actuarial scheme. These provisions are supported by the Memorandum of Understanding between the FRC and the Actuarial Profession.</p> <p>Relevant Procedure: Actuarial Scheme http://www.frc.org.uk/Our-Work/Publications/AADB/FRC-Actuarial-Scheme-effective-181012.pdf</p> |

| Function | Responsibility | Powers |
|---|----------------|---|
| Monitoring and maintaining the UK Corporate Governance Code and its associated guidance | FRC | <p>Compliance with the Code is voluntary, although the FCA's Listing Rule 12.43A requires companies to report on their compliance with the Code. The Irish Stock Exchange has adopted the Combined Code on Corporate Governance as its corporate governance standard, and its Listing Rules require Irish listed companies to comply or explain with the Code."</p> <p>Relevant FRC Procedure: Codes & Standards Procedure: http://frc.org.uk/About-the-FRC/Procedures/Regulatory-policies.aspx</p> |
| Monitoring and maintaining the Stewardship Code and its associated guidance | FRC | <p>Compliance with the Code is voluntary.</p> <p>Relevant FRC Procedure: Codes & Standards Procedure: http://frc.org.uk/About-the-FRC/Procedures/Regulatory-policies.aspx</p> |



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