



Financial Reporting Council

ARGA Funding Consultation Feedback Statement

**Financial Reporting Council
Feedback Statement**

December 2022

Introduction

The Audit, Reporting and Governance Authority (ARGA) will play a leading role within the UK framework for corporate governance, corporate reporting, auditing, accountancy and actuarial work.

The Government intends to give ARGA statutory powers to raise a levy so that it has a sustainable and independent basis to carry out its regulatory activities and asked the FRC to consult on how these powers should be applied.

In July 2022 we published our consultation document 'Funding the Audit, Reporting and Governance Authority', asking for comments from our stakeholders by October 2022. We sought views on three issues: the overall approach to ARGA's funding; the principles of a proposed funding model; and the groups that should fund each of ARGA's expected regulatory activities.

This Feedback Statement summarises stakeholders' views on the proposed funding arrangements, sets out our responses, and notes those issues on which there will be further consultation.

Feedback received and our response

There was general support for our overall approach from those organisations and entities within the proposed funding framework, though qualified by the need further to consider the detailed rules that will be applied. In total, 26 responses were received. They are listed at Annex A.

Further progress in developing the statutory funding arrangements for ARGA is subject to Government decisions on the shape and timing of the necessary legislation. Subject to those decisions, our response is as set out in this Feedback Statement.

The FRC has noted in particular:

- The strong emphasis that respondents placed on transparency and accountability as key elements of ARGA's future budgeting and funding arrangements.
- Although there was broad support for the proposal to align ARGA's budget, annual funding requirement and levies with the costs allocated to its principal regulatory activities, respondents want more detail on the likely impact of the proposals in terms of the levy amounts; and they wish to be consulted further on the detail of the proposals.
- The importance of a proportionate approach to the levies - in particular, those imposed on smaller entities that fall within the scope of ARGA's funding arrangements - and a concern that ARGA should not impose in-year general levies other than in exceptional circumstances.

The FRC accepts these points. We will work with Government and stakeholders to develop the proposed ARGA Funding Rule Book, taking account of respondents' views and consulting further on the rules and their application to specific funding groups.

Guiding principles

Proposal

We proposed that ARGA's funding arrangements should be based on three core principles. The arrangements should be:

- *Fair*, funded by market participants, that is persons or bodies to which ARGA's activities directly relate or which otherwise benefit from those activities.
- *Transparent*, with information made publicly available on the costs and activities being funded by levy payers, and the basis for the apportionment model.
- *Proportionate*, to avoid any significant adverse impact on growth and competition, the levy contributions should consider factors such as the size and type of body being levied.

Feedback received

Stakeholders generally supported the proposed core principles. However, several respondents questioned whether they were sufficient, and suggested that accountability was equally important. In setting the annual budget and funding requirement ARGA should justify the resources that are sought as well as the allocation of the levies to the funding groups.

Some respondents commented that they would look for a reasonable level of detail from ARGA when it invoiced them: to ensure transparency, the invoices should explain the basis for the levies in terms relevant to each funding group.

Response

The FRC confirms that ARGA's expenditure and funding arrangements will operate in line with the Government's Managing Public Money principles and have regard to the Regulators' Code. ARGA will be subject to oversight as public body and partner body of the Department of Business, Energy and Industrial Strategy (BEIS).

The FRC notes that ARGA's funding arrangements will be developed in line with the FRC's four 'faces' regulatory approach:



ARGA's annual plan, budget and funding requirement

Proposal

The FRC proposed that:

- ARGA should publish each year, following public consultation, a business plan and budget explaining the basis on which it will set its funding requirement and levies. The plan and budget, which will determine the resources sought from stakeholders through the statutory funding arrangements, will be reviewed and approved by Secretary of State.
- The business plan should be based on a published three-year strategy and include an annual work programme and key indicators. ARGA should report on the delivery of its regulatory objectives in its Annual Report.
- In setting the budget and funding requirement for each enforcement scheme, and hence determining the annual levies to fund each scheme, ARGA should take into account the average annual costs of cases and case costs recovered. As for other elements of ARGA funding, the funding requirement for each scheme should be based on the annual budget adjusted for over or under-spends for the previous year.

The FRC also proposed that there should be provision for top-up levies in the event of underbudgeted and unexpected costs.

Feedback received

Although there was general support for the proposal to align ARGA's annual levies with the costs allocated to its principal regulatory activities, respondents sought more detail on the likely impact of the proposals in terms of the levy amounts. Some respondents were concerned that the proposed annual funding cycle would not provide stakeholders with any certainty over future regulatory costs at the time of their own budget and planning processes. They suggested that ARGA consider ways of notifying stakeholders of anticipated funding expectations at an earlier opportunity.

Some respondents argued for a contribution from Government. Some respondents proposed that the professional bodies should retain fines imposed following enforcement cases.

There was particular concern over the potential impact of additional in-year levies.

Response

The FRC confirms that ARGA's annual funding requirement should be based on the budget that is set for its regulatory responsibilities, defined as 'activity blocks', and allocated to the prescribed groups of market participants ('funding groups') responsible for funding each activity block. Overheads and corporate costs should be allocated proportionately. As well as the annual plan and budget published for consultation, publishing a three-year strategy should give levy payers an

indication of likely future costs, though these will ultimately reflect ARGA's judgement on the public interest in delivering its responsibilities and hence its budget.

The FRC confirms that fines will be returned to Government in line with the procedure already in place for the Audit Enforcement Procedure. The FRC does not accept the arguments for fines being returned to the professional bodies.

The FRC notes the concerns over the proposed power to impose in-year levies. It is not the intention that this should be a standard practice; it should only be used in exceptional circumstances and the power should be defined accordingly.

Setting ARGA's annual levies

Proposal

The FRC proposed that the procedures and processes that will govern the annual levies should be set out in the following key documents.

- ARGA Funding Principles. These will set out the policies underpinning ARGA's levies. There will be provision for future scope changes - including arrangements for introducing additional levies to fund regulatory activities phased in following the establishment of ARGA.
- ARGA Funding Rule Book. This will set out the basis on which levies are calculated and collected. It will be broadly unchanged from year to year in its structure but will be updated annually for (a) the levy rates that will apply in the reference year, and (b) specific changes in the application of the rules that have been subject to announcement and consultation.
- Annual Levy Consultation Document. This will explain the proposed levy rates in the context of ARGA's annual Plan & Budget.
- Annual Levy Feedback Statement. This will confirm the levy rates that will be applied and any changes to the ARGA Funding Rule book.

The documents should be prepared in accordance with Managing Public Money and should be published on ARGA's website. In addition, it is expected that ARGA will be issued a remit letter by the Government.

Feedback received

There was a general view among respondents that they should be further consulted on the detailed implementation of the proposed levies to ensure that they are fair and proportionate. Respondents asked to be consulted on the ARGA Funding Rule Book.

Response

The FRC confirms that the ARGA levies will be applied primarily based on the size of the entities in each funding group and the extent to which ARGA regulation applies to them: representing the fairest, and most proportionate and consistent approach. The arrangements for funding

enforcement cases will require entities found to have fallen short in meeting required standards to cover the costs of action against them.

Taking account of the comments received, the FRC will further consider how the statutory levies can be applied fairly and proportionately to entities within each funding group.

The sections of this document relating to ARGAs' main areas of responsibility indicate the specific issues on which there will be further consultation. The FRC will consult further on the metrics to be applied to determine the contributions from the professional bodies, individual entities, and the proposed actuarial funding groups.

ARGA funding groups

Proposal

In line with the Government's intentions, the FRC proposed that ARGAs' work should be funded by those market participants to which ARGAs' activities directly relate or who directly benefit from those activities.

Subject to the legislation that Government puts in place, the FRC proposed that the funding groups should include those groups that:

- are supervised, monitored or inspected, held to account or otherwise directly regulated by ARGAs;
- are subject to standards or codes which are set by ARGAs (though we do not propose to levy micro-entities that apply reporting standards set by ARGAs);
- apply standards, codes, guidance or other regulatory requirements set or endorsed by ARGAs; or
- can be identified as directly benefitting from ARGAs' regulatory activities, including its work to influence international standards and promote innovative solutions to corporate governance, reporting, auditing, investor stewardship and actuarial issues.

Feedback received

There was broad support for the proposal that those groups subject or directly benefitting from ARGAs' regulation, including institutional investors, should contribute to its costs through the statutory levies. Respondents noted the importance of avoiding disproportionate levies on smaller entities. Some respondents argued for preparers to fund audit regulation.

There was broad support for the proposal to establish an investor funding group.

Response

In proposing the detailed scope of the statutory levies, the FRC will have regard to the public interest in high standards of audit, reporting and governance and how best fairly to allocate ARGAs' costs to market participants. The FRC will consult further with stakeholders on the levies that might

apply to smaller entities but will not amend the proposal that the costs of audit regulation should be met by audit firms with public interest entity (PIE) clients and the audit professional bodies.

The FRC confirms that the following groups of market participants should contribute the major share of ARGA's funding:

- The auditors of Public Interest Entities (PIEs) should fund audit regulation, including standard-setting, supervision and enforcement.
- The recognised supervisory bodies (RSBs) should also contribute to costs of setting auditing standards, and, together with the recognised qualifying bodies (RQBs), should meet the costs of overseeing their regulatory functions.
- The accountancy professional bodies should meet the costs of overseeing the performance of their regulatory roles.
- Listed companies, large private companies and other entities falling within the definition of PIEs should fund the costs of regulating corporate reporting, including reporting and audit standard-setting, monitoring, and enforcement against directors.
- Listed companies should fund ARGA's work in relation to corporate governance and audit committees.
- Investment managers and insurance companies authorised and regulated by the FCA, and pension schemes, should contribute to the costs of ARGA's work on investor stewardship.
- The actuarial professional body or bodies and the main intended beneficiaries - insurers, large pension schemes and large funeral plans – should meet the costs of ARGA's work on actuarial regulation.

The following sections confirm the proposals for each main regulatory activity, subject to legislation and further consultation on the detailed implementation of the proposed levies.

Audit regulation

Proposal

Following the approach set out by Government in its White Paper, we proposed that ARGA should fund audit regulation through an annual levy on the audit firms with PIE clients and an annual levy on the audit professional bodies.

Feedback received

There was broad support for the proposed arrangements. Some respondents noted the need to avoid disproportionate levies on smaller audit firms with PIE clients. Some respondents asked for further consideration of the proposal to divide the cost of audit standard-setting between the firms and the professional bodies on the grounds that this would potentially mean charging the firms both directly and through their contributions to the bodies.

The audit professional bodies noted the current arrangements between the FRC and the Consultative Committee of the Accountancy Bodies and asked to be consulted further on the metrics for setting the annual levies on the individual bodies.

One respondent noted that our proposed activity blocks do not make specific reference to the work of the regulator in maintaining the Audit Firm Governance Code (AFGC).

Some respondents proposed that listed companies rather than audit firms should fund audit regulation.

FRC response

The FRC confirms its proposal that audit firms with PIE clients should fund standard-setting, supervision and enforcement. This should include work in relation to the AFGC.

The FRC expects that audit firms in scope should pay an annual levy based on their fee income from PIE audits, proportionate to the scale of their activity. The recognised supervisory bodies (RSBs) together with the recognised qualifying bodies (RQBs) should meet the costs of overseeing their regulatory functions.

The FRC will consult further on how audit standard setting should be funded, to address respondents' concerns on this point, and on how the levies should be applied to audit firms with PIE clients and the audit professional bodies.

Accountancy oversight

Proposal

The FRC proposes that the regulation of accountants and their professional bodies should be funded through annual levies on the professional bodies within the scope of the oversight arrangements and the enforcement regime.

Feedback received

Respondents emphasised in particular the need to set metrics for determining the annual levy that take account of the potential impact on the smaller professional bodies.

FRC response

The FRC confirms that the accountancy professional bodies in scope will be required to contribute to the costs of the oversight and enforcement regimes.

We will consult further on how membership in terms of numbers of firms and individuals and the importance of ARGAs regulation for each body should be taken into account in setting the annual levy.

Corporate reporting

Proposal

The FRC proposed that listed and large private companies and other PIEs in scope should fund ARGAs work in relation to corporate reporting through an annual levy on defined categories of accounts preparers (the preparers levy).

In line with the Government's tiered approach to corporate reporting requirements, the funding requirement for each category, and the levy charged, will be set on the basis of ARGAs activities in relation to that category.

ARGAs preparers levy should cover listed companies (whose contributions to the FRC are collected at present by the FCA alongside the annual listing fees based on the tariff data submitted to the FCA), large private companies, and other entities falling within the definition of PIEs.

We did not propose to continue the current FRC arrangements under which all AIM and public sector bodies are charged a preparers levy: the levy will only be collected from these entities if they fall within the definition of PIEs.

In general, the categories of accounts preparers should be asked to contribute in proportion to the importance of each activity for each category of preparer and the size of the preparer.

We did not propose to seek a contribution from all entities preparing accounts within the requirements of UK company law.

Feedback received

In general, respondents supported this proposal, subject to proportionate arrangements for levying smaller entities in scope.

FRC response

The FRC will consult further on the arrangements for the preparers levy, taking account of the FCA's listing arrangements following the Primary Markets Effectiveness Review.

For large private companies, and any other entity falling with the PIE definition (including LLPs) we will consult further on whether we should calculate the annual levy on the basis of turnover disclosed in the company's previous years accounts (as at present), use an alternative measure of size, or set a fixed annual fee.

The FRC will take into account the arrangements agreed with Government for ARGAs role in securing funding for the UK Endorsement Board and the UK contribution to international standard-setting bodies.

Corporate governance

Proposal

The FRC proposes that ARGA's work on corporate governance should be funded by, respectively, listed companies within the scope of the UK Corporate Governance Code, and those entities that fall within the governance principles for large private companies. This work will include ARGA's role in reviewing relevant aspects of companies' annual reports and accounts.

Feedback received

Respondents supported this proposal.

FRC response

The FRC confirms the proposal. The annual contribution to the costs of ARGA's work on corporate governance will be collected through the annual preparers levy on those entities

Investor stewardship

Proposal

The FRC proposed that ARGA's work on investor stewardship should be funded through levies on FCA-authorized asset owners and managers, insurance companies and large pension schemes.

Feedback received

Respondents, including investor groups, supported this proposal, though asked to be consulted further on how the levy should be applied.

FRC response

The FRC confirms the proposal.

We will consult further on the levy to be applied to FCA-authorized asset owners and managers to determine whether this should be based on assets owned or under management or through an annual fixed fee.

Actuarial regulation

Proposal

The actuarial professional body/bodies should fund the costs of overseeing their activities which are in scope and should contribute proportionately to ARGA's central costs.

The remaining, larger, element of ARGA's actuarial budget should cover standard setting, monitoring and enforcement, and should be met by insurers, pension schemes and large funeral plan trusts through annual levies proportionate to their size.

Feedback received

Respondents expressed concern about the potential impact of the proposals if appropriate metrics are not identified.

The professional body asked to be consulted further on the levy to be applied.

FRC response

The FRC confirms this proposal, but subject to further consultation on the metrics to be applied and the appropriate arrangements for setting the annual contribution from the professional body.

Equality and diversity considerations

We did not consider that the proposals on which we consulted would adversely affect any of the groups with protected characteristics. Respondents did not raise equality and diversity issues, but we will keep these issues under review as we further develop our plans for ARGA's funding arrangements.

Annexure - List of respondents

- Aon
- Association of Certified Chartered Accountants
- Association of International Accountants
- Association of Investment Companies
- BDO
- Building Societies Association
- Chartered Accountants Ireland
- Chartered Institute of Management Accountants
- Chartered Institute of Public Finance and Accountancy
- Consultative Committee of Accountancy Bodies
- Deloitte
- EY
- Institute and Faculty of Actuaries
- Institute of Chartered Accountants in England and Wales
- Institute of Financial Accountants
- Institute of Chartered Accountants Scotland
- Institute of Family Businesses
- Isio
- KPMG
- Local Authority Pension Fund Forum
- Martyn E Jones
- Mazars
- Professor Krish Bhaskar
- PWC
- Quoted Companies Alliance
- The Investment Association



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