



FRC RESPONSIBILITIES FOR ACTUARIAL STANDARDS AND REGULATION

FUNDING ARRANGEMENTS FOR 2006/07

Introduction

Following an initial consultation based on a paper published in October 2005, we published our final proposals for funding our responsibilities for actuarial standards and regulation in March 2006.

This paper confirms that the proposals set out in the March 2006 paper will be the basis for funding our responsibilities for actuarial standards and regulation in 2006/07 and future years:

- A contribution from the actuarial profession equivalent to 10% of the total costs incurred in relation to actuarial standards and regulation - £170,000 in 2006/07.
- A contribution from the insurance sector through a levy on the “insurance levy group” equivalent to 45% of the total costs - £765,000 in 2006/07. The insurance levy group will comprise life and general insurance companies which are required to pay the relevant FSA regulatory fees (FSA fee blocks A3 and A4). The levy will be collected by the FSA alongside its own fees.
- A contribution from the pension sector through a levy on the “pension levy group” equivalent to 45% of the total costs - £765,000 in 2006/07. The pension levy group will comprise pension schemes identified on the basis of information on scheme membership provided to The Pensions Regulator in its scheme returns. For 2006/07, the levy will be at the rate of £2 per 100 members, with a de-minimis contribution of £20. This will have the effect of including within the scope of the levy only those schemes with 1000 or more members. The levy will be collected by HBS, the collection agent used by The Pensions Regulator to collect its general levy.

The March 2006 paper reported the responses to our initial consultation paper. Two further responses were received in relation to our final proposals, both reiterating points that had been made in response to the initial consultation.

Background

The Financial Reporting Council (FRC) is the United Kingdom’s independent regulator responsible for promoting confidence in corporate reporting and governance.



Following the Morris Review of the Actuarial Profession, published in March 2005, HM Treasury asked us to take on new responsibilities for setting actuarial standards and overseeing the regulation of the actuarial profession.

The new regime commenced in April 2006. Its objectives are to promote high quality actuarial practice and the integrity, competence and transparency of the actuarial profession – to the benefit of all those who rely on actuarial advice.

Information on our role in relation to actuarial standards and regulation is available on our website at www.frc.org.uk, which also gives details of our funding, governance and accountability, including our Regulatory Strategy and our Plan & Budget for 2006/07.

In line with the recommendations of the Morris Review, we have:

- Established an FRC Board for Actuarial Standards (BAS), which now sets the technical standards with which actuaries must conform. The BAS has a Board of senior individuals who represent both the users and providers of actuarial advice. It is developing a new conceptual framework for actuarial standards.
- Extended the remit of the FRC's Professional Oversight Board (POB) to oversee the regulatory activities of the Actuarial Profession.
- Set in hand arrangements to extend the remit of the FRC's Accountancy Investigation and Discipline Board (AIDB) to cover public interest matters involving actuaries.

The FRC's actuarial costs for 2006/07

Our revised Plan & Budget for 2006/07, published May 2006, explained that we expect to incur the following costs in 2006/07 in relation to our new responsibilities for actuarial standards and regulation:

- **Actuarial operating costs**, which will cover the BAS (the largest element of the operating costs), the additional work undertaken by the POB and the AIDB, and a proportionate share of the FRC's overheads.
- **Actuarial disciplinary case costs**, which will depend on the number and complexity of cases, and cannot be subject to firm budgetary limits. We are proposing to establish a fund to cover these costs, with an initial contribution of up to £250,000 in 2006/07.



- **Recovery of set-up costs**, which arose from the need to establish the new arrangements and recruit new operating body members and a small number of additional FRC staff during the course of 2005/06. The FRC intends to recover up to £150,000 of these costs in 2006/07 and the remainder in 2007/08 and 2008/09.

The total cost of the new arrangements in 2006/07 is expected to be as follows:

	£m
Actuarial operating costs	1.30
Initial contribution to the actuarial disciplinary case costs fund	0.25
Recovery of set-up costs	0.15
Total	1.70

Funding for 2006/07

The FRC will seek contributions to these costs on the basis set out in the proposals we published in March 2006 and summarised above. These are as follows:

Contribution from actuarial profession

We have sought (and have now received) a contribution of £170,000 (10% of total costs) from the Actuarial Profession.

Insurance levy group

We will collect a levy of £765,000 (45% of total costs) from insurance companies in FSA fee-blocks A3 and A4. This 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.

Our levy on insurance companies will be an amount equivalent to 1.3% of the FSA's regulatory fees for Fee-blocks A3 and A4 for 2006/07 (£57.1m), announced in May 2006.



Pension levy group

We will collect £765,000 (45% of total costs) from the pension levy group in 2006/07, on the basis of a levy of £2 per 100 members on pension schemes in the pension levy group, using the information on scheme membership provided to the Pensions Regulator in its scheme returns.

For 2006/07, there will be a de-minimis contribution of £20. This will have the effect of including within the scope of the levy only those schemes with 1000 or more members - around 2000 schemes, representing approximately 85% of the total membership of pension schemes.

The FRC levy will be collected by HBS, the agent used by the Pensions Regulator for collecting its general levy and the Pension Protection Fund levy.

We expect to start collecting contributions from the pension levy group in Autumn 2006.

FRC
29 June 2006