

Policy and Planning Officer
Financial Reporting Council
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

27 February 2014

By email to: plan@frc.org.uk

Dear Sir/Madam

Financial Reporting Council's (FRC) Draft Plan and Budget and Levy Proposals 2014/15

This letter sets out Deloitte LLP's response to your Draft Plan and Budget and Levy Proposals 2014/15 (draft Plan and Budget), issued for consultation in December 2013.

1. Overall comments

1.1. The FRC plays a critical role in the UK's business and capital markets infrastructure. It is helpful that the draft Plan and Budget sets out your priorities for 2014/15 within the context of your mission and your three year strategy.

1.2. Last year, we suggested that it would be helpful if the draft Plan and Budget were to include success measures; we therefore welcome the inclusion of key effectiveness indicators with regard to your 2014/15 priorities and look forward to hearing about progress against these in your next annual report.

1.3. In reflecting on the priorities you set out a year ago, and comparing these to what you have achieved, it strikes us that overall, significant progress has been made. However, it would be helpful if the draft Plan and Budget explicitly showed a direct comparison between what you hoped to achieve over the last year and what you actually did achieve.

1.4. On a related note, while the Updated Work Plan in Appendix A provides a useful breakdown of the FRC's projects and associated timings, in our view some more detail around progress and what the 'ticked' versus 'blank' boxes represent would be helpful (notably in terms of project start and end dates).

1.5. We noted that there was no reference to furthering the 'prudence debate' in the draft Plan and Budget. However, as there has been discussion and comment on this since (including at your Open

Meeting and in your response to the IASB's Conceptual Framework) we hope that the final version of your 2014/15 Plan and Budget will include some reference to your proposed actions and/or next steps to continue progressing this issue with the IASB and others.

1.6. In relation to actuarial regulation and standards, we are pleased that the FRC is not proposing strategic changes to actuarial oversight in the current three year period. We are also broadly comfortable with your proposal to develop standards that could have wider application and with your 2014/15 objectives for enhancing actuarial regulation and standards.

2. Points of note on specific questions where relevant

2.1 Question 2: Do you agree with the proposed priorities?

2.1.1. We welcome the plan to conduct thematic reviews on narrative reporting and cutting clutter and consider it important that the Codes and Standards and Conduct Committees take a consistent approach to these topics. Indeed, it would be helpful if the latter were to explain its approach to guidance authored by the former. For example, it would be helpful if the Conduct Committee updated its operating procedures to explain how it will have regard to guidance on topics such as cutting clutter issued by the Codes and Standards Committee.

2.1.2. Given the requirement that by 2020 all listed companies will need to file their entire annual report with the UKLA in electronic form, we suggest that work on an XBRL taxonomy for areas of the annual report other than the financial statements (e.g. narrative reporting) needs to be on the longer-term horizon for the FRC. We suggest that a project on how to 'tag' such information in a way that does not stifle innovation in reporting (one of the aims of your forthcoming guidance on the Strategic Report) would be a good project for the Lab at some point within the three year cycle covered by the draft Plan and Budget.

2.2. Question 3: Do you have any comments on our proposed effectiveness indicators?

2.2.1. With regard to the two Corporate Governance effectiveness indicators, we suggest that, in line with the 80% target on reporting for FTSE 350 companies regarding the latest Code changes, you also consider setting a target for smaller companies. This reflects the finding in your Developments in Corporate Governance 2013 paper – “there have been many good examples of reporting by mid and small-cap companies, but in general their reporting is less informative than that produced by larger companies” - and the point made at the draft Plan and Budget Open Meeting, that smaller and AIM-listed companies' quality of reporting requires improvement.

2.2.2. Similarly, we question why you only refer to FTSE 350 companies with regard to evidence for improvement in the clarity of explanations. As the starting point is higher for this population, might it also be valuable to consider those of smaller companies?

2.3. Question 5: Do you have any comments on our proposed budget for 2014/15?

2.3.1. On the AQR budget increase, it would be useful to understand to what extent the sharp increase for 2014/15 covers the various facets of increased demand for inspection over the next few years. You state that recruitment has begun for the increase in FTSE 350 inspections (and, in your 9th January letter to the Competition Commission (CC), that you aim to meet the CC's target by the 2016/17 cycle). It would be helpful to know whether this year's budget increase covers the full impact of the CC's recommendations (including more frequent reporting on some of the mid-tier firms in 2015). Also whether a) the likely EU

requirement to conduct inspections of all PIE auditors and b) the first local public sector audit inspections in 2016 are already budgeted for in the 2014/15 increase, or whether they are yet to come.

2.3.2. On the proposed budget in relation to the need for increased resource - notably in light of the increased scope of audit quality review - we support the point made by Richard Fleck at the Open Meeting that the calibre of additional resource must also be sufficiently high, to ensure that quality is upheld.

2.3.3. It would be helpful to have some more clarity on the relationship between the core operating costs set out in the table on page 15 and the explanatory bullet points below, as it is unclear which funding groups' increases are linked to which areas of work.

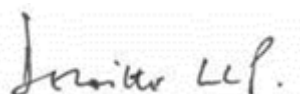
2.3.4. We note that you do not intend to increase resources with regard to actuarial standards and regulation, and we concur that this does not appear to be necessary.

2.4. Question 6: Do you have any comments on our proposed preparers levy rates for 2014/15?

2.4.1. We note that the levy increase for publicly traded companies with regard to the FRC's requirement (table on page 20) is proportionately much higher than for other groups – and that they will increase by 2.2% for smaller and by 4.9% for larger companies. We suggest that the clarity of the linkage between the justification of increases and those who will bear them could be improved.

If you have any questions or would like to discuss any of the above in more detail, please contact David Barnes on 020 7303 2888 or djbarnes@deloitte.co.uk.

Yours faithfully



Deloitte LLP