



12 March 2021

Sir Jon Thompson
CEO
Financial Reporting Council
8th Floor
125 London Wall
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Dear Sir Jon

CCAB RESPONSE TO THE FRC'S 2021/22 DRAFT STRATEGY AND PLAN & BUDGET CONSULTATION 2021

1. CCAB takes the opportunity to comment on the above consultation document issued by the FRC on 19 February.

About CCAB

2. The combined membership of the five CCAB bodies – ICAEW, ACCA, ICAS, CIPFA and Chartered Accountants Ireland – amounts to some 282,000 professional accountants in the UK and the Republic of Ireland (some 410,000 worldwide).
3. CCAB provides a forum for the bodies to work together collectively in the public interest on matters affecting the profession and the wider economy.
4. CCAB's credibility stems from its insight into all areas of finance and accounting, from finance director and audit partner to management accountants, professional advisers, public sector finance leaders and entrepreneurs. CCAB's members work through the financial value chain in all sectors as key decision makers and business leaders within the UK and around the world.

Executive Summary

5. CCAB fully supports the efforts of the FRC in its determination to implement change in response to the Kingman, CMA and Brydon Reviews within the inevitable constraints that exist ahead of legislation. We do not underestimate the challenges the FRC faces in making the transition to a new independent regulator with a greatly expanded remit and regard the five core objectives set out in the draft plan and budget as appropriate.

Consultative Committee of Accountancy Bodies

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6. We responded with alarm to the previous Draft Plan and Budget for 2020/21 which proposed an increase in the CCAB contribution from £4.4m to £8.2m, subsequently revised in the final version to £7.1m. Inevitably many of the points set out in that response will be repeated in this submission. We note that CCAB's response, and those of others, were not published on the FRC web-site last year, contrary to previous practice of several years and would encourage that the practice of publication of responses to consultations on the Draft Plan and Budget is re-introduced.

7. We recognise that the overall budget of the FRC will increase given the volume of additional activity being asked. However, the sheer size of another proposed increase, of over 46% for CCAB in one year, on top of the previous increase in 2020/21 of 61%, is, again, alarming and even more so, in the context of an unprecedented global emergency. This equates to an increase of 136% over two years which we consider as disproportionate and unfair. We also regard such an increase as highly unusual, if not unique. The pace and the scale of the funding does not accord with the principles set out in the Regulator's Code; namely, proportionality, evidence based and transparent and the FRC has not adequately articulated the justification for it.

8. Noting that the FRC is a public body we have serious concerns about the draft plan and budget which, in our opinion, is not consistent with best practice nor the principles of honesty and transparency set out in *Managing Public Money*.

9. The annual nature of setting the FRC budget is problematic and we look for longer term planning to avoid unwelcome surprises part way through the financial years of the accountancy bodies. This is the second year where a very significant increase has been proposed without any notice and with little room for negotiation.

10. We suggest that more clarity is needed on the use of reserves that were accumulated by the FRC before it became a public body. All funders, but especially the accountancy profession, contributed to these reserves and we propose that they are used to off-set some of the increase in the FRC's proposed budget.

11. We note, in our detailed comments below, that the accounting and auditing profession will account for 57% of the FRC's proposed budget of £52.2m in 2021/22. We regard this as disproportionate and at odds with the recommendations of Kingman for a new independent regulator.

12. It is disappointing that the Government's consultation on the Kingman, Brydon and CMA Reviews is still to be published after months of anticipation. We are keen to see the proposals for the statutory funding of ARGA and hope to see a new funding model being developed as soon as possible so that the allocation of costs to the funders is fair and proportionate. We also seek a move away from annual budget setting as part of this development.

13. We are very willing to meet with yourself and members of the FRC Board to discuss the issues raised in our response as a means of demonstrating our support for the FRC in its efforts to implement the significant reforms necessary for the establishment of the new independent regulator, ARGA.

Detailed Comments

14. The CCAB recognises the concrete interim steps the FRC is taking toward transforming itself into an independent regulator. We agree that the five core objectives set in the draft plan and budget are the right ones. The current issues affecting UK corporate governance and audit need urgent solutions, especially now given the circumstances of Covid-19 and the UK exit from Europe. It is good to see the FRC acting within its existing powers to better equip itself to deliver on its objectives. We also appreciate the extent of the challenge facing the FRC, given that the Government's consultation, expected imminently for several months now, is delayed with the consequence that any statutory funding arrangements for the new ARGA will not be forthcoming in a timely manner.

15. We welcome acknowledgement of the current crisis, which is clearly affecting the cash flow of business, government and third-sector organisations. The FRC is not alone in facing these challenges and, despite all our hopes, there is no certainty when the unprecedented emergency will end. This combined with the transition associated with the UK exit from the European Union, has serious implications for the whole UK economy of which our members, who will ultimately pick up the costs, are an important part. The proposals show no regard for the financial pressures they create for the CCAB bodies as funders and, in turn, their constituents.

16. Constituents need to understand how they will be affected by the actions that the FRC plans to take. This is a necessary part of due process and it requires proper disclosure, with consultation where appropriate. We remain concerned that the draft plan and budget is inadequately transparent about what will change because of the incremental funding sought and to what extent the recommendations of the three reviews will be implemented with it. These concerns are particularly acute as we have yet to see a proper impact assessment for any of the recommendations. The pace and scale of the funding increases that the FRC seeks cannot be justified without "... honesty about the policy objectives and rigorous transparency in the public interest" as set out as a principle in Chapter 6 of *Managing Public Money*.

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17. We have some specific comments to make on points in the Plan and Budget:

- On audit and accounting case costs/investigations, we know that there is a rise in the number of cases so question whether the budgeted amount of £5m is adequate.
- The increase in corporate service costs of approximately 10% feels a significant increase at a time when most organisations are seeking to contract back office costs. There is no indication whether this is a temporary increase to modernise back office functions or an ongoing requirement.
- It is encouraging to see KPIs identified but there seem to be very few that relate to financial value; spending to budget is not the same as spending to deliver value and return on investment.

18. As the FRC transforms into ARGA its actions, capabilities and, as government provides them, its powers as a public body need to develop within the Hampton principles of better regulation and in accordance with the government's Regulators' Code (the Code). These were not reflected in any of the three independent reviews and no proper impact assessment has been carried out. Moreover, we note, on page 11, that the FRC states that it already complies voluntarily with the Regulators' Code and that an Order has been placed before Parliament to formalise this in the context of the better regulation framework recognising that understanding the costs, benefits, and risks of any new measure or proposal is fundamental. It is not visible how the principles have been implemented in respect of the Plan and Budget for 2021/22.

19. As we stated last year, CCAB believes that an explicit commitment to the Hampton principles should be written into ARGA's remit. We also expect that the details of how the proposed new regulator will be equipped to deliver on its objectives will be refined following public consultation and developed by ARGA following these principles and the Code. Greater transparency is needed about how the FRC as a public body is transforming to respond to the recommendations before it can deploy incremental resources at the pace and scale proposed in the draft plan and budget.

20. An increase of 46% in the budget of any public body (setting aside the previous year's increase of 60%) raising funding through taxation/levies should be open to significant scrutiny by funders and stakeholders alike.

21. We are particularly concerned that CCAB is allocated the highest increase of any single funding group (for a second year). The consultation document does not provide sufficient detail as to why this size of increase has been allocated to CCAB. It seems to us that the FRC is in a transition period where the costs are increasing because of changes in its focus in anticipation of the new ARGAs but a matching transition in the funding formula is absent.

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22. In questioning the size of the intended increase in CCAB's funding of the FRC, we are aware that criticism may be levelled at CCAB that we are seeking to obstruct the progress of FRC/ARGA in pursuing reforms of the UK accounting and auditing profession. In response, in addition to our supportive general comments above on the need for reform, we would point out that CCAB has always met the FRC's funding demands in full over the last 15 years of the FRC's existence. What we are concerned about is the principle that funding demands should be proportionate, evidence based and transparent which is not the case with the current consultation document.

23. So, it is significant that, in the previous year, the consultation document indicated a £2.6m contribution from BEIS to fund the cost of the proposed UK Endorsement Board (UKEB). In this year's draft plan, the sum of £2.3m is described as "FRC contribution to EB from Reserves" and there is no similar provision proposed for 2021/22. There is still a lack of clarity on the use of these reserves, but we suggest that the UKEB continues to be funded from reserves until new legislation and a related funding formula are in place.

24. There is a lack of clarity in the plan about the division between the responsibilities of the FRC and of the new UKEB. We understand that activities influencing IFRS are 'ring-fenced' to the UKEB, but it is not clear from the plan how this will affect the FRC's activities and how the FRC will support the UKEB. The section 'Regulatory Standards' on page 12 indicates that increased headcount will be used to for 'a. New capacity to support due process oversight of the UK Endorsement Board', and 'b. Expansion of international standard-setting influencing ability and XBRL support'. It would be helpful to have greater granularity about which standards are being referred to and how the incremental staff will be allocated between them. We also note that the increase of 9 is measured from future staffing levels – measured from December 2020 the increase is 18. Although the plan indicates that staff will additionally be working on 'c. Support for transformation activities including policy development and implementation' or 'd. Expansion of FRC Lab capabilities to incorporate innovation and technology skillsets'. There is insufficient detail in the plan to be clear on the weighting between these activities or what specifically they will entail. The plan contains a section about the UKEB. We understand that the UKEB's budget is ring-fenced, so it is not clear why this forms part of this document. We expect that the UKEB will publish further details about its activities and due process on its website as these are determined.

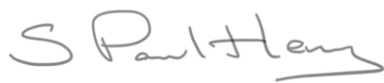
25. The CCAB notes that the UK accounting and auditing profession taken across all funding sources (RSB contribution, CCAB contribution, CIMA, case costs and AFMAS contribution) accounts for 57% of the proposed £52.2m 2021/22 FRC budget. We refer to the Kingman recommendations in this area, namely Recommendation 65 that BEIS should agree a new budget, consistent with the Review's recommendations, working with the new regulator and consulting stakeholders and Recommendation 66 that BEIS should set the regulator's budget each year, and having consulted, determine the proportions of the levy that will apply to different parties.

26. During the early years of the FRC's existence, funding included a one-third contribution from the UK government, recognising that the FRC's activity is key to promoting the public interest in the correct functioning of the UK's capital market and its impact on the general health of the UK economy. It was a successful means of securing the independence of the regulator by resisting over-reliance on the accountancy profession for funding. Government funding of any kind was withdrawn from the FRC several years ago, leaving other funders, including CCAB, to pick up a greater share.

27. Given the size of the accountancy profession's share anticipated in 2021 – 2022, it would be helpful if the FRC could provide projections for the next two – three years to move away from the annual nature of setting the FRC (and the subsequent ARGAs) budget and to avoid unwelcome surprises part way through the financial years of the accountancy bodies.

28. It is disappointing that the Government's consultation on the Kingman, Brydon and CMA Reviews is still to be published (at the time of writing). We accept that Government too faces immense challenges in the current crisis but from reports in the press, and informal indications, it is evident that publication has been anticipated for some months. We are keen to see the proposals for the statutory funding of ARGAs and hope to see a new funding model being developed as soon as possible so that the allocation of costs to the funders is fair and proportionate, and the timing is commensurate with the need of funders to make provision within their own plans and budgets.

Yours sincerely



Paul Henry
Chairman



Michael Izza
Managing Director

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