



Proposals for future arrangements for funding the FRC's activities in relation to accounting, auditing and corporate governance

The ABI's response to the FRC's consultation paper (July 2008)

Introduction

1. The ABI is the voice of the insurance and investment industry. Its members constitute over 90 per cent of the insurance market in the UK and 20 per cent across the EU. They control assets equivalent to a quarter of the UK's capital. They are the risk managers of the UK's economy and society. Through the ABI their voice is heard in Government and in public debate on insurance, savings, and investment matters.
2. The ABI is grateful to the Financial Reporting Council (FRC) for the opportunity to respond to its invitation to comment on its proposals for future arrangements for funding its activities.

ABI comments

3. We agree that, on the demise of its government grant, the FRC needs to expand its fee base to include additional sectors that are subject to its regulatory requirements and that implement its standards or related standards but hitherto have not contributed directly to meeting its costs.
4. We also believe the cessation of government funding has other implications that need to be considered:
 - There should be a review of whether it remains appropriate for the government to continue to appoint the Deputy Chair. Given the new board structure in place since last year, the Deputy Chair could now be selected by a nomination committee composed of the independent directors. The Government's continuing power to appoint the Chairman should be sufficient to protect its interests;
 - As those it supervises will wholly fund the FRC, the board must ensure that it is fully cognisant of the need for the FRC to remain an efficient and effective organisation. The board should do this by carefully scrutinising proposed budgets and ensuring that the FRC delivers value for money in all of its activities.
5. We agree in principle with the FRC's proposals to extend its fee base to large private companies and to public sector organisations. We have two concerns, however, that we expand on further below:

- The proposed basis for levying large private companies does not seem to be appropriate, as it involves an element of double counting. We suggest that the FRC should look at alternative approaches, such as such as extending the levy instead to large private groups or to large private companies that are not subsidiaries of publically traded companies;
- It is not clear why there is to be no funding in relation to the not-for-profit sectors, even though they are affected significantly by the FRC's activities. We note that it may not be appropriate to apply the levy directly, for example to the many small charities. But we suggest that the appropriate alternative may be to levy instead the key users of the accounts, being the regulators and the funders of the not-for-profit sectors.

Large private companies

6. The FRC's definition of large private companies includes the private subsidiaries of publically traded companies (as well as private equity companies and their portfolio companies). So publically traded groups would pay the business levy in two capacities. The holding company would pay the levy based on the market capitalisation of the group, and each of its subsidiaries would pay the levy based on its own turnover.
7. It is not clear that this is the best approach. Existing levy contributors would pay rather more than it may first have appeared, and large private companies that are not subsidiaries of publically traded companies would contribute rather less. Groups with many subsidiaries that have small asset bases and high turnover would pay more relative to those with a few asset-rich subsidiaries with low turnover.
8. We suggest that the FRC should consider alternative approaches, such as extending the levy instead to large private groups or to large private companies that are not subsidiaries of publically traded companies.

Not-for-profit sectors

9. We question the FRC's decision not to extend the levy to not-for-profit sectors, such as charities, housing associations, and higher and further education institutions, as being inappropriate or not cost-effective.
10. The FRC has an important role for these not-for-profit sectors. For example, their accounts are based on the ASB's accounting standards. And not only do regulatory authorities, such as the Charities Commission, rely on these accounts to discharge their responsibilities but so do funding bodies in central and local government, such as the Higher Education Funding Council. Further, the ASB has a significant role in not-for-profit accounting generally; for example, in giving guidance on the application of its Statement of Principles, and in reviewing the relevant SORPS.

11. We suggest that the FRC should look again at whether a levy should be applied to the not-for-profit sectors. We note that it may not be appropriate to apply the levy directly, for example to the many small charities. But we suggest that the appropriate alternative may be to levy instead the key users of the accounts, being the regulators and the funders of the not-for-profit sectors.

ABI
September 2008