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22 January 2024

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UKSA Response to the FRC's Draft Budget and Plan 2024 – 2025

The UK Shareholders Association welcomes the opportunity to provide feedback on the FRC's Draft Budget and Plan for 2024 – 2025.

Our comments below take account of uncertainties facing the FRC in the light of the government's failure to pass the enabling legislation for the creation of ARGA. While we accept that it is difficult for the FRC to comment in detail on all that this implies we believe that it may be helpful we give our own reactions to this and other issues which we feel deserve comment. These are summarised below.

1. Government failure to pass enabling legislation for the creation of ARGA.

We believe that the government's performance on this issue (which can only be described as dismal) must be as disappointing to the staff and management of the FRC as it almost certainly is to the majority of its stakeholders.

In the light of this we accept that it is appropriate for the time being to pause the development of the FRC in its transition to ARGA. We can also understand the decision to remove as a principal risk for the coming year '*the impact of delay or ineffective regulatory reform due to political and other pressures*' (Risks and Challenges) on the basis that this risk has now materialised. However, we feel that 2024 – 25 Plan cannot just leave it at that.

The failure of the government to pass the enabling legislation for ARGAs to come into being brings other risks in its wake. The block that this puts on planned increases in regulatory resource and capability is inevitably going to compromise the scope and speed of regulatory reform. This includes the inability of the regulator to take action against directors for financial reporting breaches when they are not members of the professional accountancy bodies. These risks should receive at least some mention in the Plan with a comment on how they can be mitigated.

In the meantime, we note that Sir John Kingman is a member of the panel which has been appointed by Labour to carry out a review of financial services and advise on policy priorities. We shall seek to engage with the panel, making it clear that we see the creation of ARGAs as a priority.

2. Changes to the FRC's remit

Prominence is given at the start of Section 2 of the Plan to the FRC's renewed focus on supporting the UK's growth and international competitiveness in line with the FRC's Growth Duty.

In our view, promoting the economic growth and competitiveness of the UK economy is primarily the responsibility of the government and needs, amongst other things, to be based on a clear, comprehensive and implementable industrial strategy. It should not be a primary role of the FRC, although we accept that the FRC has an important contribution to make by, as your website says, promoting transparency and integrity in business.

Above all, what we do not want to see is a programme of deregulation which results in a gradual drift back to the so-called 'light touch' regulation which was a major contributor to the financial crash of 2008. The FRC's Purpose should continue primarily to be 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. Your work is aimed at investors and others who rely on company reports, audit and high-quality risk management. If we (as individual investors) can see improvements in corporate reporting transparency and integrity, it will mean you are doing your job properly.

It is reassuring, therefore, that the Plan stresses that the FRC's main focus continues to be on setting and maintaining a regulatory framework which provides clear, proportionate, expectations for those it regulates. As the Plan also notes:

High standards of corporate behaviours from boards of directors, auditors, accountants, and actuaries are what makes the UK's corporate governance and reporting regime one which is copied the world over.

It is this that will continue to make the UK an attractive place to invest and, in consequence, an attractive place for companies to locate and list. We agree that regulation needs to be kept under constant review to ensure that it remains relevant, up-to-date, coherent and appropriately demanding without being unduly burdensome.

We note that there is already good work going on within the FRC and within DBT to streamline areas of corporate reporting which are dogged by endless repetition and a requirement for pointless (immaterial) information. We look forward to participating in this work through the FRC's outreach and stakeholder engagement work. This is an activity that the FRC does very well and which we, as individual investors, find very valuable.

3. Strategic objectives

The strategic objectives are we believe appropriate on the basis of a three-year time horizon, starting from April of this year. Our only serious doubt is around the fourth objective:

Create a more resilient audit market through greater competition and choice.

This objective appeared in the Three-year Plan (2022 - 2025) where it was prefaced with the following comment:

'Our objectives remain the same for 2022-25, however we have adapted our audit market objective slightly to recognise ARGAs expected competition objective, and choice, both of which are important elements of a resilient audit market.'

However, as we now know, the creation of ARGA is on indefinite hold. We also know from the 2024/5 Plan that, in the light of this, the headcount is being held at its current level. So this is really an ARGA objective which we believe is not a realistic or feasible objective for the FRC. As things stand, the FRC on its own has neither the authority nor the resource to address this objective effectively. Our concerns are strengthened by the fact that there is nothing of substance in the plan which indicates how the FRC might go about achieving this objective. There is a real possibility that the FRC is setting itself up for failure here.

The plan talks about maintaining, developing and improving audit quality. This is something the FRC has done well in recent years with demonstrable results.

We accept that the market for FTSE 100 audits remains highly concentrated and that change is needed urgently. However, we believe that this will require input from other parties, such as the CMA and maybe DBT.

4. Promoting the use of technology through digital reporting.

We are strongly supportive of the FRC's work in this area. We have already attended presentation and roundtable events on the introduction of xbrl reporting taxonomies. We have also discussed the potential for this to open up new opportunities for the use of structured data, including the use of the Company and Organisational Data Explorer (CODEx) project.

For most investors to make meaningful use of this technology it is likely that some element of training and support is going to be required. Financial institutions and other corporates with well-resourced IT functions will be able to provide this support to their own analysts and internal users, allowing them to make optimal use of the technology. Retail investors, who represent a large body of potential users, will not have access to this sort of help.

A way needs to be found of ensuring that they are not left behind in the move towards wider use of digital reporting and analysis. This is an issue which we would very much like to discuss in more detail with the FRC during 2024.

We look forward to maintaining a close relationship with the FRC during the coming year. We value our relationship with you and appreciate the annual 'Lifting the Lid on the FRC' event that you run for UKSA and ShareSoc members. We were, however, disappointed when you let our representative, Mohammed Amin, go from your Stakeholder Insight Group as the only individual (as opposed to institutional) investor representative.

We have also found involvement in Reporting Lab projects to be very useful and informative. It is with some misgiving that we note that the flat headcount for the coming year is likely to result in fewer discretionary projects such as those developed in the FRC Lab.

We would be pleased to discuss in more detail any of the issues raised in this feedback letter with you.

Yours sincerely

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