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FRAMEWORK FOR DEVELOPING STANDARDS, STATEMENTS OF PRACTICE, CODES AND GUIDANCE

This document supports the FRC's commitment to principles-based regulation which supports the exercise of judgement in pursuit of the FRC's purpose to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those responsible for delivering them. It should be considered in conjunction with the FRC's 'Principles for the development of Codes, Standards and Guidance'. All future policy related publications will be identified within this Framework and existing FRC material will be brought into line over time.

Status of FRC Policy Publications

This Framework has been developed to inform standard-setting, not set limits to the FRC's supervision or enforcement activities.

FRC codes, standards, statements of practice, guidance and other policy publications will adhere to a hierarchy of authority and will fall within one or other of the following categories:

- I. **Standards** impose mandatory requirements and also include related application, interpretation and other explanatory material essential for a proper understanding of the **Standard** and application of its requirements, referred to as implementation guidance. Entities/practitioners must have regard to such implementation guidance when applying Standards. **Standards** are consulted on and are subject to monitoring and discipline through the FRC's supervision and/or enforcement mechanisms¹. **Standards** will often nevertheless require judgement, and may offer optional treatments to users.
- II. **Statements of Practice** relate to the application of **Standards** and assist entities/practitioners to comply with **Standards**. **Statements of Practice** are intended to assist entities/practitioners in applying **Standards** of general application to particular circumstances or specialised industries/sectors. **Statements of Practice** are issued on a 'comply or explain' basis and often focus on "best practice" rather than minimum acceptable practice. They are typically strongly persuasive rather than rigidly prescriptive. **Statements of Practice** are consulted on and are subject to supervision and enforcement through the FRC's supervision and/or enforcement mechanisms. Deviations from practice recommended in **Statements of Practice** may be acceptable, but will need to be capable of justification; the more relevant the **Statement of Practice** is to the piece of work, the greater the expectation that non-compliance will have been justified in advance. Some **Statements of Practice**, e.g., currently certain SORPs, may impose requirements² provided these do not conflict with the **Standards** to which the **Statements of Practice** relate. Any such requirements will be clearly marked as such. In some cases the FRC will endorse Statements of Practice (SORPs) developed by bodies it approves for this purpose.
- III. **Codes** consist of principles and associated provisions/guidance. **Codes** are issued on a 'comply or explain' basis and are consulted on. Adherence to **Codes** may be

¹ The FRC may also monitor and take enforcement action in relation to standards issued by other bodies, for example professional ethical standards.

² Certain SORPs are referenced in legislation or regulation and must be followed by entities within their scope.

promoted by the FRC in order to drive improvements in quality³. In addition, adherence with **Codes** may be required by another regulator(s)⁴.

- IV. **Guidance** is persuasive not prescriptive and compliance is encouraged⁵. The overall purpose of **Guidance** is to improve the quality of financial reporting, auditing, actuarial work or standards of governance. **Guidance** can be issued for a number of specific purposes, for example to support compliance with **Codes** or with legislative requirements or regulatory obligations, or for interpretive, explanatory, contextual or educational purposes to support the use of judgement in areas relevant to the FRC's objectives and mission. Adherence to **Guidance** may be promoted by the FRC in order to drive improvements in quality⁶. Consultation on **Guidance** is optional and will depend on the nature of the material being developed.

Selecting the most appropriate form of Policy Publication

Individual documents will explain the status of the material they contain.

The FRC's choice of policy publication when dealing with an issue will be influenced by a number of factors, including whether:

- the desired impact of the material is to require a common approach or a minimum standard or merely to encourage a change of behaviour or promote the use of judgement;
- a gap has been identified in the existing framework;
- it is necessary to provide clarification, explanation or interpretation of Standards or Codes;
- the issue being addressed has general applicability or is specific to a particular audience or sector;
- the objective is to assist companies or practitioners to apply good judgement;
- a permanent or temporary answer is needed;
- it is necessary to issue a rapid response to a market development;
- the ability to enforce is important;
- the issue is new or was foreseen and taken account of during the development of earlier material;
- existing material will get practitioners to the right answer provided it is applied sensibly; and
- a non-regulatory response is a viable option and a potentially effective response to the issue being addressed.

³ A failure to take account of Codes or Guidance may also be an indicator of a failure to meet the standards of behaviour reasonably to be expected of a professional and be drawn upon in a disciplinary case.

⁴ Such as the FCA.

⁵ Compliance may be required by another regulator, e.g. the FCA.

⁶ See footnote 3.

*Recognition of Third Parties for the Purpose of Developing **Statements of Practice***

The FRC will maintain a Policy governing the development of **Statements of Practice** by other bodies and their endorsement by the FRC (“Policy on Developing Statements of Recommended Practice (SORPs)”).

The FRC will consider the nature and extent of all prevailing circumstances when deciding whether another entity is best placed to develop **Statements of Practice** in support of the FRC’s **Standards**, including:

- independence requirements;
- broader legislative, regulatory and standard-setting landscape;
- nature of the issues and objectives of the material; and
- FRC’s resourcing and funding.

The FRC will only recognise another entity to develop and issue **Statements of Practice** in support of its **Standards** where this is in the public interest and provided the entity concerned (a) has a broad connection to the relevant profession, sector, industry or segment; (b) has access to appropriate levels of knowledge and expertise in the subject matter; (c) meets any criteria for recognition set out in relevant FRC policies (see above); and (d) agrees to be bound by such FRC policies.

Where another entity is recognised for the purposes of developing a **Statement of Practice**, the FRC will review all material contained within that **Statement of Practice** which it considers relevant to the FRC’s specific responsibilities or broader remit and reserves the right to comment on, amend or remove such material in the course of its oversight responsibilities.

Consultation

The form and length of consultation will depend upon the nature and status of the policy publication being developed. For **Standards, Statements of Practice and Codes** a formal written consultation period of 12 weeks will be allowed for representations save where an urgent response is required or where there is another good reason to adopt a shorter period of consultation. In the case of revisions to existing standards, a streamlined process for approval may be adopted with the agreement of the Regulatory Standards & Codes Committee. This process may apply in the case of revisions which meet one or more of the following criteria, particularly when the revision is unlikely to be judged controversial:

- (a) The revision reflects change in legislation; or
- (b) Another event has occurred which makes the revision urgent; or
- (c) The revision has been previously trailed as part of a formal consultation; or
- (d) The revision does not change the substance of the standards.

Revisions subject to the streamlined process will be subject to a shortened consultation period, the exact length of which will be determined by the Regulatory Standards & Codes Committee.

In circumstances when a revision merely reflects a change in legislation that is already applicable, a formal written consultation may not be necessary. In highly exceptional circumstances a formal written consultation may be unnecessary for substantive changes, only to ensure temporary interim provisions are in place, pending a consultation.

Guidance comprising contextual and educational material will not normally be consulted on formally but may be subject to informal stakeholder outreach. Before issuing or amending

Guidance, the FRC will decide the means by which it will obtain external views on such documents.

Roles of Others

Other regulators have an important role to play in relation to **Statements of Practice** such as SORPS, **Codes** and **Guidance**. For example, the FCA requires listed companies to report against the UK Governance Code; the Charity Commission monitors the financial statements of entities within its jurisdiction for compliance with accounting standards. Shareholders, too, have an important role to play in holding listed companies to account against the UK Corporate Governance Code and in fulfilling their responsibilities under the Stewardship Code.

FUTURE STATUS OF FRC PRONOUNCEMENTS

<p>STANDARDS - COMPLIANCE REQUIRED FRC CONSULTS FRC MONITORS COMPLIANCE¹ FRC MAY ENFORCE COMPLIANCE OR DISCIPLINE BREACHES</p>	<p>STATEMENTS OF PRACTICE - COMPLY OR EXPLAIN² FRC CONSULTS FRC MONITORS FRC MAY ENFORCE COMPLIANCE OR DISCIPLINE BREACHES</p>
<p><i>Standards</i> <i>Implementation guidance</i> <i>Clarification Statements</i></p>	<p><i>SORPS</i> <i>Practice Notes</i></p>
<p>CODES - COMPLY OR EXPLAIN³ FRC CONSULTS FRC PROMOTES⁴ OTHER REGULATORS MAY MONITOR COMPLIANCE</p>	<p>GUIDANCE - COMPLIANCE ENCOURAGED⁵ FRC MAY OR MAY NOT CONSULT FRC PROMOTES⁶ OTHER REGULATORS MAY PROMOTE</p>
<p><i>UK Corporate Governance Code</i> <i>Stewardship Code</i> <i>The Wates Corporate Governance Principles for Large Private Companies</i></p>	<p><i>Guidance to auditors e.g., Bulletins</i> <i>Guidance to directors e.g., Guidance on Board Effectiveness</i> <i>Educational Material</i> <i>Contextual Material</i></p>

¹ With accounting and auditing standards only; the FRC does not monitor compliance with actuarial standards.

² Statements of Practice may be considered as part of FRC review and monitoring work; where not followed, it is mandatory for those entities and individuals to whom Statements of Practice apply, to explain or be able to justify non-compliance.

³ Adherence is voluntary unless required by another regulator, e.g. the FCA via the Listing Rules requires all companies with a Premium Listing of equity shares to report against the principles in the UK Corporate Governance Code. Non-compliance must be explained. Market participants and regulators other than the FRC may monitor specific compliance.

⁴ But a failure to take account of Codes or Guidance may be an indicator of a failure to meet the standards of behaviour reasonably to be expected of a professional and be drawn upon in a disciplinary case.

⁵ But note the FCA's Listing Rules require the statement by the directors that the business is a going concern to have been prepared in accordance with the FRC's Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009.

⁶ See footnote 4.