



Quoted Companies Alliance

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Tuesday 1 March 2022

Dear FRC colleagues,

Financial Reporting Council: Draft 3-Year Plan 2022-25

We welcome the opportunity to respond to your Draft Strategy, Plan and Budget 2022-25.

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-sized quoted companies. A list of Expert Group members can be found in Appendix A.

Overall, we welcome the FRC's commitment to being an "effective and transparent regulator" that incorporates the principles of "fairness and proportionality" in order to deliver the best outcomes for stakeholders. As the FRC undergoes its transition into the Audit, Reporting and Governance Authority (ARGA), it is vital that it maintains its commitment to fairness and proportionality and ensures that these principles are at the forefront of any regulatory decision-making. The regulator can take steps to achieving this, in part, through improving its engagement with smaller entities to ensure that any regulatory developments have been properly considered, taking into account the relative impact on entities of different sizes and complexities.

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 "T. Ward".

Tim Ward
Chief Executive

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

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We have the following comments to make regarding the following sections of the draft strategy, plan and budget.

Section 2 – Transitioning from the FRC to ARGA

In relation to the Government’s white paper on the proposals for ARGA to have a new statutory general objective to act in the public interest, and the statement that “it will be for ARGA to set its strategy in the way it feels will best meet the overarching purpose and objectives”, we would stress the need to consult stakeholders. It should not be the case that ARGA acts in a unilateral fashion and should ensure that it consults with all stakeholders, and of different sizes, in order to best serve the public interest. ARGA should endeavour to build stronger relationships with companies, and in particular, those at the smaller end of the markets than has been achieved by the FRC. Historically, the regulator has found engagement with entities of a smaller size challenging, but the value of these companies, and having an effective engagement strategy with them, should not be underestimated. This will help to build trust which will increase confidence amongst stakeholders that ARGA is a regulator that will act to achieve the best outcomes for all entities.

Section 3 – What kind of regulator are we?

The FRC is going through a period of fundamental change, both in structure and culture. It is imperative that the new structure and culture has a strong and transparent governance overlay, to ensure that the confidence of stakeholders is built up and maintained. A distant and opaque regulator will engender mistrust and regulatory confusion.

Section 4 – The operational impact of change

In terms of regulatory standards, we would argue that the regulator should do more to demonstrate thought leadership in financial reporting standards. ARGA should take a lead in looking at different solutions to International Financial Reporting Standards (IFRS) than is currently the case. This is currently complicated by UK GAAP being the responsibility of the FRC, but thought leadership in IFRS being the responsibility of the UK Endorsement Board (UKEB).

Section 5 – Risks and challenges

Regarding the FRC’s/ARGA’s operational risks, we agree that the regulators’ ability to recruit and retain adequate numbers of professional qualified staff is a potentially significant risk. We would also emphasise that there is considerable operational risk due to the assumptions made in the Government’s white paper, not only in respect of maintaining a high-quality workforce, but also in relation to the capacity of the regulator and its ability to expand its workload so significantly. One of the key concerns raised by our membership is in relation of to the preparedness of the new regulator to capably cover all the new areas proposed in the Government’s reform package. It is not clear that the regulator has the requisite quantity and quality of personnel to carry out its proposed functions, nor is it clear that it will be able to appoint sufficient candidates. This could seriously hinder the ability of ARGA to perform its role.

Greater consideration of these operational risks needs to occur and be clarified further.

Section 6 – Key outputs

As highlighted in our response to the FRC’s Draft Strategy, Plan & Budget last year, it is unclear why the regulator has not included KPIs to measure the success of regulatory standards. The KPIs are included for the

FRC's supervision and monitoring, enforcement, and financial and operational performance, but not for the regulatory standards it develops and maintains. Given the significant focus of the FRC on improving its regulatory standards, it is not clear why it does not set KPIs in this area.

In order to be entirely transparent on its output and results, as well as to allow stakeholders to review its progress against its targets, the regulator should issue KPIs for its regulatory standards in addition to those already provided.

Section 7 – How we will grow to meet our existing and new obligations

It is clear that, as the FRC transitions into ARGA and takes on its new roles and responsibilities, the regulators' headcount will need to increase significantly to account for the increased scope and remit of ARGA. However, we would stress that the FRC should not underestimate the difficulties it may encounter, both in terms of quantity and quality, when it is trying to appoint new members of staff. It is not clear in the draft how this has been taken into account and should be further elaborated on.

Section 8 – Statutory funding plans

We have no comments and await the publication of the consultation on a new funding model later this year.

Section 9 – UK Endorsement Board

We have no comments.

Annex 1 – Detailed expenditure and funding 2022/23

Regarding funding, we note that, in addition to the preparers' levy being increased by 9.1% this year, it was increased by 16.8% in the 2021/22 Budget and 11% in the 2020/21 Budget. It is inappropriate, particularly in the current environment where companies are still focussing on their recovery from the pandemic, to increase the levy so significantly year-on-year. Whilst we accept that a company's levy payments are non-statutory and collected on a voluntary basis, there is confusion over whether this is indeed a voluntary payment or one that is required. Moreover, the Secretary of State can enforce regulations to put the FRC's levies on a statutory basis anyway, which means companies more often than not feel obliged to pay. Furthermore, the Government's white paper also indicated that this would become a statutory levy going forwards.

In addition, the tables contained in the document that outline the preparers' levy are not clear. The first table states that the minimum fee for all companies to pay (up to a market cap of £100 million) is £1,608. However, in the table below, it states that a UK AIM company with a £100 million market cap will only have to pay £804. This needs to be clarified.

Appendix A

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

Rochelle Duffy (Chair)	PKF Littlejohn LLP
Elisa Noble (Deputy Chair)	BDO LLP
Edward Beale	Western Selection PLC
Matthew Brazier	Invesco Asset Management Limited
Anna Hicks	Saffery Champness LLP
Mark Hodgkins	Trackwise Designs PLC
Michael Hunt	ReNeuron Group PLC
Clive Lovett	Bilby PLC
Laura Mott	Haysmacintyre
Giles Mullins	Grant Thornton UK LLP
James Nayler	Mazars LLP
Matthew Stallabrass	Crowe UK LLP
Tom Stock	Haysmacintyre
Helena Watson	KPMG LLP
Peter Westaway	Deloitte LLP