

INDEPENDENT REVIEW OF THE FINANCIAL REPORTING COUNCIL (2018)

Terms of Reference

A: Purpose and Timing

The Secretary of State for the Department for Business, Energy, and Industrial Strategy (BEIS) invites Sir John Kingman to conduct a review of the FRC.

The review will aim to submit its findings to the Secretary of State for Business, Energy and Industrial Strategy and the FRC Board by the end of 2018. The review process will include a public consultation. The final report will be published, and the Government will consult on its response to the review's recommendations.

B: Review Objectives

Mindful of the FRC's role in helping to ensure the effective functioning of UK capital markets, and in safeguarding the reputation of the UK as a world-leading financial and commercial hub, the review objectives will be to:

- Put the FRC in a position to stand as a beacon for the best in governance, transparency and independence; strengthening its position and reputation.
- Ensure that its structures, culture and processes; oversight, accountability, and powers; and its impact, resources, and capacity are fit for the future.

C: Scope

The review's scope is taken to include the objectives and context included in these terms of reference, and will include the FRC's governance and transparency; the avoidance of conflicts of interest, as well as its independence, oversight and accountability; and finally its impact, resources and capacity. The detail of the review's scope is set out in annex A.

D: Context

The FRC and its remit have developed considerably since it was initially established; and it was last the subject of a review in 2011/12. Since then, there have been changes both in regulation, and in expectations of regulators and how they operate. The FRC is a public body. Some stakeholder groups have called for the FRC to demonstrate greater independence from those they regulate.

The Government's expectation is to see the UK at the forefront of corporate governance internationally, including in terms of regulation. In the context of the UK's exit from the EU, it is even more important that our regulatory structures are fit for the future. With reforms to the UK's Corporate Governance Code in hand, it is also appropriate to make sure that the governance of the FRC as the body with responsibility for the Code, is best in class.

E: Governance

The review will be led by Sir John Kingman.

The Independent Reviewer will be supported by an Advisory Group that will advise on the direction of the review and sources of evidence and will help to scrutinise and challenge emerging findings and recommendations.

Advisory Group discussions will be held under Chatham House principles to enable free and frank scrutiny of the issues. A summary meeting note will be produced and made available if requested.

F: The Review Secretariat

There will be a small dedicated Review Secretariat acting in support of the Independent Reviewer.

G: Stakeholder Engagement

The Review will undertake engagement with significant stakeholder groups, including those involved in preparing financial accounts, the users of accounts and those affected by other aspects of the FRC's work, including governance and stewardship, in order fully to understand the range of issues, and provide constructive challenge.

ANNEX A

FRC Review - Terms of Reference: Detailed Scope

The Review will consider and make recommendations on the issues set out below.

1. Governance

The review will consider whether current governance arrangements and their transparency are suitable given the FRC's status as a public body; the increasing span of its functions (including in relation to large private companies); and in comparison to the increasing expectations on companies, including those that will flow from anticipated changes to the Corporate Governance Code, and especially so as to promote confidence and emulation.

2. Independence

The review will consider whether the FRC is sufficiently independent:

- Within Government;
- From those whom it regulates; and
- Including as a result of its funding arrangements, or to the extent that independence is insufficient, the review will propose how this might be addressed.

The review will also consider, in particular, whether there are sufficient safeguards in place to ensure and assure that independence. Such measures may include FRC's processes, transparency, culture, or other factors.

3. Avoidance of Conflicts of Interest

In addition to the question of independence, it is important that the FRC is able to carry out its broad range of functions and responsibilities without conflicting, or being seen to conflict with other functions. The review will therefore consider:

- Whether the practices, structure, culture and functioning of the FRCs activities and operations are safeguarded against conflicts of interest, or a perception that there may be conflicts of interest.
- Whether existing mechanisms and practices for the prevention, detection, and resolution of conflicts of interest are adequate, or if additional measures are needed.
- Whether the procurement of legal and consulting services are suitable.

4. Oversight & accountability

Whilst respecting the FRCs operational independence, the review will consider appropriate mechanisms to realise its accountability to Parliament and Government. The review will also consider whether current arrangements for the FRC's accountability to stakeholders and the public are appropriate, including on the specific matter of Freedom of Information.

5. Powers

The review will consider whether the current legal bases for FRC activities are adequate; or whether there is a case for an underpinning statutory architecture. In addition, the review will look ahead to consider whether any extension of powers is necessary, advisable, or otherwise recommended.

6. Impact

As a critical part of the UK's oversight of the economy, it is important that the FRC is seen as a world class regulator able to take effective action to detect and act on breaches, as well as to deter inadequacy and wrong-doing, and incentivise compliance. The review will consider what changes would best enable the FRC to achieve this; and how best the FRC can lead globally on issues of governance.

7. Resources & capacity

It is important that the FRC has sufficient resource, skills, experience, and capacity to deliver its responsibilities. The review will consider this, as well as whether current funding arrangements are adequate and desirable. In so doing, the review will take account of whether there are lessons that could be taken from international comparator bodies.