



Financial Reporting Council

**Draft Plan & Budget and  
Levy Proposals 2011/12**



## The FRC at a glance

### FRC Board

Provides strategic direction and oversight of the FRC's Operating Bodies and, advised by its Committee on Corporate Governance, promotes high standards of corporate governance through the UK Corporate Governance Code and Stewardship Code.

## Standards

### Accounting Standards Board (ASB)

Contributes to the establishment and improvement of standards for financial reporting, in particular through influencing the setting of standards by the International Accounting Standards Board (IASB). The ASB also continues to set UK accounting standards.

### Auditing Practices Board (APB)

Issues standards and guidance for auditing, for the work of reporting accountants in connection with investor circulars and for auditors' integrity, objectivity and independence. The APB is also active in influencing the setting of international standards on auditing by the International Auditing and Assurance Standards Board (IAASB).

### Board for Actuarial Standards (BAS)

The UK's independent setter of technical actuarial standards.

## Monitoring and Enforcement

### Financial Reporting Review Panel (FRRP)

Reviews the reports of publicly traded and private companies for compliance with the law and other reporting requirements and, where appropriate, seeks corrective action from directors.

### Professional Oversight Board (POB)

Provides statutory oversight of the regulation of the auditing profession and independent oversight of the regulation of accountants and actuaries by their respective professional bodies.

### Audit Inspection Unit (AIU) as part of POB

Monitors the quality of the audits of listed companies and other economically significant entities.

### Accountancy and Actuarial Discipline Board (AADB)

The UK's independent investigative and disciplinary body for accountants and actuaries. It is responsible for operating and administering disciplinary schemes dealing with public interest cases for these two professions.

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## Section 1 Overview

The Financial Reporting Council is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment.

- Operating independent disciplinary arrangements for public interest cases involving accountants and actuaries.
- Influencing and responding to EU and global initiatives relevant to our objectives in line with our principles-based approach.
- Enhancing our effectiveness and efficiency in carrying out our regulatory functions, focusing on the outcomes we are seeking and demonstrating our commitment to the principles of good regulation.

### Outcomes

In 2011/12 we will focus our work on four major outcomes:

- stronger and better-informed engagement between institutional investors and company boards
- corporate reporting and auditing that deliver greater value to investors and better serve the public interest
- a strong UK voice in the EU and international debate on the future regulation of corporate governance, reporting and auditing
- a more effective UK regulatory framework that adds value for investors and other stakeholders at low incremental cost.

We propose to contribute to these outcomes during the year by:

- Supporting investors' and other stakeholders' assessments of the effectiveness of boards in discharging their stewardship obligations.
- Seeking continuous improvement in the quality of corporate governance and reporting in the UK.
- Contributing to the establishment and improvement of standards for financial reporting, and setting standards for auditing and actuarial practice.
- Monitoring compliance with financial reporting and auditing standards, taking action to enforce them when appropriate.
- Overseeing the regulatory activities of the accountancy and actuarial professional bodies.

### Corporate governance

We believe that good corporate governance is essential to the effective operation of a free market. Good governance improves boards' ability to manage effectively as well as providing accountability to shareholders. The more ingrained good governance becomes in a business community, the less the need for detailed regulation to ensure effective compliance with high standards of behaviour. We emphasise the needs of investors for relevant and clearly communicated information on governance, business models and company performance.

The quality of engagement between investors and companies can help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. Engagement includes pursuing purposeful dialogue on strategy, performance and the management of risk, as well as on issues that are the immediate subject of votes at general meetings.

### **Supporting investors' and other stakeholders' assessments of the effectiveness of boards in discharging their stewardship obligations.**

The FRC's Stewardship Code was published, following extensive consultation, in July 2010. The Code sets out good practice on engagement with investee companies to which the FRC believes institutional investors should aspire. It is intended to enhance the quality of engagement between company boards and investors, and between fund managers and the

beneficial owners of companies, as a basis for improving the quality of corporate governance and long-term company performance. The FRC sees the Stewardship Code as complementary to the UK Corporate Governance Code for listed companies, which was revised in June 2010.

The Stewardship Code has attracted support from a number of major institutional investors, including international investors. The FRC will monitor the degree to which these public statements of support are implemented in practice.

### **Seeking continuous improvement in the quality of corporate governance and reporting in the UK.**

We are consulting on ways in which the policy and regulatory infrastructure can be adapted to support the stewardship concept and ensure that it is fit for purpose in the modern global business environment. The FRC is developing an approach to encourage a new vision of corporate reporting where directors' narrative reports, company accounts and audited financial information will each deliver greater value to investors and serve the public interest, including:

- Reforms to the way that companies provide information to ensure it is timely, accessible and useful.
- Better quality reporting of business models, strategies and risk management.
- Improved communication between auditors and audit committees and greater clarity in the responsibilities of auditors across the full range of narrative and financial statements in the annual report.
- Greater transparency by audit committees on the way that they have discharged their responsibilities in relation to the integrity of the annual report and particular aspects of their remit (such as, for example, their oversight of the external audit process and the appointment of external auditors).
- More innovation in the audit and financial reporting markets to promote healthy competition and a high quality of service.

The response to our proposals will help shape our priorities for 2011/12.

### **Contributing to the establishment and improvement of standards for financial reporting, and setting standards for auditing and actuarial practice.**

The Accounting Standards Board (ASB) is currently seeking the views of UK stakeholders to ensure that there is support for a UK strategy of convergence with international standards, that UK accounting standards reflect market developments, and that the needs of smaller companies are addressed. The future of financial reporting in the UK and the need to balance the needs of preparers and users of accounts will remain a major issue in 2011/12.

The Auditing Practices Board (APB) will take forward audit-related issues emerging from the planned consultation on improvements to the annual reporting, accounting and audit infrastructure and issues arising from the joint consultation with the Professional Oversight Board (POB) on auditor scepticism.

The Board for Actuarial Standards (BAS) completed its suite of technical actuarial standards (TASs) during 2010/11. It has now issued seven TASs, covering a broad range of actuarial work including pensions and insurance, which will come into force during 2011.

The new suite of standards for actuarial practice is the first in the world to have been set on an independent basis by a body which represents the users as well as the providers of actuarial information. During 2011/12 the BAS will start to assess the effects of the standards on both users and practitioners.

### **Monitoring compliance with financial reporting and auditing standards, taking action to enforce them when appropriate.**

The Financial Reporting Review Panel (FRRP) recently announced that, with one or two exceptions, it has found continuing improvement in the general quality of International Financial Reporting Standards (IFRS) financial reporting. However, the FRRP continues to have some concern about the quality of the reports and accounts of some smaller listed and AIM quoted companies who may not have the same level of

reporting expertise as their larger listed counterparts. A key area of interest for the FRRP in its 2011/12 reviews will be the extent to which there are clear linkages between narrative reports and the accounts; principal risks and uncertainties; and the descriptions of business models. Its review activity will focus on the following sectors: commercial property, insurance, support services and travel.

The Audit Inspections Unit (AIU)'s inspection process is both rigorous and challenging for firms. It focuses on matters where it believes improvements are required to safeguard and enhance audit quality. It believes that the actions taken by firms in response to its inspection findings in recent years have contributed to an improvement in the overall quality of audit work in the UK.

However, the AIU believes that more can be done to safeguard and enhance audit quality: through, for example, improvements to audit firms' policies and procedures and the way they are applied. More challenging for firms, though, are the behavioural changes necessary to deliver and enhance audit quality. The proportion of audits in need of significant improvements at smaller firms was higher than at large firms, and auditors generally need to exercise greater professional scepticism.

The AIU's inspections in 2011/12 will focus on areas of high subjectivity and professional judgement and the application in practice of the new Clarity ISAs which will apply for the first time to December 2010 audits.

### **Overseeing the regulatory activities of the accountancy and actuarial professional bodies.**

The POB will continue to monitor the regulatory activities of the accountancy and actuarial professional bodies, in relation to their members, assessing those issues that could adversely affect public confidence in accountants and actuaries and, where appropriate, undertake more detailed research and make recommendations to the professional bodies or recommend the development of new standards. Issues will include the progress achieved by the Actuarial Profession in response to our recommendations concerning quality control at actuarial firms.

### **Operating independent disciplinary arrangements for public interest cases involving accountants and actuaries.**

The Accountancy and Actuarial Discipline Board (AADB)'s case-load has continued to increase and it is likely that a number of cases will continue into 2011/12. Some cases may progress to the disciplinary tribunal stage.

### **Influencing and responding to EU and global initiatives relevant to our objectives in line with our principles-based approach.**

The regulatory framework for corporate governance, corporate reporting and auditing in the UK is crucially influenced by decisions taken at EU and international level. We must influence policy-makers and standard setters in the EU and globally, and are interested in how we can improve this aspect of work, particularly in partnership with other institutions.

The EU is currently engaged in a major debate about the appropriate response to the lessons of the financial crisis. The EU Commission has published proposals on the corporate governance of financial institutions and the future of audit. We are playing an active role in the debate and will be responding to their consultations.

Over the last year the work of the International Accounting Standards Board (IASB) and the European Financial Reporting Advisory Group (EFRAG) has increased as the IASB pursues its objective of globally-accepted and high quality international accounting standards. We support this objective and will continue to influence the development of IFRS and their adoption by the EU in the form proposed by the IASB.

The FRRP will continue to be an active member of the European Enforcement Co-ordination Sessions under the auspices of CESR, the securities regulator which, in 2011, will assume the status of an authority under the EU Commission. The European and Securities Markets Authority may provide additional opportunity for encouraging a consistent and appropriate application of IFRS by Member States.



The emergence of independent audit regulators in many countries around the world in the aftermath of corporate collapses, together with the continued dominance of the major global audit networks in the audits of public interest entities, has led to an increasing focus on international cooperation amongst regulators. Globally, this is through the International Forum of Independent Audit Regulators (IFIAR) and in Europe through the European Group of Audit Oversight Bodies (EGAOB). The UK has taken a lead in seeking to develop international cooperation amongst independent audit regulators through IFIAR and has also been at the forefront of developing cooperation within the EU under the Statutory Audit Directive.

We strongly believe that audit quality should be promoted internationally. We will continue to play a leading role in IFIAR, which is addressing a range of issues of common concern to audit regulators from member countries. We will work with the EGAOB to promote a more consistent and appropriate regulatory approach across Europe, including for third country auditors.

The APB will continue to take an active role in influencing the work of the International Auditing and Assurance Standards Board (IAASB) and work towards the adoption of ISAs in the EU.

We will also contribute to the continuing development of the EU Solvency II project and contribute to the development of a European approach to actuarial standards, building on our experience as the world's only independent actuarial standard-setter.

## **Enhancing our effectiveness and efficiency in carrying out our regulatory functions, focusing on the outcomes we are seeking and demonstrating our commitment to the principles of good regulation.**

The FRC is a small organisation with a wide and complex remit. We need sufficient resources to enable us to use our powers and influence to best effect on behalf of our stakeholders - who include investors, business, employees, insurance policyholders, members of pension schemes and other interests.

We are acutely aware of the importance of delivering our functions in a manner that represents value for money. Our total budget is higher than the budget for 2010/11 because we estimate that accountancy disciplinary case costs will increase significantly, reflecting the stage that a number of major cases will have reached in 2011/12. However, our significant focus on cost reduction has enabled us to propose a budget for core operating costs for accounting, auditing and corporate governance which is £0.7m lower than the current year's budget of £12.9m.

The net effect of these proposals would enable us to fully absorb a potential £0.6m reduction in government funding and reduce the average amounts which accounts preparers would pay under the preparers levy by around 7%.

### **Stephen Haddrill**

Chief Executive Officer

## Section 2 Proposed major activities and projects

The proposed major activities and projects that the FRC will undertake in relation to our priorities for 2011/12 are as follows:

### The FRC Board will:

- Oversee the effectiveness of the FRC and its Operating Bodies in delivering their regulatory functions and ensure that they achieve high levels of accountability and transparency.
- Work with Government to ensure that the FRC and its operating bodies have the powers and resources necessary to carry out their responsibilities; and that any reforms affecting the FRC that the government introduces, following its review of public bodies strengthen the FRC's independence and deliver greater transparency in the regulatory functions it undertakes. This plan and budget does not take account of possible reforms at this early stage of development.

### Advised by the Committee on Corporate Governance, the FRC Board will:

- Monitor the effectiveness of the UK Corporate Governance Code in promoting good governance practices.
- Monitor the effectiveness of the Stewardship Code for institutional investors in contributing to a significant improvement in the stewardship of UK listed companies.
- Work with the EU and BIS to influence the development and implementation of legislative provisions relating to corporate governance.

### The Accounting Standards Board will:

- Stimulate improvements to corporate reporting, including narrative reporting, focusing on business model and risk disclosures.
- Take a lead role in influencing the development of IFRS and the IASB strategy when convergence with US GAAP projects ends in 2011; and play

an active role in promoting the development of a disclosure framework.

- Play an active role in EFRAG and European proactive projects.
- Seek to ensure continued support in the EU for implementing IFRS as issued by the IASB.
- Implement an agreed approach for UK GAAP and convergence with IFRS.
- Play a leading role in the global group of National Standard Setters.
- Continue to monitor sustainability information in annual reports and consider publishing guidance on sustainability reporting if appropriate.

### The Auditing Practices Board will:

- Take forward audit-related issues emerging from the consultation on improvements to the annual reporting, accounting and audit infrastructure and issues arising from the APB/POB consultation on auditor scepticism.
- Review, together with the IAASB, the impact of the introduction of the Clarity ISAs.
- Complete the review of standards and APB guidance in relation to reports provided to the Financial Services Authority (FSA) on client assets in the financial services sector which commenced in 2010/11, and update and issue appropriate professional standards for work in this area.
- Keep under review, with the POB, issues and conditions that may impact on the work of auditors, and issue updated standards if appropriate.
- Use audit inspection findings in setting standards and related guidance.
- Play a leading role in the IAASB and work effectively with International Ethical Standards Board for Accountants.

### The Board for Actuarial Standards will:

- Maintain a suite of technical actuarial standards and start to assess the effects of TASs in meeting the needs of users of actuarial information, including the governing bodies of insurers and pension schemes.

- Contribute to the continuing development of UK pension legislation.
- Influence the development of international actuarial standards, including those for Solvency II,
- Work with Government and other regulators to ensure consistency between BAS standards and other regulatory requirements.

### **The Financial Reporting Review Panel will:**

- Review a selection of annual and interim accounts and directors' reports for compliance with the Companies Act, including applicable accounting standards; and aim to review around 300 sets of accounts in total in 2011/12.
- Respond to matters drawn to its attention as a result of complaints or public comment, and encourage referrals from the investment community, other professional advisers and elsewhere.
- Influence the development of international enforcement practices.

### **The Professional Oversight Board will:**

- Through its Audit Inspection visits, monitor and report on the quality of audits, based on the reviews of some 100 audits, of which the majority will relate to the largest audit firms, focusing on areas of high subjectivity and professional judgement and the application in practice of the new Clarity ISAs.
- Keep under review the risks associated with concentration in the UK audit market and, if appropriate, make proposals on further action.
- Respond to the outcomes of the House of Lords inquiry into the audit market and the European Commission's green paper on auditing.
- Influence the work of IFIAR and EGAOB to promote effective regulatory oversight of audit firms, including those managed on a regional basis, and taking a leading role in such regulation within Europe.

- Oversee the regulatory processes of the Recognised Supervisory Bodies and Recognised Qualifying Bodies in respect of auditing.
- Ensure that the legislative framework and practical measures for audit regulation in Europe under the Statutory Audit Directive appropriately address the issues relating to third country auditors.
- Participate in the arrangements for the co-ordination of the regulation of audit and the oversight of the auditing profession in the EU.
- Monitor the regulatory activities of the accountancy and actuarial professional bodies.

### **The Accountancy and Actuarial Disciplinary Board will:**

- Make significant progress on, and where possible finalise, the matters with which it is currently dealing and identify and investigate other matters which meet the criteria for AADB investigations.
- Explore measures, including measures potentially relating to the powers and resources of the AADB, to reduce the time and cost involved in handling public interest disciplinary cases without compromising on the fairness, thoroughness or quality of the disciplinary process.

## **Consultation Question**

- 1) Do you have any comments on the proposed major activities and projects?

## Section 3 Proposed Budget 2011/12

This section sets out how much we expect to spend and how much we propose to request from each of our funding groups in 2011/12.

The FRC's budget distinguishes between the costs relating to accounting, audit and corporate governance and those relating to actuarial standards and regulation. Within the two categories we distinguish between the costs of our core activities, which are under our immediate control, and costs which are dependent on external factors, notably the number and complexity of the public interest cases which fall within the scope of our disciplinary arrangements.

Table 1 shows the impact of these different elements of our costs on our proposed total budget. The total budget is higher than the budget for 2010/11 because we estimate that accountancy disciplinary case costs will increase significantly, reflecting the stage that a number of major cases will have reached in 2011/12. However, we are proposing to reduce core operating costs for accounting, auditing and corporate governance by £0.7m and for actuarial standards and regulation by £0.2m compared with the budget for 2010/11.

**Table 1: Budget Summary**

	Draft Budget 2011/12 £m	Budget 2010/11 £m	Forecast 2010/11 £m
<b>Accounting, auditing and corporate governance</b>			
Core operating costs	12.2	12.9	12.4
Audit inspection costs	2.8	2.6	2.5
Accountancy disciplinary case costs	4.4	2.9	2.6
Review Panel case costs	-	-	-
<b>Total</b>	<b>19.4</b>	<b>18.4</b>	<b>17.5</b>
<b>Actuarial standards and regulation</b>			
Core operating costs	2.2	2.4	2.1
Actuarial disciplinary case costs	0.4	0.8	0.8
<b>Total</b>	<b>2.6</b>	<b>3.2</b>	<b>2.9</b>
<b>FRC Total costs</b>	<b>22.0</b>	<b>21.6</b>	<b>20.4</b>

Table 2 sets out our expenditure and funding projections for core operating costs in relation to accounting, auditing and corporate governance. Table 3 sets out our expenditure and funding projections in relation to actuarial standards and regulation. Table 4 summarises our projected level of general reserves, and Table 5 our projected level of funds for FRRP and actuarial case costs.

## Accounting, auditing and corporate governance

### Core operating costs

These cover all our costs in relation to accounting, auditing and corporate governance other than audit inspection, disciplinary case and Review Panel case costs.

They are funded by a levy on preparers of accounts, a contribution from the CCAB and a Government grant. They also reflect an expected contribution of £0.4m from general reserves, reflecting higher than estimated receipts from the preparers levy in 2010/11.

**Table 2: Expenditure and Funding Projections**

	Draft Budget 2011/12 £m	Budget 2010/11 £m	Forecast 2010/11 £m
Core operating costs (Notes 1 and 2)	12.2	12.9	12.4
Review Panel case costs	-	-	-
<b>Total costs</b>	<b>12.2</b>	<b>12.9</b>	<b>12.4</b>
Increase/(decrease) in reserves (See Table 4)	(0.4)	-	0.9
<b>Funding requirement</b>	<b>11.8</b>	<b>12.9</b>	<b>13.3</b>
Funded by:			
Preparers levy – Publicly traded companies	4.4	4.7	5.0
Preparers levy – Large private companies	1.6	1.8	1.9
Preparers levy – Public sector organisations	0.5	0.5	0.5
Accountancy professional bodies	4.7	4.7	4.7
Government (Note 3)	0.6	1.2	1.2
<b>Total</b>	<b>11.8</b>	<b>12.9</b>	<b>13.3</b>

Notes:

1. Costs include a contribution of €0.35m (£0.3m) towards the costs of EFRAG.
2. Costs are net of publication income of £0.4m which is estimated on a year on year basis and therefore subject to fluctuation.
3. The Government contribution is included as a planning assumption and is subject to confirmation by BIS.

### Audit inspection costs

The costs summarised in Table 1, and further analysed below, include only the specific and variable costs of the AIU. They are met by the individual Recognised Supervisory Boards with which the firms that are subject to inspection are registered. The AIU's fixed overheads (accommodation and shared IT systems) are included in core operating costs.

The proposed budget for 2011/12 reflects the costs of the planned inspection programme and a reduction in income from the Audit Commission:

	<b>Draft Budget 2011/12 £m</b>	<b>Budget 2010/11 £m</b>	<b>Forecast 2010/11 £m</b>
Core operating costs	3.1	3.0	2.9
Less: Income	0.3 *	0.4	0.4
<b>Total net costs</b>	<b>2.8</b>	<b>2.6</b>	<b>2.5</b>

\*reflects expected reduction in income from the Audit Commission.

### Accountancy disciplinary case costs

The costs shown in Table 1 include only the specific and variable costs of accountancy cases taken by the AADB. The AADB's fixed overheads (staff, accommodation and shared IT systems) are included in core operating costs. Case costs are funded by the accountancy professional bodies to which the individuals or firms which are subject to each case belong within the terms of a formal case-costs agreement. Case costs are forecast on the basis of the available information on actual or prospective cases. However, the accuracy of the forecast will depend on assumptions made as to the progress of cases and is subject to a significant degree of uncertainty.

The current forecast for 2010/11 is lower than budget, but it is likely that costs associated with current cases will flow through to next year. The current forecast case costs for 2011/12 also reflects a likely increase in tribunal cases.

### Review Panel case costs

Review Panel case costs include only the specific costs of cases which the FRRP decides to take to Court, or prepares to take to court. If incurred, they are met in the first instance from the Review Panel Case Costs Fund. no costs have been incurred in 2010/11

### Actuarial standards and regulation

**Table 3: Expenditure and Funding Projections**

	<b>Draft Budget 2011/12 £m</b>	<b>Budget 2010/11 £m</b>	<b>Forecast 2010/11 £m</b>
Core operating costs	2.2	2.4	2.1
Actuarial disciplinary case costs	0.4	0.8	0.8
<b>Total costs</b>	<b>2.6</b>	<b>3.2</b>	<b>2.9</b>
Increase/(decrease) in reserves	-	-	-
Increase/(decrease) in actuarial case costs fund	0.3	(0.3)	-
<b>Funding requirement</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>
Funded by:			
Actuarial profession	0.3	0.3	0.3
Insurance levy	1.3	1.3	1.3
Pension levy	1.3	1.3	1.3
<b>Total</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>

The significant reduction in estimated case costs reflects the latest assumptions of the stage that individual cases should have reached in 2011/12. Actuarial disciplinary case costs are funded on the same basis as core operating costs.

## General reserves

We do not propose to raise any additional funds in 2011/12 in order to increase the general reserves.

**Table 4: Projected Level of General Reserves**

	<b>Draft Budget March 2012</b>	<b>Forecast March 2011</b>	<b>Actual March 2010</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Accounting, auditing and corporate governance	2.7	3.1	2.2
Actuarial standards and regulation	0.1	0.1	0.1
<b>FRC general reserves</b>	<b>2.8</b>	<b>3.2</b>	<b>2.3</b>

In 2008 we consulted on a proposal to increase our general reserves in relation to accounting, auditing and corporate governance from around £1m to around £2m, reflecting the uncertainties arising from the reduced Government contribution and our non-statutory funding arrangements. We are forecasting a reserve of £3.1m at March 2011 reducing to £2.7m at March 2012.

We intend to use the forecast £0.4m higher than expected levy collection in 2010/11 – which is included in the forecast reserves for March 2011 - to reduce the preparers levy in 2011/12. This will reduce the general reserves to £2.7m at March 2012. Subject to any other significant developments, we believe that this level will be appropriate for 2011/12 given the continued uncertainties over funding and the risks associated with those elements of the accountancy disciplinary scheme which are not covered by the arrangements with the professional bodies.

We plan to maintain the general reserves in relation to our responsibilities for actuarial standards and regulation during 2011/12 at its forecast level at March 2011, £0.1m.

**Table 5: Projected Level of case costs funds**

	<b>Draft Budget March 2012</b>	<b>Forecast March 2011</b>	<b>Actual March 2010</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
FRRP Legal costs fund	2.0	2.0	2.0
Actuarial case costs fund	1.3	1.0	1.0
<b>FRC total case costs funds</b>	<b>3.3</b>	<b>3.0</b>	<b>3.0</b>

We believe that it is prudent to plan for an increase of £0.3m in the actuarial case costs fund to reflect the possibility that the AADB will investigate further cases involving actuaries, the number and complexity of which cannot be accurately forecast.

## Consultation Question

- 2) Do you have any comments on our draft budget and funding projections for 2011/12?

## Section 4 Levy Proposals

### Accounting, auditing and corporate governance

#### Levy on preparers of accounts levy (Preparers levy)

The FRC's preparers levy applies to publicly traded companies, large private entities and public sector organisations and is also used to raise the UK contribution to the IASB. The amounts we will raise from each group in relation to the FRC's funding requirement and the IASB are as follows.

Preparers of financial statements:	FRC requirement		plus	IASB contribution		=	Preparers levy		
	2011/12 Budget £m	2010/11 Budget £m		2011/12 Budget £m	2010/11 Budget £m		2011/12 £m	2010/11 £m	Change %
	Publicly traded companies:	4.4	4.7		0.6	0.6		5.0	5.3
Large private companies	1.6	1.8		0.1	0.2		1.7	2.0	-15.0%
Public sector organisations	0.5	0.5		0.1	0.1		0.6	0.6	0.0%
<b>Total</b>	<b>6.5</b>	<b>7.0</b>		<b>0.8</b>	<b>0.9</b>		<b>7.3</b>	<b>7.9</b>	<b>-7.6%</b>

The key features of the preparers levy are a minimum levy and further amounts payable by entities above a certain size, with the rate per £m declining in five levy size bands. Details of the application of the levy are published on our website: <http://www.frc.org.uk/about/funding.cfm>

The minimum levy is 7% lower than 2010/11. We estimate that preparers will pay 7% less in cash terms than in 2010/11, although there is a potentially wide range of increases or decreases for individual levy-payers.

#### Proposed preparers levy rates for 2011/12

Band	Organisation size *£m	Proposed 2011/12 levy per £m*	2010/11 levy rate per £m*
<b>1 Minimum levy</b>	Up to 100m	Min levy £956	Min levy £1028
<b>2</b>	100m-250m	£7.84	£8.83
<b>3</b>	250m-1,000m	£5.99	£6.74
<b>4</b>	1,000m-5,000m	£4.27	£4.81
<b>5</b>	5,000m-25,000m	£0.07	£0.08
<b>6</b>	>25,000m	£0.014	£ 0.016

\*Size is either based on market capitalisation, published turnover, or overall expenditure depending on the type of organisation.

## Actuarial standards and regulation

For 2011/12 we plan to levy the same amount (£2.9m) as this year which will allow an increase of £0.3m in the Actuarial Case Cost Fund next year.

### **Insurance levy**

The insurance levy will be allocated to insurance companies in the same proportion as the FSA regulatory fees and charged to insurance companies on the same invoice as the FSA fees. We do not expect the levy to increase in 2011/12.

### **Pension levy**

The pension levy will be allocated to schemes on the basis of their latest scheme returns to the Pensions Regulator. We do not expect the levy to increase in 2011/12.

## Consultation Question

- 3) Do you have any comments on our proposed levies for 2011/12?

## Contact details

Responses to the Draft Plan should be sent, by 10 March 2011, 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)

For any further enquiries, please contact us at the above address.

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