



Financial Reporting Council

The Rt Hon. Jonathan Reynolds MP

Secretary of State for Business and Trade & President of the Board of Trade
Department for Business and Trade
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Our priorities to support economic growth

Dear Secretary of State,

The Government has identified the importance of putting in place the right business environment to support economic growth and investment, driving job and wealth creation across all communities and regions of the UK. You have also signalled the importance of the role of regulators in supporting this. I am keen that the FRC fully embraces this ambition and I wanted to set out for you the steps we have taken to do this.

The FRC has adopted five priorities to support this ambition.

1. **Underpin investor and broader confidence in UK plc which enables businesses to attract capital and grow. We will do this by encouraging high standards of corporate governance, financial reporting and audit quality.** For example, we recently concluded our largest ever consultation and review of the UK Corporate Governance Code to ensure it balances good quality governance demanded by investors with flexible requirements for businesses. Our decisions were welcomed by investors and businesses.
2. **Embed the principle of proportionality in our work and identify and address unnecessary burdens on business.** For example, we have significantly streamlined reporting requirements associated with the investor Stewardship Code following stakeholder engagement; reforms that have been welcomed by signatories, and we are currently consulting on further updates to the Code.
3. **Understand the markets we oversee to identify whether they work effectively to support growth.** For example, we launched two market studies into the assurance of sustainability disclosures and the NHS audit market to better understand how they are operating to support growth and quality.
4. **Identify key future trends and innovations in the markets we oversee that businesses and regulators should be well positioned for.** For example, we established a new Digital Reporting team to support more digital reporting by companies and to enable the UK to play a leading role in the use of reporting technology. We also issued guidance on AI for use by the actuarial profession.

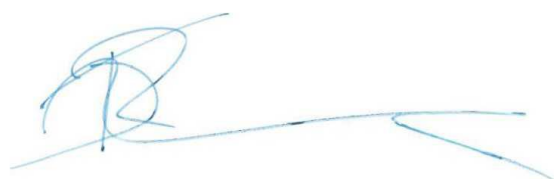
5. **Work with others to support the future skills and resilience of the professions needed for the markets we oversee.** For example, we launched our Scalebox initiative to support smaller audit firms seeking to grow their audit portfolios or enter the market for public interest entity audits.

I have included additional detail regarding our activities over the past 12 months on each of these priorities as an Annexe to this letter.

Can I take this opportunity to express our thanks for your leadership in proposing that we get a more modern and effective audit reform package on to the statute book. It is needed - and we think it is consistent with your broader ambition for creating the right foundations to support long-term growth and investment. We will continue to work closely with your officials and stakeholders to help make this a reality.

Finally, in writing to you, I also wanted to honour a request made of me in the remit letter issued to the FRC last year by the previous Government. That letter asked me to report back on what steps we had taken to support growth in the past 12 months.

Yours sincerely,



Richard Moriarty
Chief Executive

Annexe – FRC steps to support economic growth over past 12 months

Priority 1: underpin investor and broader confidence in UK plc which enables businesses to attract capital and grow. We do this by encouraging high standards of corporate governance, financial reporting and audit quality.

We concluded our largest ever consultation and review of the UK Corporate Governance Code to ensure we struck a balance between focusing on driving better governance and reducing unnecessary burdens. The principal area of the Code we enhanced related to internal controls, our engagement with stakeholders during the consultation identified this as the most important priority for change to enhance better governance.

We launched a review of the Stewardship Code that pertains to asset owners, asset managers and investment service providers, and have recently issued a consultation on changes to better support economic growth and investment. The Stewardship Code is an important part of the UK's investment framework, with 273 current signatories representing £43 trillion of assets under management.

We continued to drive high levels of audit quality by the largest public interest entity (PIE) audit firms. We have seen quality in the largest audit firms improve over recent years and a recent survey we undertook of audit professionals provides evidence for the view that our regulation has helped drive this. Nevertheless, the gap in quality between the largest audit firms and others in the public interest entity (PIE) audit market has widened and will be a focus of our work over the next year.

We have, in the course of the year, worked alongside the largest audit firms to implement in a proportionate way the arrangements for operational separation between their audit and advisory businesses. This will help underpin audit quality and also set the right price signals in the PIE audit market, supporting more entry and competition over the medium-term.

Priority 2: embed the principle of proportionality in our work and identify and address unnecessary burdens on business.

In our review of the UK Corporate Governance Code we prioritised the important change related to internal controls but scaled back several other proposals. We also reframed the discussion around 'comply or explain' by being clear with businesses that explanations are acceptable against the Code's provisions where this better aligns with their business model and is set out in a transparent and cogent manner. Finally, we reduced the amount of guidance associated with the Code by 20% in order to avoid this being seen as a layering of regulatory expectations on Boards. An overarching objective of our revisions to the Code is to empower Boards to think for themselves and feel confident in owning their judgements. These changes were well received by businesses and investors.

In our review of the Stewardship Code we have significantly streamlined the reporting requirements, which has been welcomed by those investors who are signatories.

We issued our periodic review of FRS 102, a proportionate financial reporting standard used by more than 3 million businesses, which included amendments to support the disclosure of high quality financial information while providing greater clarity to smaller entities on what disclosures need to be made.

We have worked closely with your department on the non-financial reporting review to support efforts to ensure proportionate requirements on smaller commercial entities. We will continue to support your officials as legislation is brought forward and implemented.

Priority 3: understand the markets we oversee to identify whether they work effectively to support growth.

We have, for the first time, launched two in-depth market studies. The first of these studies was into the assurance of sustainability disclosures. For many investors, this reporting is becoming an increasingly prevalent factor in their decision to allocate capital and invest in UK companies. It is important that the FRC helps to ensure that this market is well understood and is working effectively. The second market study supports our Memorandum of Understanding with the Ministry of Housing, Communities and Local Government on local audit. There are growing concerns about difficulties that NHS providers such as Foundation Trusts and Integrated Care Boards are facing in appointing and retaining auditors. We hope that the findings from this market study will provide valuable insight into the challenges facing the NHS audit market.

We have published research into the challenges being faced by those we regulate. With improving choice of auditor continuing to be a priority, we published a summary of key findings on barriers to entry and growth faced by audit firms in the UK including recruitment and retention of experienced and specialist staff, opportunities available in the provision of non-audit services, increased risk and liability tied to audit, and the wider regulatory framework. The report underlines the importance of the FRC working collaboratively with the wider profession to foster an environment that supports sustainable growth in all firms while maintaining high standards.

We launched a programme of activity to better understand the issues affecting smaller businesses and how we can support them accessing proportionate audit services. It is important that we do more to consider how we support the wider audit market, not just the larger/more complex PIE audits.

Priority 4: identify key future trends and innovations in the markets we oversee that businesses and the regulator should be well positioned for.

We recently issued guidance to the actuarial community on AI and we are developing similar guidance for the audit community. We intend to be forward looking and adopt a pro-innovation stance that recognises how the smart and proportionate deployment of technology may bring opportunities to the workplace, as well as support our own regulatory work. As part of this, we encourage firms and professional bodies to engage with us as part of a collaborative approach to finding solutions to system-wide challenges in the adoption and deployment of these technologies. Our approach to AI takes as a starting point, the 'five principles of AI' adoption developed by the government.

We have established a new Digital Reporting and Taxonomies function to build our knowledge and capability, improve the quality of digital reporting and develop tools to support this reporting ecosystem. In this space we launched a comprehensive discussion paper help shape the future of digital reporting in the UK, ensuring it meets the needs of all users while promoting transparency, comparability, and efficiency in corporate reporting. This workstream involves a cross-regulatory group of Financial Conduct Authority, Companies House, HMRC and the Charity Commission for England and Wales.

We identified a growing trend of increased interest from private equity in overseas advisory and audit markets. We recognise the potential of additive private capital investment to drive innovation and growth in the audit sector, including providing by funding for the deployment of these emerging technologies. There are, however, risks that must be considered. We are clear that audit is not like other service markets; it has a keen public interest dimension with important safeguards around independence and ethics. We will continue engaging with firms and the wider investor community to better understand the opportunities and risks - and be clear of our regulatory expectations.

Priority 5: work with others to support the future skills and resilience of the professions needed for the markets we oversee.

We launched our Scalebox initiative to support smaller audit firms seeking to grow their PIE audit portfolios or to enter the PIE audit market through the provision of best practice and guidance for undertaking PIE audits. While we do not have competition law powers in the same way as other regulators, we will continue to encourage capacity building and invest in the Scalebox initiative for the 2025-28 period as we support choice of, and access to, audit for businesses of all sizes.

We recently signed mutual recognition agreements with both Australia and Switzerland, in addition to the agreement already in place with New Zealand, which will allow a UK-qualified auditor to more easily apply for recognition of their qualification and audit rights in these countries and make it easier for UK audit firms to export services, enhancing the profession's ability to trade across the globe.