



FINANCIAL REPORTING COUNCIL (FRC) - BUSINESS LEVY 2008/09

UK COMPANIES TRADED ON AIM AND PLUS MARKETS - COLLECTED BY MOUCHEL BUSINESS SERVICES

FACT SHEET

What is the FRC?

The FRC is the UK's independent regulator for corporate reporting and governance.

We operate with the support of the Government and other stakeholders, with statutory powers, to promote confidence in corporate reporting and governance in the UK.

Why have I received an invoice from the FRC?

The FRC collects an annual business levy as part of the arrangements for funding our regulatory responsibilities. For 2008/09 and future years the business levy will be extended to UK companies traded on AIM and PLUS Markets.

Since the FRC was formed in 1990, the levy has applied to companies with a listing on the LSE's Main Market. Until now, the levy has not extended to UK companies traded on AIM and PLUS Markets, even though these companies and their auditors are also subject to the accounting and auditing standards which the FRC sets, monitors and enforces.

We carried out a public consultation in March 2007 with a view to including UK AIM and PLUS Markets companies in the business levy. The response was largely positive and in May 2007 we announced our decision to bring these companies within the scope of the business levy for 2008/09 and future years.

It was also announced that UK AIM and PLUS Markets companies would be accorded a discount of 50% on the minimum levy and market capitalisation-based rates we apply to London Stock Exchange's Main Market companies. This discount is in recognition that a small element of our activities does not apply to UK AIM and PLUS Markets companies (eg our work on the Combined Code on Corporate Governance and the implementation of the requirements of the EU Statutory Audit Directive relating to the registration and inspection of overseas auditors).



What exactly is the role of the FRC in relation to UK AIM and PLUS Markets companies?

Our standard-setting, monitoring and enforcement functions are principally carried out through our Operating Bodies. Five of our six Operating Bodies carry out responsibilities in relation to accounting and auditing which cover UK AIM and PLUS Markets companies and their advisors:

- **The Accounting Standards Board** issues the accounting standards which apply to UK AIM and PLUS Markets companies. With the move to International Financial Reporting Standards (IFRS), the Board is influencing the International Accounting Standards Board (IASB) to ensure that the standards it sets are principles-based and cost-effective.
- **The Financial Reporting Review Panel** reviews company accounts for compliance with the law and accounting standards. The Panel reviews the annual accounts of some 300 companies a year. It is the role of the Panel to enquire into cases where, in the words of the Companies Act, 'it appears to the Panel that there is, or may be, a question whether accounts comply with the requirements of this Act'.
- **The Auditing Practices Board** issues standards and guidance for auditing, for the work of reporting accountants in connection with investment circulars, and for auditors' integrity, objectivity and independence. It is also active in influencing the International Auditing and Assurance Standards Board in setting International Standards on Auditing.
- **The Professional Oversight Board** provides statutory oversight of the regulation of the UK auditing profession by the recognised supervisory and qualifying bodies. Through the Audit Inspection Unit, it monitors the quality of the auditing function in relation to economically significant entities, including publicly traded companies. It also provides independent oversight of the regulation of accountants by their professional bodies.
- **The Accountancy and Actuarial Discipline Board** is the independent investigative and disciplinary body for accountants and actuaries in the UK. It is responsible for operating and administering independent disciplinary schemes for public interest cases involving members of the accountancy profession.

Our role in defining good practice in corporate governance through the Combined Code is formally addressed to UK companies with a primary listing in the UK, but we are aware that a number of other companies adopt the Code as a part of their commitment to good governance.

What value do I get from the FRC's responsibilities?



Our overall aim is to promote confidence in corporate reporting and governance in the UK.

In pursuit of this aim, we seek the following outcomes in relation to accounting and auditing in particular:

- Corporate reports contain information which is relevant, reliable, understandable and comparable, and are useful for decision-making, including stewardship decisions.
- Users of audit reports can place a high degree of reliance on the audit opinion, including whether financial statements show a true and fair view.
- Clients and employers of professionally qualified accountants and actuaries and of accountancy and actuarial firms can rely on them to act with integrity and competence, having regard to the public interest.

We believe that our work provides significant benefits for UK companies, including those traded on AIM and PLUS Markets, in terms of the widespread confidence in the accounting and auditing requirements which they are required to meet.

Confidence in corporate reporting and governance is a fundamental prerequisite for the effective functioning of the economy and financial markets. The FRC's aim is to strengthen that confidence by promoting high-quality corporate reporting, auditing, actuarial practice and corporate governance, and by promoting the integrity, competence and transparency of the accountancy and actuarial professions.

We are committed to the Better Regulation Commission principles of proportionality, targeting, consistency, transparency and accountability. We are clear that no system of regulation can eliminate the possibility of corporate reporting or governance failures; any attempt to achieve zero failure would destroy wealth rather than facilitate its creation.

How has the FRC business levy been calculated?

Our detailed funding arrangements for 2008/09 are set out in our document "FRC 2008/09 Levies", which is available on our website at: www.frc.org.uk/about/funding.cfm.

The business levy is one of three sources of funding for the FRC's core operating costs for our responsibilities for accounting, auditing and corporate governance for 2008/09, the other two being the accountancy profession and the Government.

The amount to be raised by the business levy in 2008/09 will be £4.7m. The 2008/09 levy rates for individual companies will comprise a minimum levy of £915 (£457 for UK AIM and PLUS Markets companies) and further amounts



payable by companies above a certain market capitalisation, with the rate per £m of market capitalisation declining in five levy size bands. The minimum levy and the rates for larger companies will be calculated based on the number of listed or quoted companies and their market capitalisations as at 30 November in the year preceding the year to which the levy relates (ie the levy for 2008/09 will be based on data as at 30 November 2007). For companies which joined the market after November 2007, their latest market capitalisation figures would be used as basis for calculating the levy.

What is the FRC's authority for collecting the levy?

We intend to continue to operate our funding arrangements based on the widespread support of the business, investor and professional communities for our work. These non-statutory arrangements have worked successfully and flexibly since 1990.

There are reserve powers in the Companies Acts for the Department for Business, Enterprise and Regulatory Reform (BERR) to make our levy a statutory charge. We have not asked BERR to invoke those powers.

What should I do if I have any further questions?

If you have a question about the method of payment please contact the Levy Collection Team in Mouchel Business Services, who are administering the collection of the levy on our behalf, on 01522 836860 or e-mail frc@mouchel-lincoln.com.

If you have a query about the calculation of the levy for your company, please e-mail the FRC Finance Officer, Tulse Rughoobur on t.rughoobur@frc.org.uk (telephone 020 7492 2338).

If you have a question about any other matter in relation to the levy, please e-mail the FRC Policy and Planning Manager, David Andrews, on plan@frc.org.uk (telephone: 020 7492 2382).