

Private and Confidential

Deputy Head of FRC Delivery Unit
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

20 February 2017

Dear Sirs

Financial Reporting Council's draft plan and budget and proposed levies 2017/18

BDO LLP (BDO) welcomes the opportunity to comment on the FRC's draft plan, budget and proposed levies for 2017/18. BDO supports the FRC in the consolidation of the improvements in corporate reporting, governance and audit to date and welcomes the FRC's focus on increasing investor stewardship in improving the accountability of boards and audit committees and the focus on culture within businesses.

Q1 Do you have any comments on our proposed priorities and work programme for 2017/18?

BDO note that part of the FRC's focus on the effectiveness of corporate governance will be an assessment of their preparation for Brexit. BDO would urge the FRC to incorporate within their own priorities for 2017/18 an assessment of the effect of Brexit and commence planning to mitigate those effects. Most notably the FRC may need to ensure UK regulatory equivalence with the EU for audit and financial reporting. Other areas warranting focus are the mutual recognition of accountancy and audit qualifications and the free flow of information and data to support global financial reporting and auditing. Clarity as to the FRC's plans in respect of exiting elements of EU legislation alongside supporting the Government's promise to simplify regulation will assist in maintaining confidence in the UK capital markets.

Linked to the UK exit from the EU is a need for clarity as to the FRC's status as a regulator in a global context. Several factors could have influence this:

1. The FRC's standing as a single regulator in a global regulatory environment, rather than as a member of ESMA.
2. Currently the FRC are a major contributor to the work of ESMA, what plans exist to affect an orderly exit that would not see ESMA suffer but also not hinder the FRC establishing a global position?
3. In order to maintain the UK's influence with global accountancy standard setters and regulators, the FRC should seek to put forward UK candidates for key roles with such bodies. In this regard the FRC and the Government should seek to ensure key bodies such as the IASB remain located in the UK.



In respect of the planned work priorities we note that the areas of focus selected for the corporate reporting review team do not include financial services despite it being an area of focus for audit quality. BDO would expect that in order to fully assess the sector, it would be necessary to consider both the quality of corporate reporting and the quality of audit. In addition we note that your work plan includes continuing to evaluate the impact of new UK GAAP and progress your triennial review of FRS 102. It would be helpful to understand how the timing and effectiveness of this will be impacted by the issue of a revised FRS 102 which the FRC plan to complete by the end of 2017.

Q2 Do you have any comments on our proposed effectiveness indicators?

BDO would make two comments on the proposed effectiveness indicators, one in relation to the timeliness, in particular the timeliness of the issue of the survey of Audit Committee chairs on quality. The second point relates to the FRC monitoring the effect of tendering and mandatory rotation and whether there are indications that tendering and rotation are pushing audit fees down, which could place pressure on the quality of the audit.

Q3 Are there any areas where the FRC could reduce its proposed activities without reducing the overall impact of FRC regulation?

BDO have no comment.

Q4 Are there any significant risks to the quality of corporate governance and reporting in the UK which are not addressed in the proposed work programme?

Financial reporting is currently facing major changes and significant challenge in addition to the cost of implementing revised IFRS. This must raise the question whether management are prepared and whether the FRC will need to take on a greater role in ensuring the quality of financial reporting.

We support the FRC's commitment to review Corporate Governance and BDO would urge the FRC to consider the corporate governance of large private entities. Furthermore BDO is largely supportive of the recent green paper although we have some concerns regarding some of the proposals, including the challenges to s172, as noted in our response letter.

In respect of executive pay, BDO suggest it is worth considering separately the issues regarding the linkage between pay and performance, from those relating to the perceived overall fairness and equality of executive pay.

Q5 & Q6 Comments on the proposed budget and funding

BDO are concerned regarding the proposed diversion of fines from Member Bodies to the Treasury. In the long-run, we understand that Member Bodies operate at a deficit in covering the costs of disciplinary and enforcement actions brought by the FRC. Costs are frequently not recovered in full or not recovered at all in respect of cases that are lost by the FRC or where cost orders are significantly reduced on appeal. A lack of funds to cover costs of disciplinary action could affect the ability of the FRC to pursue their obligation to support confidence in the capital market through effective enforcement. BDO would recommend that agreement and clarity regarding future funding and the recovery of total costs by Member Bodies be reached.



If you would like to discuss any of the above, or have any questions relating to it, please contact
Iain Lowson on 020 7893 3623.

Yours faithfully

A handwritten signature in black ink that reads 'BDO LLP'.

BDO LLP

Emailed: Plan@frc.org.uk

