

Policy and Planning Manager
Financial Reporting Council
5th Floor, Aldwych House
71-79 Aldwych
London
WC2B 4HN

30 April 2008

Ref:

Direct line: 0207 951 3254

Email: jbabiak@uk.ey.com

By post and e-mail: levy@frc.org.uk

Dear Policy and Planning Manager

FRC levy proposals 2008/09

INTRODUCTION

- 1 Ernst & Young LLP welcomes the opportunity to comment on the FRC's proposed funding arrangements for 2008/09. This follows our earlier response, of 14 March 2008, to the FRC's consultation on its Draft Plan & Budget 2008/09.
- 2 We are supportive of the overall direction outlined in the draft plan and budget and accept that most of the FRC's initiatives, and their associated costs, will extend beyond the 2008/09 budgeted period. We also recognise that the FRC's increased responsibility for standard-setting and regulating the actuarial profession (at the request of HM Treasury) will require additional funding for this and subsequent years: notwithstanding an impending shortfall in overall funds of 33% when the government intends to withdraw its financial support at the end of the 2008/09 financial year.
- 3 On this point we wish to make clear our support for the current tripartite arrangement. Evenly weighted financial contributions (government, profession and preparers), endorses the independence of the FRC at a time when the continued need for integrity and impartiality of regulatory oversight has never been greater. For this reason we hope that future funding proposals will address the need to maintain this multilateral endorsement.

OVERALL OBSERVATIONS

- 4 We note that the 2008/09 budget does not indicate how the FRC might compensate for this shortfall in the subsequent budget, so we have limited our response to the 2008/09 levy accordingly. We look forward to the separate consultation on future FRC funding, which we believe should propose levies from key beneficiaries of the FRC's work including: UK companies (private and listed); overseas companies with UK listings; and investors.
- 5 On this point, we support the FRC's proposal to include levies from UK AIM and PLUS companies in the 2008/09 budget. We regard this as a welcome precedent for future funding. Also, the proposed market capitalisation bands used to determine the amounts



payable by these companies seem acceptable us, especially as they are aligned to those implemented by the FSA for its UKLA fees.

- 6 However, the proposed discount of 50% on levies from companies incorporated overseas appears too arbitrary, and we encourage the FRC to clarify further its reasoning for this arrangement. In our view the FRC contributes significantly to the strong reputation of the UK's capital markets, and all companies listed here (UK and overseas) benefit from this. Therefore, greater parity of financial contribution between these categories of company seems equitable, especially if there is a commensurate rise in the overall levy to offset the impending government shortfall.

RESPONSE TO SPECIFIC QUESTIONS

We have answered the two questions as follows:

Do you agree with our proposed levy rates for 2008/09?


Yes, on balance we agree with the proposed levy rates for 2008/09. However, we encourage the FRC to monitor and review, on an ongoing basis, the number and relative size of companies that fall into the various market capitalisation bands, and alter the minimum and maximum levies to compensate for significant changes in the profile of these categories.

Do you agree with our proposed insurance and pension levy rates for 2008/09?

Yes, we agree with the proposed rates. However, as neither rate will be finalised until the summer, because of dependencies on the Pensions Regulator and FSA, this represents an agreement in principle.

We hope our response is helpful and look forward to reading other replies to this consultation. We encourage the FRC to publish this and other responses on a timely basis. If the FRC would like further clarification on the points raised by Ernst & Young, please contact me.

Yours sincerely

pp 

Jan Babiak
Managing Partner
Regulatory & Public Policy
Northern Europe, Middle East, India and Africa