



# **FINANCIAL REPORTING COUNCIL**

## **2008/09 LEVIES**

**MAY 2008**



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## **One – Introduction and executive summary**

The FRC is the UK's independent regulator responsible for promoting confidence in corporate reporting and governance.

In February 2008 we issued a consultation paper setting out proposals for our 2008/09 levies.

This paper summarises the feedback we have received on the proposals in our consultation paper and sets out for 2008/09:

- Our business levy in relation to our responsibilities for accounting, auditing and corporate governance.
- Our levies on insurance companies and pension schemes in relation to our responsibilities for actuarial standards and regulation.

The paper explains that:

- Our business levy rates will be lower than we proposed.
- Our insurance levy rate will be the rate we proposed.
- Our pension levy rate will be lower than that we proposed.

The paper notes that we have extended the scope of our levy to include UK companies traded on AIM and PLUS Markets, which are within the scope of most of our regulatory responsibilities but which do not currently contribute to our costs. We announced our decision to extend the business levy to these companies, following consultation, in May 2007.

The eight individual responses to the consultation paper which we received are listed at Annex A. They are published on our website at: [www.frc.org.uk/about/funding.cfm](http://www.frc.org.uk/about/funding.cfm).

## Two - Business levy

The total amount of our business levy for 2008/09 will be as follows:

	<b>£m</b>
The business community's share of our core operating costs for 2008/09 less higher than expected collections in 2007/08	4.2 (0.2)
<b>FRC funding requirement</b>	<u>4.0</u>
plus the UK contribution to the funding of the IASB*	0.7
<b>Total business levy</b>	<u><b>4.7</b></u>

\*International Accounting Standards Board

This is £0.1m less than the requirement set out in our February consultation paper.

The feedback on our consultation and our final decisions are set out below.

### **Consultation Question 1 - Do you agree with our proposed business levy rates for 2008/09?**

#### *Our initial proposal*

In our February consultation paper we estimated that we would need to increase our business levy rates by 10% to raise the amount we required.

#### *Feedback received*

Three respondents agreed with our proposed business levy rates.

One respondent commented that it was inappropriate for the FRC to increase the levy by 10%, that an inflationary increase, at most, would be justified, and that in calculating our funding requirement we should not take account of any reduction in the Government contribution below its one third share.

One respondent expressed concerns about the level, scope and apportionment of the business levy but did not give details of those concerns.

Two respondents supported the inclusion of AIM and PLUS Markets companies within the scope of the business levy.

One respondent suggested that the 50% discount proposed for AIM and PLUS markets companies needed more detailed justification.

One respondent asked for clarification of the basis for the 50% discount for (Main Market) overseas companies.

Two respondents supported the market capitalisation bands used to calculate the business levy. One respondent commented that it would be helpful for the FRC to show the amounts raised through the application of, respectively, the minimum levy and the market capitalisation based-rates; the same respondent suggested that we might explore alternatives to market capitalisation as the basis for the business levy.

#### *FRC response*

Our response to the feedback we received is as follows:

- We believe that we can secure the amount we require by increasing levy rates by 9% compared with the rates we applied in 2007/08 rather than by 10% as proposed in our February consultation paper. This is because our funding requirement is £0.1m lower than that set out in February proposals. We do not now intend to include an additional £0.1m in the funding requirement as a contribution to the FRC's reserves.
- The increase in business levy rates will be in line with the increase in our core operating costs in relation to accounting, auditing and corporate governance set out in our Plan & Budget 2008/09.
- We will be implementing in 2008/09 the change which we announced, following consultation, in May 2007; for first time UK AIM and PLUS Markets Group (PMG) companies will come within the scope of the business levy. Extending the business levy to a wider range of publicly traded companies will spread our costs more fairly and hence help us to maintain lower levy rates than would otherwise apply.
- We will apply discounted rates to overseas companies listed on the London Stock Exchange (LSE)'s Main Market and UK AIM and PLUS Markets companies to reflect the fact that a smaller proportion of our activities applies to these companies. We believe that a 50% discount is fair but we will keep this under review in future years.
- We do not propose to publish a detailed breakdown of levy receipts, as this would vary from year to year.
- We propose to continue to base our levy on the market capitalisation bands, which are in line with those set by the FSA because this is straightforward and cost-effective.

### *Final rates*

The minimum rate will increase to £915 (2007/08: £840) for UK Main Market companies and £457 for other companies (2007/08: £420). This is an increase of 9% compared with the rates applied in 2007/08.

The key features of the levy will remain unchanged from 2007/08:

- a minimum levy
- 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 amounts payable by companies of any given size will be determined by:

- the amount of the minimum levy
- the size limit for companies to which only the minimum levy applies
- the speed at which the rates payable by larger companies decline.

In order to raise the amount we require, we will apply the following rates per £m of market capitalisation:

<b>Band</b>	<b>Market capitalisation</b>	<b>Levy rate per £m of market capitalisation</b>
1	Minimum fee	915.00
2	100m - 250m	6.00
3	250m - 1000m	4.58
4	1000m - 5000m	3.27
5	5000m - 25000m	0.0545
6	>25000m	0.0109

The following example illustrates the way in which the 2008/09 levy will be calculated for a UK Main Market company with a market capitalisation of £350m at 30 November 2007:

<b>UK LSE Main Market company with market capitalisation of £350m</b>	
<b>Financial Year</b>	<b>2008/09 £</b>
Up to 100m	915
100m - 250m	900
250m - 1000m	458
<b>Total</b>	<b>2,273</b>

The following example illustrates the way in which the 2008/09 levy will be calculated for an AIM or PLUS Markets company with a market capitalisation of £120m at 30 November 2007:

<b>UK AIM or PLUS Markets company with market capitalisation of £120m</b>	
<b>Financial Year</b>	<b>2008/09 £</b>
Up to 100m	457
100m - 250m	60
<b>Total</b>	<b>517</b>

### Three - Levies on insurance companies and pension schemes

Our total funding requirement in relation to our responsibilities for actuarial standards and regulation in 2008/09 is as follows:

	<b>£m</b>
Actuarial operating costs	2.2
Actuarial disciplinary case costs fund	0.2
	—
<b>Total</b>	<b><u>2.4</u></b>

The consultation paper explained that it was our intention to raise this amount through:

- a contribution from the Actuarial Profession equivalent to 10% of the total costs
- a levy equivalent to 45% of total costs on insurance companies in FSA fee-blocks A3 and A4
- a levy equivalent to 45% of total costs on those pension schemes with 1,000 or more members which are subject to the Pensions Regulator's general levy.

The feedback on our consultation, our response and the rates we will apply are as follows.

#### **Consultation Question 2 - Do you agree with the proposed funding arrangements in relation to actuarial standards and regulation?**

##### **Insurance levy rate**

###### *Our initial proposal*

In our February consultation paper we proposed to maintain for 2008/09 the rate implemented in 2007/08 - 1.7% of the FRC periodic fees for insurance companies.

###### *Feedback received*

Two respondents supported in principle the proposed rate.

Three respondents commented on the relationship between the insurance and pension levies. Some work-based personal pension schemes are subject to both the FSA and Pension Regulator's regulatory fees and hence contribute to both the FRC insurance and pension levies. One respondent suggested that the relevant schemes should only be charged for the higher of the two amounts.

### *Final rate*

We propose to implement the levy rate set out in the February consultation paper.

We acknowledge the issue which respondents have raised about the relationship between the insurance and pension levies but we remain of the view that basing our insurance levy on the population of insurance companies subject to the FSA fees and our pension levy on the population of pension schemes subject to the Pensions Regulator's general levy remains the most straightforward basis for our levies. Moving away from the present arrangement would not have the effect of reducing the overall amount charged to the larger schemes within the overall population and could increase our collection costs. We will, however, keep this matter under review.

### **Pension levy rate**

#### *Our initial proposal*

The consultation paper proposed a levy of £3.00 per 100 members on pension schemes with 1,000 or more members compared to £2.20 per 100 members in 2007/08. The FRC introduced the pension levy in 2006/07 and now has two years experience of operating the levy. The population of schemes subject to the Pensions Regulator's general levy is smaller than we had assumed when we set the rates for 2006/07 and 2007/08. This is the principal reason for the increase in the levy rate for 2008/09.

#### *Feedback received*

One respondent supported the proposed levy rate; no other respondents commented on the rate.

### *Final rate*

We have updated our assumptions since our proposals were published in February. We believe that we will be able to secure the amount we require by applying a slightly lower rate than that originally proposed.

A levy of £2.90 per 100 members will apply to pension schemes with 1,000 or more members which are subject to the Pensions Regulator's general levy, using the latest information on scheme membership provided to the Pensions Regulator in its scheme returns.

If there are any outstanding amounts from the 2007/08 pension levy we will recover those amounts during 2008/09.

## **Annex A – List of consultation responses**

The following organisations responded to the invitation to comment:

- Association of British Insurers
- Ernst & Young
- Friends Provident Life and Pensions Limited
- Grant Thornton
- Hundred Group of Finance Directors
- London Stock Exchange
- Norwich Union
- Quoted Companies Alliance

The individual responses are available on the FRC website at: [www.frc.org.uk/about/funding.cfm](http://www.frc.org.uk/about/funding.cfm)

## **Annex B - Contact Details**

Enquiries about the 2008/09 Levies should be sent to:

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For general information about the work of the FRC, please see our website at: [www.frc.org.uk](http://www.frc.org.uk)

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