



17 January 2012

David Andrews  
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Dear David

## **PROPOSALS TO REFORM THE FINANCIAL REPORTING COUNCIL**

### **Introduction**

1. CCAB would like to take the opportunity to comment on the consultation document *Proposals to Reform the Financial Reporting Council* issued by the Department for Business, Innovation and Skills (BIS) and the Financial Reporting Council (FRC) in October 2011.

### **About CCAB**

2. The membership of CCAB comprises five chartered professional accountancy bodies. These are ICAEW, ACCA, CIPFA, ICAS and Chartered Accountants Ireland. CCAB provides a forum whereby its member bodies can act collectively on behalf of the profession in the UK to promote the public interest on matters within the sphere of the profession and its members.

3. The combined membership of the five bodies amounts to 236,000 accountants in the UK and the Republic of Ireland (334,000 world-wide). These are significant numbers which allow CCAB to speak with authority for the UK profession. Our membership spans all sectors of the profession – members in business, the public and third sectors and audit practice.

4. It is the individual bodies, not CCAB, that are subject to oversight by the FRC. Therefore, each of our member bodies has responded in detail to the consultation paper. This response from CCAB seeks to identify some common themes under the headings set out in the Executive Summary of the consultation paper.

### **An Investment Focus for the FRC's Regulatory Activities**

5. The bodies support the assertion that the FRC should focus its intervention activities on those entities that pose a systemic risk to the economy. We believe that the definition of a large private company based on an annual turnover of £500m or more is too simplistic and that there are alternative measures that, when used in conjunction with turnover, will allow the FRC to concentrate on those entities that may be public interest risks. Such an approach will be far more effective than bringing a wider grouping within the FRC that is based on a monetary criterion alone.

Consultative Committee of Accountancy Bodies

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Some of the bodies give alternatives, and the reasoning, in their responses.

### **Streamlined Governance and Structure**

6. All the bodies agree that the current FRC structure is over-complex, and insufficiently understood. The bodies support proposals to streamline the structure but each have their own concerns which are explored in detail in their individual responses.

7. The profession and the wider economic community have derived considerable benefit from high quality technical work and standards produced by both the Accounting Standards Board (ASB) and the Auditing Practices Board (APB), both of which are very well regarded both nationally and internationally. The bodies would like to see this work continue within the structure of a reformed FRC. Technical expertise is an important element here and so any risk that this may diminish through changes in the membership of the FRC's Boards/Committees would need to be addressed.

8. We believe that the current arrangement of oversight of the RSBs and RQBs by the Professional Oversight Board (POB) works reasonably well whilst recognising that POB brings about change through influence. The bodies take the recommendations of POB very seriously, and, under any new arrangement, care should be taken to safeguard the positive aspects of the relationship.

9. The proposals relating to a statutory basis for the funding levies are noted, and may in practice not imply any change to the current arrangements. However, we believe that a statutory levy should also involve the introduction of arrangements for an independent assessment of the overall quantum of the levy, and of the way in which it is divided.

10. With regard to the proposals to extend the FRC's formal powers over the accountancy bodies, if formal powers replace consensus, then there should also be a mechanism, without resorting to judicial means, for the bodies to seek review of any FRC sanctions. Moreover, such sanctions should most properly be exercised by BIS, not the FRC; we note that the Secretary of State already has the sanction of removing RSB/RQB status.

### **Reinforced Independence**

11. The chartered accountancy bodies have statutory regulatory responsibilities of their own under the oversight of the FRC, which are exercised in the public interest. The bodies therefore regulate and maintain independence through their own regulatory processes. The FRC should aspire to an adequate level of independence (as distinct from separation) from the accountancy profession which will allow the profession to maintain public confidence and trust by demonstrating effective self-regulation. The bodies support the continuation and promotion of what is described as the "co-regulatory environment" in the response of one of our bodies.

12. The bodies most closely associated with supervisory roles over commercial audit will comment in detail about how these proposals will affect their respective roles and responsibilities.

13. Generally, the bodies would like to see more clarification on the proposals in respect of disciplinary activity.

14. The paper proposes that the FRC should have the ability to make its own rules for the independent disciplinary arrangements without the agreement of the professional accountancy bodies. Some of the CCAB bodies believe that this would be a retrograde step, and have given reasons in their individual responses.

## Proportionate Regulation

15. We note that the Regulatory Impact Assessment makes reference to potential savings for the FRC but does not include any impact, in financial terms, on the wider pool of FRC funders including the professional accountancy bodies. We note that the FRC seeks to manage its limited resources efficiently but there are factors outside its control (e.g. Government, external crises) that could result in the FRC's operations being enlarged. We feel that the RIA should refer to this risk and the potential impact on stakeholders. The bodies have expanded on the possible impact on business in their individual responses.

Please do not hesitate to contact either myself or any of my colleagues, listed below, should you have any questions.

Yours sincerely,

A handwritten signature in black ink that reads "Michael Izza". The signature is written in a cursive style and is contained within a thin black rectangular border.

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