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Mr David Andrews
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Dear Mr Andrews,

Strategy 2018/21 & Draft Budget and Levy Proposals 2018/19

We welcome the opportunity to respond to the Financial Reporting Council's (FRC) consultation on its strategy for 2018 – 2021, as well as its draft budget and levy proposals for the 2018 – 2019 financial year.

Overall we broadly agree with the FRC's strategic priorities for the next three years and welcome the decision to reduce the minimum fee and the levy rates.

However, we believe that the FRC should commit to displaying a greater degree of thought leadership with regards to improving accounting and auditing standards. As the UK prepares to leave the European Union, it is essential that the FRC plays a more active role in influencing global and other international standard setters, so that future international accounting standards are developed in the interests of UK issuers.

The Quoted Companies Alliance Financial Reporting Expert Group has examined your proposals and advised on this response. A list of members of the Expert Group is at Appendix A. We have responded below in more detail from the point of view of our members, small and mid-size quoted companies.

Response

Q1 Do you have any comments on our strategic priorities – are they in line with your expectations or are there other issues on which the FRC should focus?

Overall, we broadly agree with the strategic priorities identified. However, we have some comments on a selected number of the priorities.

Promoting corporate governance and investor stewardship with a long term focus

We note that this concentrates predominantly on the proposed revisions to the UK Corporate Governance Code, which all UK listed companies must comply with.

We note there are also plans to develop a set of corporate governance principles for large private companies. We would encourage the FRC to recognise in its strategic priorities how the QCA Corporate Governance Code fits into any work with smaller quoted companies in this area.

The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies.

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Promoting true and fair reporting

The FRC should encourage greater proportionality in new Standards when seeking to influence the IASB. Recent Standards such as IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from contracts with customers* have been far more complex than their respective predecessors. These new Standards, coupled with other new requirements, have placed a particularly onerous burden on small and mid-size quoted companies.

Furthermore, the priority notes that the FRC will “explore new reporting models, including reporting to stakeholders outside the annual report”. We believe that the FRC must use its influence to more clearly communicate any new corporate reporting requirements along with their desired outcome.

For example, the FRC should encourage the government to create a single statutory document containing all non-annual report corporate disclosure requirements. This would ensure that all information can be easily located by users, while simultaneously outlining the reporting requirements being placed on companies in the different subject areas.

We believe that improvements in reporting (and governance more generally) will most effectively be achieved where there is a compelling economic rationale demonstrated to companies. This is best achieved through investors being explicit in their expectations. Thus, revising the UK Stewardship Code should be a high FRC priority. The FRC should also focus on encouraging investors to better engage with their investee companies, in order to improve their reporting and implement better governance arrangements.

With regards to the UK’s accounting framework after its departure from the European Union, we question whether the FRC should have definitively stated that it seeks powers to endorse IFRS post-Brexit in its strategy. Although we acknowledge that some kind of UK endorsement process is likely to be necessary after March 2019 and that the FRC is likely to be the best placed body to carry out such a function, we think that the FRC should perhaps have shown some restraint in conveying its view at this time. Similarly, we note that the strategy does not really address the significant additional resources that would be required to execute this function effectively.

Effective enforcement

We note that the FRC acknowledges that it is only able to impose sanctions on professional accountants or actuaries for poor quality financial reporting. In light of the ambition towards a greater degree of wider-stakeholder reporting, we consider that this compromises the unitary board concept, as only the finance director can be held to account for the annual report in other than the most extreme of circumstances.

Therefore, as the majority of directors are currently outside of the scope of the most widely used enforcement powers, we believe that the FRC should be seeking to persuade the government to allow the sanction of all directors, and not just professional accountants, so that there is an equality of responsibility assumed by all directors.

Other issues that the FRC should focus on

We also believe that the FRC should consider adding two other issues to its strategic priorities:

- i. Encouraging the use of computer assisted audit techniques through ISA (UK); and
- ii. Ensuring that the UK maintains its status as an attractive location to invest through the monitoring of corporate reporting requirements outside the UK.

Q2 Do you have any comments on our proposed audit firm monitoring approach?

The FRC should explicitly set out its approach to monitoring all of the other audit firms which fall within its scope – that is, firms below the Big 6 audit firms which audit public interest entities and retained entities, such as syndicates.

Furthermore, the FRC should be fully transparent in its approach to all audit firms within their remit rather than predominately focus on the larger audit firms. Whilst the greatest risk to the market will be with the entities that the Big 6 audit, the FRC has a responsibility to ensure audit quality across all public interest entities, although the FRC should be explicit that it takes a proportional approach when monitoring and supervising smaller audit firms.

Q3 Do you have any comments on our key deliverables?

As a general comment, we do not believe that the key deliverables have been clearly identified or articulated and would encourage the FRC to remedy this.

However, with respect to the projects and activities relating to the ‘True and fair reporting’, we consider that the thematic reviews have worked well for the FRC’s purposes. Previously, as part of its ‘whole annual report’ reviews, the FRC has reviewed approximately 200 annual reports each year. This is a very small proportion of companies and, as a consequence, the risk of review is very small. The use of targeted thematic reviews allows the FRC to increase its coverage of the market, both in terms of breadth and depth. This will facilitate more informed conclusions and may encourage greater up-take of better practice.

Q4 Do you have any comments on our draft budget and funding requirements for 2018/19?

We support the FRC’s proposal not to add to its general reserves in 2018/19. We consider the current level of £7.8 million to be more than adequate.

However, we note that staff costs will increase by £1.2 million – or 5.7% – in 2018/19. We would like to see a more extensive explanation about why this is.

Q5 Do you have any comments on our levy proposals for 2018/19?

We welcome the proposals to reduce the minimum fee and the levy rates for levy bands one to five by 2.5% for organisations within the FRC’s preparers levy funding group. We support any measure that reduces the burden on small and mid-size quoted companies.

We would also request that invoices requesting payment should be more explicit about the voluntary basis on which the levy is made.

There is a reference to ISDX Growth Stock market on page 27; this should be updated to NEX Exchange.

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

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'TW', with a horizontal line extending to the right.

Tim Ward

Chief Executive

Quoted Companies Alliance Financial Reporting Expert Group

Matthew Howells (Chair)	Smith & Williamson LLP
Matthew Stallabrass (Deputy Chair)	Crowe Clark Whitehill LLP
Jonathan Compton	BDO LLP
Peter Westaway	Deloitte LLP
Gary Jones	Grant Thornton UK LLP
Laura Mott	haysmacintyre
Anthony Carey	Mazars
Rochelle Duffy	PKF Littlejohn LLP
David Hough	RSM
Neil Armstrong	Unattached
Edward Beale	Western Selection Plc
