



FINANCIAL REPORTING COUNCIL

2007/08 LEVIES

MAY 2007



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One - Introduction

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

In March 2007, we issued a consultation paper setting out our proposals for our 2007/08 levies.

This document summarises the responses to the proposals in the consultation paper and sets out for 2007/08:

- 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.

It notes that for 2008/09 and future years we will extend 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.

The 5 responses to the consultation paper are listed at Annex A. They included:

- Three trade associations
- One recognised investment exchange
- One insurance company.

Two - Business levy

The total amount of our business levy for 2007/08 will be that set out in the March consultation paper:

	£m
The business community's share of our core operating costs for 2007/08	3.6
less higher than expected collections in 2006/07	(0.2)
plus higher than expected costs in 2006/07	0.1
FRC funding requirement	<hr/> 3.5
plus the UK contribution to the funding of the IASB*	0.7
Total business levy	<hr/> <hr/> 4.2

* *International Accounting Standards Board*

Our proposals for raising this amount were set out in Consultation Questions 1 to 3 of the consultation paper. The feedback on these questions and our final decisions are set out below.

Consultation Question 1 – Is it appropriate for the FRC to raise the UK contribution to the proposed new funding arrangement for the IASB by adding it to business levy?

Feedback

No respondent opposed this proposal.

One respondent expressed appreciation that this would be a fairer approach, but expressed concern about the additional costs being imposed on smaller companies.

Two respondents expressed support for this proposal.

One respondent expressed support in principle for an FRC contribution to the funding of the European Financial Reporting Advisory Group (EFRAG). We have noted this comment, although the issue of funding for EFRAG was not an issue raised in the consultation paper.

FRC decision

We will implement the proposal, noting the points that have been made. We believe that the increase in the levy is not significant, even to small companies, in the context of the overall costs of listing.

Consultation Question 2 – Do you agree with our proposal that the business levy should be extended to non-EEA overseas companies with a secondary listing of ordinary shares on the London Stock Exchange’s Main Market?

Feedback

No respondent opposed this proposal.

One respondent expressed concern about the additional costs being imposed and emphasised the importance of effective communication with the companies subject to the levy for the first time.

Two respondents expressed support for this proposal.

FRC decision

We will implement the proposal, noting the importance of maintaining our commitment to cost-effective regulation and effective communication with our stakeholders, including the companies contributing to the business levy.

Consultation Question 3 – Do you agree our proposed levy rates for 2007/08?

Feedback

No respondent opposed the proposed levy rates.

One respondent expressed support for the proposed rates.

FRC response

The key features of the levy will remain unchanged from 2006/07:

- 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 rates per £m of market capitalisation proposed in the consultation paper, which are as follows:

Band	Market capitalisation (£m)	Levy per £m of market capitalisation 2007/08 (£)*
1	Up to 100	Min levy £840
2	100-250	5.50
3	250-1,000	4.20
4	1,000-5,000	3.00
5	5,000-25,000	0.05
6	>25,000	0.01

** overseas companies will receive a discount of 50%*

The following example illustrates the way in which the 2007/08 levy will be calculated for a UK Main Market company with a value of £350m:

Market capitalisation band (£m)	Levy payable at 2007/2008 rates (£)
Up to 100	840
100-250	825
250-1,000	420
	Total 2,085

The inclusion of AIM and PLUS Markets companies from 2008/09

Consultation Question 4 - Do you agree that it is right in principle that our business levy should be extended to companies traded on AIM and PLUS Markets? Are there differences between AIM and PLUS Markets which are relevant to the applicability of the FRC levy?

Feedback

No respondent opposed this proposal.

One respondent noted that they would like to comment in due course on the detailed arrangements for the implementation of this proposal. That respondent also expressed the view that the differences between AIM and PLUS Markets companies are not relevant for the purposes of the FRC business levy.

Two respondents expressed support for this proposal.

FRC decision

We will implement this proposal from 2008/09. The scope of our business levy will be extended 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 will give further consideration as to how this can be collected in the most cost-effective way before we consult on our levy proposals for 2008/09.

Consultation Question 5 - Is the proposed 50% discount for AIM and PLUS Markets companies reasonable?

Feedback

No respondents opposed this proposal.

Three respondents supported this proposal.

FRC decision

We will include the proposed discount for AIM and PLUS Markets companies in our levy proposals for 2008/09.

Three - Levies on insurance companies and pension schemes

Our total funding requirement in relation to our responsibilities for actuarial standards and regulation in 2007/08 is as follows:

	£m
Actuarial operating costs	1.8
Actuarial disciplinary case costs fund	0.3
Total	2.1

Our proposed funding requirement for 2007/08 was £2.2m. We have been able to reduce this to £2.1m due to the higher than expected recovery of set-up costs in 2006/07.

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.

Consultation Question 6 – Do you agree with the proposed funding arrangements in relation to actuarial standards and regulation?

Feedback

Two respondents expressed concern that by imposing levies on insurance companies subject to FSA fees and to pension schemes subject to the Pensions Regulator's general levy there could be an element of double-counting where the values of certain pension schemes are included in the mathematical reserves on which the FSA levy is based.

One respondent asked the FRC to review the funding arrangements over the longer term to ensure that they fairly reflect the provision of actuarial services to different sectors.

One respondent expressed support for the proposed arrangements.

FRC decision

We will retain the funding arrangements set out in the consultation paper in relation to the levy for 2007/08 on the understanding that we will review the issues that have been raised in relation to the pension levy with the interested parties and seek a satisfactory resolution of those issues for the

purposes of the arrangements for 2008/09 and future years.

Levy rates

We will apply the following rates in 2007/08:

- The insurance levy will be set at the rate proposed in the consultation paper: 1.7% of the FSA's estimated regulatory fees for Fee-blocks A3 and A4 for 2007/08. It will be allocated to individual insurance companies in the same proportion as the FSA regulatory fees and charged to insurance companies on the same invoice as the FSA fees. The insurance levy will be collected on our behalf by the FSA at the same time that it collects its own fees.
- A levy of 45% of total costs will be set for those pension schemes with 1,000 or more members which are subject to the Pensions Regulator's general levy using the information on scheme membership provided to the Pensions Regulator in its scheme returns - on the basis of a levy of £2.20 per 100 members. The consultation paper proposed a levy of £2.1 per 100 members but the FRC now has more accurate information on the number and size of funds. If there are any outstanding amounts from the 2006/07 pension levy we will seek to recover those amounts during 2007/08.

Annex A – List of consultation responses

The following organisations responded to the invitation to comment:

- Association of British Insurers
- British Bankers' Association
- London Stock Exchange plc
- National Association of Pension Funds
- Friends Provident Life and Pensions Limited.

Contact Details

Enquiries about the 2007/08 Levies should be sent to:

The Planning Manager
Financial Reporting Council
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

e-mail: plan@frc.org.uk

For general information about the work of the FRC, please see our website at: www.frc.org.uk

For any further enquiries, please contact: enquiries@frc.org.uk

or write to us at:

Enquiries
Financial Reporting Council
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

Telephone: 020 7492 2300

Fax: 020 7492 2301



FINANCIAL REPORTING COUNCIL

5TH FLOOR

ALDWYCH HOUSE

71-91 ALDWYCH

LONDON WC2B 4HN

TEL: +44 (0)20 7492 2300

FAX: +44 (0)20 7492 2301

WEBSITE: www.frc.org.uk