



Quoted Companies Alliance

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

A company limited by guarantee registered in England  
Registration Number: 4025281

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Thursday 27 February 2020

To whom it may concern,

**Draft Plan and Budget 2020/21**

We welcome the opportunity to respond to your Draft Plan and Budget 2020/21.

The Quoted Companies Alliance *Accounting, Auditing and Financial Reporting Expert Group* has examined the proposals and advised on this response from the viewpoint of small and mid-size quoted companies. A list of Expert Group members can be found in Appendix A.

Overall, we broadly support the FRC's objectives and priorities outlined within the draft, and in particular, welcome the adoption of the fifth Regulatory Principle to act in a proportionate and evidence-based manner.

We also particularly welcome the FRC's commitment to improve its transparency in relation to its supervisory functions.

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 "Tim Ward".

Tim Ward  
Chief Executive

We have the following comments to make regarding specific areas of the Draft Plan and Budget under the following headings:

### Our Objectives

- In outlining the FRC's first core objective "to set high standards" and "assess the effectiveness of the application of those standards, enforcing where in the public interest", we contend that any enforcement action should be proportionate.

The difference between the biggest companies on the UK's markets and the small and medium-sized companies that make up the majority is significant, and they have vastly different levels of resources. It should be noted that the largest company in the FTSE All Share Index (HSBC) has a market capitalisation of £111,641 million, as at 31 January 2020. The smallest has a market capitalisation of £35 million, 0.02% of HSBC. For this reason, the severity of any enforcement action should be commensurate to the size of the company in question, taking into account their resources and ability to respond to the enforcement action without it threatening the company existentially.

As such, we suggest amending the first objective to read:

"To set high standards in corporate governance and stewardship, corporate reporting, audit and actuarial work and assess the effectiveness of the application of those standards, enforcing **proportionately** where in the public interest."

- Secondly, where the draft states that the FRC intends to "forge stronger relationships with investors and take their views into account", we believe that the FRC should also endeavour to forge stronger relationships with companies. Given that all stakeholders, including investors, have an interest in the health of companies, it would be appropriate for the FRC to engage effectively with companies as well.

As part of increasing its engagement with companies, we believe that the FRC's website should be updated to include a tab/section specifically for companies. There is currently no explanation directed at companies relating to how the FRC works in reviewing the financial information produced by issuers.

### Regulatory principles

- As already stated above, we welcome the FRC's commitment to comply with the Regulators Code and act in a proportionate and evidence-based manner. In championing the interests of small and mid-size quoted companies, we often find that regulation takes a one-size-fits-all approach and has, as such, been a contributory factor in the decline in number of companies on public markets. Accordingly, we are pleased to see this commitment by the FRC, as well as Sir John Kingman's recommendation that ARGAs should have "a duty to apply proportionality to all its work".

The importance of the small and mid-size quoted company community to the UK economy is enormous, accounting for 3 million jobs and contributing over £26 billion in taxes annually. It is for this reason that proportionality and taking into consideration the needs and size constraints of smaller companies is extremely important when formulating new standards and regulatory requirements.

### Priorities for 2020 – Regulatory Standards and Codes

- The FRC's third priority relating to updating the UK Corporate Governance Code, and in particular, enhancing requirements on internal controls, risk management, going concern and resilience/viability, must be taken forward with consideration for smaller listed companies.

Principally, we remain averse to enhanced requirements on internal controls and risk management frameworks due to the increased personal responsibility and liability placed on Non-Executive Directors, as well as significantly increasing the amount of work required to comply with enhanced requirements.

In terms of enhancing the requirements around resilience and viability, we are of the opinion that any changes made must produce demonstrable additional value. A situation must not arise whereby the perceived value gained as a result of complying with enhanced requirements is outweighed by the additional administrative burden placed on companies and their directors.

- We welcome the FRC's decision to support the Government's *Green Finance Strategy* to embed climate-related issues into corporate reporting and investment decision-making, as we recognise the need for action on climate change.

That said, the FRC must be mindful of the gulf in size between the largest and smallest companies and thus their disproportionate ability to embed climate-related issues into their reporting obligations in the same manner. Furthermore, the FRC must not seek to influence investment decision-making on climate-related issues to such an extent that it acts as a deterrent to investing in smaller companies who may not necessarily have the requisite level of resources to markedly increase their climate focus in comparison to larger companies. This would act as a further disincentive to seeking a listing, as well as exacerbating the decline in use of public equity markets.

### **Priorities for 2020 – Supervision**

- We welcome the FRC's commitment to improve its transparency by publishing more information about the individual and thematic reviews it conducts. Improved transparency produces significant advantages for both consumers (including companies) and firms by increasing their confidence in the markets, which further encourages positive engagement, thus leading to deeper and more liquid markets. Increasing transparency will also produce benefits for the FRC itself, namely that it enhances the accountability of the FRC, as well as giving rise to more informed scrutiny, leading the FRC to improve timeliness, quality and consistency, thus helping it achieve its regulatory objectives.

As part of this, it would be useful for the FRC to explain what the objectives/intended outcomes of the FRC's supervisory work are.

- In regard to the FRC's proposal to take a risk-based approach to supervision, we believe that more clarity on the meaning of this is needed. For the avoidance of any doubt, further clarification is required to avoid uncertainty and confusion over the meaning of this.

We affirm that risk should not be determined by the size of a company, emphasising that small does not necessarily translate to increased risk. As outlined above, the difference between the largest companies and the small and mid-size quoted companies – which make up the vast majority of UK markets – is stark, meaning that they should be regarded as very different when determining risk, and in particular, systemic risk.

### **Annex 1 – Expenditure**

- We note that the FRC intends to increase its workforce by 100 from 255 in March 2020 to 355 by the end of March 2021. However, we also note that there is no expected increase in the training expenditure from the 2019/20 budget to the 2020/21 budget, despite significantly increasing the number of employees.

### **Annex 1 – Funding**

- In relation to the £3.9 million used to cover the costs arising from EU exit and the implementation of the Independent Review, additional transparency is required here. The FRC should be open and clear on what the costs relate to.
- We agree with the FRC’s suggestion to request that the Secretary of State make regulations to put the FRC’s levies on a statutory basis. However, rather than wait for the system of voluntary payments to inevitably be proven unsustainable, we suggest that this is taken forward immediately. At present, there is confusion over whether this is indeed a voluntary payment or one that is required.
- It is our view that “preparers” should be renamed “companies”, as the levy is paid by a company and should be seen as more than a mere producer of financial information.
- In the tables provided, it is unclear what the total amount raised from companies with a market capitalisation of below £100 million is. It would also be useful to see what the expected amounts received from each company are, by publicising total rather than unit costs.

**Appendix A**

**The Quoted Companies Alliance *Accounting, Auditing and Financial Reporting Expert Group***

Matthew Howells (Chair)	Smith & Williamson LLP
Rochelle Duffy (Deputy Chair)	PKF Littlejohn LLP
Edward Beale	Western Selection PLC
Matthew Brazier	Invesco Asset Management Limited
Anna Hicks	Saffery Champness LLP
Mark Hodgkins	Trackwise Designs PLC
Clive Lovett	Bilby PLC
Laura Mott	Haysmacintyre
James Nayler	Mazars LLP
Elisa Noble	BDO LLP
Matthew Stallabrass	Crowe UK LLP
Jon Wallis	Grant Thornton UK LLP
Helena Watson	KPMG LLP
Peter Westaway	Deloitte LLP