



Embracing digital change: the new reporting functions for the Financial Reporting Council

19 July 2024.

The Financial Reporting Council (FRC) has announced two new functions, to better understand its existing market intelligence and to deliver on UK growth and competition. However, following the King's speech this week, and with the industry expecting a new, more powerful regulator in the Audit, Reporting and Governance Authority (ARGA) under this new Labour government, are these new functions simply a steppingstone to wider auditing reform?

In a [podcast](#) published on 8 July 2024, the FRC announced the restructuring of its existing financial reporting lab into two new functions. The first of these, the Market Intelligence and Insights function, aims to develop deeper insights to support policy development, monitoring, innovation and growth. It is hoped that, in better understanding its markets and the impact of its work, the FRC will be able to better regulate interventions and build market resilience.

The second function is the digital report and taxonomies team. Although the FRC has required digital reporting for over 10 years, in respect of tax-related information, the new function is designed to shift the focus onto standardized digital reporting. These reports can then be electronically analysed in a more efficient and effective way. One of the key challenges faced by regulators is that they often hold vast amounts of data but have limited resources to interrogate and analyse that data, and this measure will no doubt assist the FRC in meeting this challenge.

The FRC stresses that there is good regulation in place already, which helps the markets to function well. The restructured functions are designed to be tools for the FRC to be a smarter regulator, and to help growth and competitiveness in the UK, which Labour made clear in the King's speech this week, is an absolute priority.

The FRC is also working in collaboration with other regulators in the industry to promote clear and consistent reporting and regulation. The focus is very much on smarter regulation, and not more regulation.

This most recent reform of the FRC appears to be a stepping-stone to creating the long-anticipated new regulator, the Audit Reporting and Governance Authority (ARGA). While the genesis of this new body came under the last Conservative government, in response to public scandals following the collapse of companies such as Carillion, Thomas Cook and BHS, Labour confirmed, in the run up to the recent

election, that they intended to take forward its implementation. The prominence of audit reform in the King's speech further confirms that we are likely to see this new regulatory sooner rather than later.

The new regulator is proposed to have enhanced regulatory and enforcement powers, with, for example, more companies being brought within the definition of 'Public Interest Entity', and therefore subject to enhanced scrutiny. In addition, ARGA will have a remit to increase competition within the audit industry, and to challenge to the dominance of the 'Big Four', for example with managed shared audits, where smaller firms will undertake part of the auditing work alongside an existing auditor. Ultimately, this is intended to promote corporate transparency and competition within the industry, leading to a renewed public confidence.

There is no current timeframe for establishing ARGA, albeit it appears to be a governmental priority, and we will need to wait and see when it is given the necessary parliamentary time. However, with the FRC introducing the two new functions, in addition to numerous other reforms over the last few years, it is clear that changes are already well underway. For an industry that many have considered overdue for reform for some time, this will be a welcome sign.