



25th February 2020

By Email

The Financial Reporting Council
8th Floor, 125 London Wall
London EC2Y 5AS

Re: Consultation on Draft Plan and Budget 2020 / 21

Thank you for circulating the Draft Plan and Budget to us for comment.

Overall, we like the document that the FRC has produced. Aspects that we particularly like include:

- The structure: it is logical and easy to follow;
- The content: the issues raised are thoughtful and meaningful. It is good, for example, to see the issue of transparency mentioned specifically. It is also good to see the overt recognition that the FRC plays an important public interest role which seeks to address the interests of investors, suppliers, customers and others who have a legitimate interest in the health of companies.
- The writing style: it is clear and direct; it avoids being unnecessarily discursive;
- The presentation: it avoids pointless graphics which add little or nothing to reader's understanding of the plan and budget.
- Its pragmatism: it outlines aims and goals for the FRC which address investors' expectations of the Regulator and which avoid exaggerating what the FRC can realistically achieve.
- Its brevity; it is appropriately short and to the point.

We note that some of the so-called 'objectives' are really goals and aspirations. They are unquantified and have no timelines against them. It would be better if these were presented as 'goals' or 'aims'. There are references in the Plan to actions and outcomes that do represent clear quantified objectives, such as the recruitment targets and the increase in the scope and number of Audit Quality Reviews. The priorities for 2020 are also 'objectives' by any other name. Regardless of semantics, there is plenty in the plan that sets out clearly what the FRC plans to do over the coming year and which provides a sound basis for measuring success and progress.

We accept that the FRC is undergoing a period of significant change and that there is uncertainty surrounding the speed of some of these changes which will inevitably affect the organisation's ability to achieve some of the wider and more far-reaching outcomes.

Despite this, or perhaps because of this, it is important not to add priorities for the sake of it. For example, updating the Corporate Governance Code (7.1. Item 3) is not a priority. The Code applies to accounting periods starting on or after 1st January 2019. The FRC certainly needs to be monitoring the Code to assess the effectiveness and impact of its outcomes but we believe that it is much too early to be promoting further change as a priority.

Although we have a few comments on the draft budget it appears realistic and pragmatic. The increase in staff costs looks modest in relation to the near 40% planned increase in staff numbers. However, given the scale of the recruitment exercise it is likely that much of the new resource will only join the payroll in the second half of the year.

We note the increase of 18% in the preparers' levy. This is a cost which, ultimately, shareholders will bear. However, if shareholders are to be assured of better standards of oversight in financial reporting then this is a reasonable price to pay.

We also note the near doubling in the CCAB contribution (£4.4m to £8.2m). In the interests of clarity and transparency a brief comment outlining the reasons for the sharp increase would be helpful – either in the notes to Table 2 or with a cross reference if the issue is covered elsewhere in the Plan.

Similarly, while budget would be complete without a 'miscellaneous' pot, it would be helpful to have some idea of the sort of expenditure that the 'All others' category in Table 1 is intended to capture. A footnote would suffice.

We know from working with the FRC that its approach to working with its stakeholders is commendable. We have no doubt that if there were any aspects of the Plan and Budget that we had concerns about or that we wished to discuss there would be no difficulty in arranging a meeting.

Finally, we have seen a number of documents issued by the FRC recently which set much higher standards of communication than has sometimes been the case in the past. The Plan and Budget 2020/21 is a further example of this trend. It is a visible change of approach which we applaud and encourage.

Yours faithfully,

Peter Parry – Policy Director – UK Shareholders' Association

Cliff Weight – Policy Director – UK Individual Shareholders' Society