



ICAEW RESPONSE TO THE FRC 3-YEAR STRATEGY 2025-28 AND ANNUAL PLAN AND BUDGET 2025-26

Issued 6 February 2025

ICAEW thanks the FRC for the opportunity to comment on its budget for 2025-26 and its 3-year strategy for 2025-28. We comment below on each chapter of the document.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 170,000 chartered accountant members in over 146 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

We acknowledge that the FRC has **progressed considerably** in recent years in the transparency and engagement it provides around its strategy and workplan. Under new leadership the FRC has moved from an at times adversarial relationship with stakeholders, to one of better recognition of each actor's place within the ecosystem. What this means, we feel, is **working together collaboratively to raise quality**, while making sure that poor behaviours are dealt with. This is clearly not a finished process, and legislation is needed to complete it, but it is a **welcome and positive transition**.

While we accept that the strategy is necessarily high level, **more information** would have been helpful for stakeholders to assess how the FRC will carry out its remit. This is particularly pertinent as the three-year period to 2028 covers the transformation to the statutory regulator. ICAEW needs to plan and carry out a significant volume of activity in support of the FRC's objectives and the low level of detail disclosed impairs our ability to do this proactively.

One area that could have been better disclosed are the FRC's planned activities to support the government's **growth** agenda. The strategy is considerably clearer in this regard, but it remains very brief. Too brief we feel given the existing statutory duty and government's focus. We suggest that the FRC **publish a separate document in 1H 2025** on how transparent reporting and respected, improvement-focused regulation support growth.

© ICAEW 2025

All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is appropriately attributed, replicated accurately and is not used in a misleading context;
- the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

For more information, please contact: representations@icaew.com

ICAEW

Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK
icaew.com

The Institute of Chartered Accountants in England and Wales (ICAEW) incorporated by Royal Charter (RC000246)
Registered office: Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK

KEY POINTS

We welcome the progress the FRC has made in recent years in transparency and engagement with stakeholders. Under new leadership the FRC has moved from what was, at times, an adversarial relationship with stakeholders, to one of better recognition of each actor's place in the governance, reporting and audit eco-system. Work remains to be done, and legislation is needed, to transition to ARGA, but the recent progress is welcome.

Nevertheless, the level of disclosure remains less than ideal, both to give a full picture of the FRC's workplans and its approach to longer-term strategic opportunities and challenges, and to enable stakeholders affected by the FRC's work to properly plan themselves. Although the plan sets out some information on activities to deliver each objective, this is somewhat vague. Indeed, it would be good practice to set out sufficient detail to enable the regulator to be held to account for delivery, the current document does not do so.

We set out here areas where we feel additional information would be helpful:

Recommendation: At an appropriate time in the legislative process, the FRC should proactively publish a more detailed document, for consultation, on how it plans to carry out ARGA's statutory objectives, regulatory principles and remit.

In due course, it would be helpful for the FRC to also publish for consultation:

- 1. A timetable for the expected publication of consultations, similar to the IASB.**
- 2. A guide on its activities to further the five growth priorities.**
- 3. Explanatory document on the FRC's market intelligence function and use of intelligence to respond to risks. The FRC might consider publishing a regular Market Stability report, using as a reference the well-regarded Bank of England report on Financial Stability.**
- 4. A roadmap for how the FRC will role model international best practice in governance and stewardship.**
- 5. Detailed plans for how the FRC plans to address key developments on the horizon.**

PURPOSE

We support the changes made to the purpose statement, which we feel strengthen it.

Given the FRC's existing statutory growth duty it is positive that this has been elevated to the purpose statement. In our response to the plan and budget last year we asked that the FRC was more specific in how it would carry out the growth duty and we are therefore pleased that this has been reflected in the strategy document. We agree with the five priorities identified, which are all areas where the FRC can add value to the UK economy to support the growth objective.

However, given the centrality of growth to the government's mission more information could have been provided about how the FRC will support growth. In the US the SEC is very clear in its messaging how its mission protects investors and serves the public interest, the FRC could be more fulsome in the narrative it provides here.

Recommendation: It would be helpful for stakeholders for the FRC to publish a detailed guide on how it believes the five priorities can support growth and the activities it plans to achieve this.

- The explicit statement of focus on governance, reporting, audit and actuarial is helpful in setting expectations and we welcome the placement of governance at the head. Reporting, audit and actuarial quality flow from the tone at the top and the quality of governance and we are therefore pleased that this is recognised.
- We support the removal of the reference to 'holding to account', which might have implied an adversarial relationship rather than one focused on achieving improvement. This is important as ARGAs enhanced remit to enforce reporting quality will require it to build trust with company directors. Refocusing the purpose is a good place to start.

We also note that in the purpose statement ‘reporting’ has been replaced by ‘corporate reporting’, although this change is not highlighted. We support the explicit inclusion of corporate reporting in the purpose, which we believe sets the right direction. However, we feel that the change merits further explanation.

There is a risk that ARGA is established simply as an evolution of the FRC. We do not believe that would be the optimal outcome, nor the one envisaged by Sir John Kingman. We feel that the FRC does have a mandate for the whole annual report, not only the financial statements. While we understand that government intends not to add any additional duties for directors to the companies act, which may limit ARGA’s enforcement powers over the front end of the annual report, we believe that clarity ought to be given to ARGA’s purpose, objectives and remit over corporate reporting. This clarity could follow, in a detailed document setting out ARGA’s objectives, purpose and remit - but in anticipation of this we believe it would be helpful if the FRC could disclose more about how it expects to carry out its mandate for corporate reporting and to explain any changes in approach that may arise from the change to the purpose statement.

STRATEGIC OBJECTIVES

Objective 1: The standards and expectations we set will enhance corporate governance, corporate reporting and investor stewardship in a manner that supports UK economic growth and investment.

The analysis provided of the operating environment concludes that ‘the UK’s reputation for high standards of governance, corporate reporting and investor stewardship has been widely credited as a source of competitive advantage’. It might have been clearer if this statement had been adopted instead as objective one, namely: ‘the UK’s reputation for high standards of governance, corporate reporting and investor stewardship is a source of competitive advantage’, rather than the vaguer wording that has been adopted, which focuses on growth but does not clarify how growth reconciles with quality. The FRC, following appropriate investigation and evidence, should be more confident on this point. High standards are the UK’s source of competitive advantage – the strategy document could set out why, with evidence, that is the case. It could say that regulation is an enabler of growth. It could then give a tangible indication of what that means in terms of the workplan. As recommended above, it would be useful for this to be published in a supplementary document setting out how the FRC will support the growth objective.

Recognising this as an objective means that focus will be needed on achieving it. The London Stock Exchange witnessed its largest outflow of companies (88 company exits) in 2024, this is not a welcome trend for the UK and is one which we believe the FRC should study and set out to address. The FRC should consider set the number of PIEs as a KPI.

We understand that the FRC will be assuming responsibility for the Wates principles for corporate governance at private entities. The principles have an important role to play in raising standards of governance for these entities, and it would be helpful for the FRC to disclose how it intends to fulfil this new responsibility. For example, do they envisage providing guidance or other actions to support good governance for these entities.

Objective 2: Our regulation of accounting, audit and actuarial work will expect and encourage high quality by those responsible, and deal effectively and fairly with cases where there are serious or significant short-comings.

This is an appropriate objective for 2025. What it leaves unsaid is how the approach to this objective will develop during the transition to ARGA. We expect ARGA will seek to take a different approach, and while we appreciate that this will be consulted on in due course, there could be more disclosure of expectations for the transition period. For example whether the FRC expects the current approach to apply until the establishment date, or whether it evolves in a phased manner.

Regarding the audit market for SMEs, the FRC should acknowledge that it is the standards themselves, and not simply their interpretation and application, that needs to be addressed. In

particular, it should explain its decision not to explain its non-adoption of the LCE auditing standard. The FRC has already conducted extensive [research](#) into this issue, published in 2024, and we are not clear what further research is necessary, or why. Action is needed, rather than further research, and in particular the changes to the supervision of smaller audit firms noted above.

As regards the FRC's regulation of ICAEW as an RQB:

- we welcome FRC's constructive and responsive approach to RQB regulation and hope this will continue as they become ARGAs;
- we agree with FRC's remit on high standards but think that more can be done through FRC's convening power, e.g. there have been hardly any RQB policy roundtables held at FRC offices where professional bodies can share experiences;
- the FRC needs to be more conscious of the challenge around attractiveness of the profession and how their actions can affect this;
- proportionality is also key - for instance in the space of international recognition agreements for the audit qualification. If FRC is going to be successful in encouraging economic growth it needs to be more flexible when it comes to interpretation of key sections of the Companies Act regarding recognising auditors from other countries.

In terms of dealing effectively with cases, the FRC should keep under review the time it takes to conclude enforcement cases. Although we understand that investigation and action takes time, it is in no-one's interest for this to be extended longer than it needs to be. The FRC should focus on the conclusion of cases within a reasonable timeframe.

Objective 3: We will build on our deep understanding of corporate reporting and the audit and actuarial markets we oversee, and by being agile, we will identify and prepare for opportunities and challenges on the horizon.

We feel that this objective is underdeveloped. In the DBT feedback statement it was envisaged that the FRC would develop and strengthen its use of market intelligence to give it a more holistic view of emerging risks, which would be supplemented in ARGAs with a statutory power to require an expert review, in exceptional circumstances. There is no reference in the strategy document to this capability and given its importance – and the FRC's significantly enhanced resources – further explanation could be given.

Recommendation: The FRC should publish an explanatory document on the operation of its market intelligence function and use of intelligence to respond to risks. The FRC might consider publishing a regular Market Stability report, with reference to the well regarded Bank of England report on Financial Stability.

Objective 4: We will be a modern organisation, considered by others as a respected, effective and highly engaged regulator and by our colleagues as an inclusive and great place to work.

We expect this objective will be significant to the establishment of ARGAs. The reference to 'will be a modern organisation' suggests a transformation in ways of working. There could be more disclosure of whether this will happen as a programme ahead of ARGAs' establishment, or will be a project that ARGAs undertake once established.

KEY DEVELOPMENTS

The FRC identifies on page 9 of the strategy, five key developments on the horizon. We welcome the identification of these in the strategy but feel that it should be more detailed and specific in terms of how the FRC's work plan will address these factors. ICAEW has a keen interest in each of these areas and it would be valuable to understand how the FRC plans to address them. These are the areas we see as priorities and we would welcome information from the FRC on how it is planning to address them, and the timing:

1. Supporting the adoption of ISSB sustainability reporting standards and considering how the sustainability assurance market will develop in the UK. Investment in making implementation a success to support UK government ambition for the UK to be a world leading centre for green finance.
2. Supporting the government's review of non-financial reporting and taking the opportunities offered by DBT's planned consultation on the Future of Corporate Reporting. In our response to the recent consultation on Opportunities for the future of digital reporting we recommended that "Before addressing specific details ... it would be helpful for the FRC to take a step back and consider the overall landscape for reporting in the UK."
3. Developing enhanced disclosure on resilience and fraud, as envisaged in the White Paper.
4. Piloting the adoption of the Audit & Assurance Policy to focus corporate attention on managing risk through targeted assurance.
5. Assessing the data needs and quality implications of AI analysis and preparing to support the wider application of AI to financial information to support growth.
6. Promoting the attractiveness of the audit profession to support this leading UK sector.
7. Preparing for and supporting a successful transition of local audit responsibility to the Local Audit Office. We hope that positive progress can be achieved with local audit ahead of the establishment of the new office.

Recommendation: The FRC should publish detailed proposals for how it plans to address these key developments.

PUBLIC INTEREST OUTCOMES

The FRC's identification of public interest outcomes, against which progress can be measured in the period to 2028, is helpful, as are the market health indicators plotted. However, in light of the government's recently renewed focus on growth, we question whether these outcomes remain unchanged. We therefore suggest that the FRC publish, in due course, a more detailed guide setting out its approach to growth, updating the strategy as necessary.

We comment below on each outcome:

UK's governance and stewardship frameworks are clear and well understood by all those who use them and internationally recognised as a model that drives board and investor behaviours and leads to proportionate, principles-based and effective reporting.

We strongly support the FRC's ambition for the UK framework to be regarded as a model of best practice internationally. We assume that this will be monitored and reported on.

However, we question whether 'clear and well understood' is a robust enough ambition to achieve international best standards. The FRC should be confident that high standards in governance are a source of competitive advantage. That being the case, a more robust regulatory approach than simply having clear and well understood standards is necessary. The Corporate Governance Code is arguably already clear and well understood and therefore this outcome already achieved with no additional effort. Additional transparency, and ambition, would be beneficial here.

It is surprising that this outcome does not reference corporate resilience. Ultimately the purpose of the regulatory regime should be to reduce the risk of unexpected corporate failure and we feel that the FRC ought to have some accountability for this in its selected outcomes. The government's White Paper was intended to 'restore trust in audit and corporate governance' and although this objective should be expected to contribute to that outcome it stops short of recognising the expectation that the FRC 'restore trust'. At this point it is unclear whether the FRC feels it has restored trust, and what remains to be done to achieve this. With the establishment of ARGAs in prospect, it could be made clearer what the end point is and how progress toward it will be measured.

Recommendation: The FRC should publish a roadmap for how it intends to role model international best practice in governance and stewardship. That could be preceded by a analysis of how trust has been restored to governance, reporting and audit within the UK.

UK corporate reporting is consistently clear, concise and compliant with the relevant reporting requirements and for this to continue to improve over time.

We welcome inclusion of an outcome for corporate reporting. However, we view the outcome stated as a minimum baseline, and to support the UK government objective to make the UK a green finance centre, more thought needs to be given to our ambition. Aspiring to a 'gold standard' for wider corporate reporting may be costly, and it may not be realistic for the UK to 'gold plate' its requirements in the way it may historically have sought to do when the EU regulatory framework is already now so extensive. A compliance approach might make sense in that context. However, the UK could be more proactive and strategic in its ambition and the strategy document could be more forthcoming in this regard.

A fourth 'c' could be 'connected', with the development of wider corporate reporting connectivity becomes increasingly important and we feel it would be beneficial to recognise this in the outcome.

This objective ought also to support the AI enabled economy of the future, which will be driven by data, including financial data. Data quality and availability is important for AI. and while clarity, conciseness and compliance all sound useful qualities to support AI analysis, the outcome does not sound like it is written with AI in mind.

The UK's audit and assurance market is well-functioning.

We agree with this outcome. However, we do not agree that the current framework does enable proportionate audits for all entities. Auditing standards have been increasingly complex and no longer meet the needs of less complex entities. The strategy should articulate why the FRC feels the case has not been made for adopting the new international standard for less complex entities in the UK.

The newly formed Centre for Public Interest Audit will play a valuable role in this area. We look forward to hearing in due course how the FRC considers its role in supporting this outcome.

The audit and actuarial professions the FRC regulates are resilient and recognised globally as representing high standards of ethics and professionalism.

We support this outcome. We believe it should also reflect the attractiveness of the profession, which is relevant to both the FRC's quality objective and, given the productivity of these jobs, to its growth objective too. The FRC should support growth by ensuring access to talent and skills within the sector, which means ensuring that conditions and reputation attract individuals into it.

While we look forward to seeing what the FRC will do to better understand its own impact on resilience, we are disappointed not to see this reflected even indirectly in the strategy.

Furthermore, we are not convinced that that the FRC needs to do this, as its own research, and ICAEW's which has been shared with the FRC, already show clearly the disincentives to entering and staying in the PIE audit market among firms as a whole and to individuals. Action is needed, not further research, and we welcome the FRC's commitment to implementing changes to its supervision of smaller audit firms.

Those the FRC regulates understand where, when and how they may be held accountable for failing to meet regulatory requirements and what will happen if they do

We agree with this commitment to transparency, but we suggest it could be augmented by supporting the regulated to improve. There is more that could be done for the FRC to be proactive across its supervision, rather than reactive. Sandboxes are valuable, but they are not sufficient, an improvement mindset should extend throughout the FRC's work.

MARKET HEALTH INDICATORS

Monitoring and publication of a set of market health indicators by the FRC could provide useful information to regulators such as ICAEW, market participants and other public commentators. We support the metrics identified; they provide useful information although in isolation they are insufficient to measure progress against the public interest outcomes and careful consideration should be given to their limitations. We comment on each individually below:

- Accounts restatements due to error and Corporate Reporting Review significant findings and substantive questions raised: We agree that these metrics provide useful information.
- Stewardship Code signatory status: While we don't disagree with the measure, we suggest that it will provide limited insight regarding the effectiveness of the Code. Sir John Kingman made a recommendation regarding the FRC's mandate and approach to the Code and if it is to be continued with, this should be considered during the transition period to ARGAs. It also isn't stated whether this will be reported as an absolute number, or as a proportion of the market. We believe both would be valuable.
- Firm-level Audit Quality Indicators (AQIs): We agree this provides useful information.
- Number of Responsible Individuals: We agree that this is a valuable target. The UK audit market should be attractive, and it should be growing. As a market metric, this must be the total number of RIs and RIs in different parts of the audit market. Resilience in this market requires an increase in the number of RIs in firms of all sizes. We note there is nothing on the number of PIE auditor registrations or RIs in the metrics.

The FRC could consider tracking the number of audit firms / PIE audit firms with external private capital funding and, over time, whether there is any correlation between audit quality findings at these firms.

- Audit firm survey perceptions: We are unsure how this exercise will be conducted and therefore cannot comment at this stage on the utility of the findings.
- Stakeholder perceptions and engagement: This information should be gathered independently, by a third party with a consistent methodology applied, and a commitment to the regularity of the exercise. It may not be necessary or efficient to repeat the exercise annually, but it should not be a one off.
- Behavioural changes resulting from regulatory activity: This could be valuable information, although it is not clear how the metric will be maintained objectively and consistently and whether success would be an increase or decrease in behavioural changes. These limitations may be unavoidable and should not deter the FRC from measuring these changes. However, adequate transparency is important, to build trust in the measure as well as proactive guidance to the regulated as to what is being measured and how performance can be improved against it.

Recommendations:

- **The FRC should publish a more detailed document setting out the methodology and approach to each metric. There should be a consultation on this document.**
- **The basket of metrics should be extended to provide further insights on corporate resilience, for example by reporting on default rates and/or going concern statements.**
- **The number of listed entities in the UK is a matter of concern. The FRC could monitor the number of PIEs as a KPI.**

OPERATIONAL REQUIREMENTS.

ICAEW has contributed to the response of the CCAB to the FRC proposed budget 2025-26. Please could the FRC refer to that response, which ICAEW supports as our view.