Quoted Companies Alliance

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To whom it may concern,

2021/22 Draft Strategy, Plan & Budget

We welcome the opportunity to respond to your 2021/22 Draft Strategy, Plan & Budget.

The Quoted Companies Alliance *Accounting, Auditing and Financial Reporting Expert Group* has examined the proposals and advised on this response from the viewpoint of small and mid-sized quoted companies. A list of Expert Group members can be found in Appendix A.

Generally, we welcome the recognition of the need for proportionality in order for the FRC to fulfil its public interest obligations, particularly during this period of uncertainty. It should be noted that the smallest company in the FTSE All-Share is just 0.025% of the size of the largest with a market cap of £27 million. The largest company has a market cap of £107,720 million[1].

These smaller companies too often find themselves overburdened by regulation that is targeted at larger companies, but which encompasses them too. The significant volume of regulation, combined with a one-size-fits-all approach, has been enormously damaging to public equity markets in the UK in recent years. Since 2007, the number of companies quoted on the Main Market has declined by 25% and the number of companies quoted on AIM has declined by 49%[2]. The overall decline in use of public equity markets in the last few decades is stark and deeply concerning.

It is, therefore, imperative that the FRC/ARGA always acts in a way that is proportionate when fulfilling its obligations.

We have made further comments regarding the specific areas of the Draft Strategy, Plan and Budget 2021/22 below.

[1] FTSE Russell, January 2021, FTSE All-Share Indexes, available at: https://www.ftserussell.com/analytics/factsheets/home/search

[2] Report by Hardman & Co and the QCA of May 2020: *Are the public markets closing to smaller companies – The evidence from the past 20 years in London*

If you would like to discuss our response in more detail, please do not hesitate to contact us.

Yours sincerely,

Tim Ward
Chief Executive

Purpose

Regulatory Standards

Regarding section 2.3 on the regulatory standards, we would urge the FRC/ARGA to demonstrate more thought leadership in accounting standards. The FRC has often demonstrated this in auditing and actuarial standards, but has failed to do so to the same extent with accounting standards. UK GAAP, which does not fall under the remit of the UK Endorsement Board (UKEB), is the area of accounting where the FRC can demonstrate thought leadership.

In addition, where the draft states that the FRC intends to deliver improvements to its stakeholder engagement function, we believe that as part of this the FRC should endeavour to forge stronger relationships with companies, and in particular, those at the smaller end of the markets. Historically, the FRC has found engagement with entities of a smaller size challenging, but the value of these companies and having an effective engagement strategy with them should not be underestimated.

Supervision

The QCA broadly supports the FRC's supervision of the major audit firms and how it identifies priorities for each firm to improve audit quality. However, it is important that sufficient guidance is put in place in order to assist the auditors of smaller listed entities in order to ensure audit quality can be improved in a cost-effective manner.

Enforcement

The QCA supports the FRC's commitment to deliver robust and transparent regulatory outcomes, whilst taking into account the impact of the pandemic and ensuring that a proportionate response is made. Improved transparency produces significant advantages for all stakeholders by increasing their confidence in the markets, which further encourages positive engagement. Increasing transparency will also produce benefits for the FRC itself inasmuch that it enhances its accountability, as well as giving rise to more informed scrutiny, leading the FRC to improve its timeliness, quality and consistency.

What will success look like?

Given the FRC's significant focus on improving its regulatory standards in its key outputs and initiatives for 2021/22, it is unusual that there are no KPIs to measure the success of the regulatory standards. The KPIs are included for the FRC's supervision and monitoring, enforcement, and financial and operational performance, but not for the regulatory standards it develops and maintains.

In order to be entirely transparent on its output and results, as well as to allow stakeholders to review its progress against its targets, the FRC needs to issue KPIs for its regulatory standards.

Operational structure, governance and resourcing

Our governance

We welcome the FRC's commitment to comply with the Regulators Code, and in particular, act in a proportionate and evidence-based manner.

The impact on resources

As a result of the increase in expenditure mostly being due to staff costs, it is the view of some QCA members that the biggest headcount increase being for Corporate Services (by 20 to 79) is hard to justify. As such, additional clarity should be provided on why this headcount increase is more than the increases in headcount to the other divisions.

Furthermore, whilst the FRC provides a summary of employee costs by year, employee numbers are only detailed at a point in time. Consequently, it is impossible to see what implied salary inflation actually is. It is the view of some QCA members that the dynamics of this should be explained as a KPI.

UK Endorsement Board

The QCA welcomes the establishment of the UK Endorsement Board, taking over from the Accounting Council as the body responsible for endorsing and adopting new or amended IFRS. However, it is the view of some QCA members that further clarity needs to be provided on why the establishment of the UKEB amounts to such a significant increase in additional expenditure.

Annex 1 – Expenditure and funding 2021/22

The £2.7 million increase from £16.1 million in the 2020/21 Budget to £18.8 million in the 2021/22 Budget in the funding requirement for companies is significant, particularly in the current environment. Whilst we accept that a company's levy payments are non-statutory and collected on a voluntary basis, there is confusion over whether this is indeed a voluntary payment or one that is required. Moreover, the Secretary of State can enforce regulations to put the FRC's levies on a statutory basis anyway, which means companies more often than not feel obliged to pay.

However, and particularly as a result of the pandemic, an increase in the preparers levy by 16.8%, which will require an increase of 24% in the rates applied, is inappropriate. The ongoing Covid-19 pandemic has meant that companies have encountered unprecedented hardship, and this should not be met with additional costs if unnecessary. We also note that the levy was increased by 11% last year, with a 14% increase in the rates applied.

In addition, there is no comparative provided, meaning that the impact of the 24% increase in the rates applied is not obvious. The FRC should endeavour to provide this in order for its stakeholders to have a clearer understanding of the impact of the increase in rate.

Annex 2 – Audit regulation: equivalence and adequacy assessments

We have no comments.

Appendix A

The Quoted Companies Alliance *Accounting, Auditing and Financial Reporting Expert Group*

Rochelle Duffy (Chair)	PKF Littlejohn LLP
Elisa Noble (Deputy Chair)	BDO LLP
Edward Beale	Western Selection PLC
Matthew Brazier	Invesco Asset Management Limited
Anna Hicks	Saffery Champness LLP
Mark Hodgkins	Trackwise Designs PLC
Matthew Howells	Smith & Williamson LLP
Michael Hunt	ReNeuron Group PLC
Clive Lovett	Bilby PLC
Laura Mott	Haysmacintyre
Giles Mullins	Grant Thornton UK LLP
James Nayler	Mazars LLP
Matthew Stallabrass	Crowe UK LLP
Helena Watson	KPMG LLP
Peter Westaway	Deloitte LLP