



Financial Reporting Council

2009/10 Levies

June 2009

Contents

One	<u>Introduction</u>	1
Two	<u>Preparers levy</u>	2
Three	<u>Insurance and pension levies</u>	5

One – Introduction

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

In December 2008 we issued a consultation paper "Draft Plan 2009/10, Proposed Updates to the Strategic Framework and 2009/10 Levy Proposals". This paper summarises the feedback we have received on our levy proposals and sets out for 2009/10:

- Our preparers 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 responses to our consultation paper are available at our website at:

<http://www.frc.org.uk/about/draftplan.cfm>.

The paper explains that:

- Our preparers levy rates are lower than the rates initially proposed.
- Our insurance levy rate is at the same rate as in 2008/09.
- Our pension levy rate is lower than the rate we initially proposed.

We have made some changes to the basis on which we are operating the preparers levy in 2009/10 compared with 2008/09, reflecting the revised funding arrangements which we have put in place following the Government's decision to withdraw its current contribution to the costs of our activities in relation to accounting, auditing and corporate governance. The levy has been extended for the first time to large private entities and public sector organisations. The new funding arrangements are available at <http://www.frc.org.uk/about/funding.cfm>.

Two – Preparers levy

The following table shows the amount we require in 2009/10 for our activities in relation to accounting, auditing and corporate governance, allocated across our funding groups. The table also shows the total amount we are seeking to collect for the preparers levy, which includes the UK contribution to the cost of the IASB.

It is based on our revised funding arrangements which were published, following public consultation, in November 2008. The arrangements were put in place following the Government's decision to phase out its contribution to the FRC's costs.

Funding groups	Amount required by the FRC				plus	UK contribution to the IASB		=	Preparers levy		
	2009/10 Budget		2008/09 Budget			2009/10	2008/09		2009/10	2008/09	%
	£m	%	£m	%	£m	£m	£m	£m	Change		
Preparers of financial statements											
Publicly traded companies:											
Funding requirement	4.5	26	4.2	26	0.6	0.7	5.1	4.9	4%		
Higher than expected prior year receipts	(0.1)	—	(0.2)	—	—	—	(0.1)	(0.2)	—		
Total	4.4	26	4.0	26	0.6	0.7	5.0	4.7	6%		
Large private entities	1.0	6	—	—	0.1	—	1.1	—	—		
Public sector organisations	0.5	3	—	—	0.1	—	0.6	—	—		
Total	5.9	35	4.0	26	0.8	0.7	6.7	4.7	43%		
Accountancy profession											
Professional bodies											
– Core operating costs	4.5	26	4.2	27							
– Audit inspection costs	2.6	15	2.5	16							
– Disciplinary case costs	1.8	11	1.3	8							
Total	8.9	52	8.0	51							
Government	2.3	13	3.5	23							
Total	17.1	100	15.7	100							

Key features of the preparers levy

The key features of the preparers levy are:

- a minimum levy
- further amounts payable by entities above a certain size, with the rate per £m declining in five levy size bands.

The minimum levy and the rates for larger entities are calculated based on the number of entities and their size. The levy payable by entities of any given size is determined by the decisions on:

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

In order to reflect the fact that not all of our activities apply to them, we apply a discount of 50% to the minimum levy and the market capitalisation-based levy rates for publicly traded companies other than UK companies listed on the London Stock Exchange's Main Market.

Market capitalisation is not available as a measure of the size of private entities or public sector organisations. We therefore apply the levy rates to these groups using published data on turnover or turnover equivalent for large private companies and overall expenditure for public sector organisations where turnover measures are not available as the basis for calculating the levies that apply to these entities. In order to reflect the fact that not all of our activities apply to them, we apply a 50% discount for large private entities and a 75% discount for public sector organisations.

For large private entities:

- Where there is more than one large private entity within a particular group, and where it is practicable, we calculate the levy to be applied to those entities on a group

basis using the aggregate turnover of the private entities within the group to which the levy applies.

- For 2009/10 we apply the levy to private entities with a turnover of £1bn or more; and from 2010/11 we will apply the levy to private entities with a turnover of £500m or more.

For public sector organisations we apply the levy based on the latest available data on the expenditure of the relevant organisation.

Our initial proposal

In our December 2008 consultation paper we estimated that we would need to increase our headline preparers levy rates significantly compared to the rates we applied in 2008/09 because of the sharp reductions in the market capitalisation of a significant number of publicly traded companies. We estimated that the minimum levy would be 9% higher than 2008/09 and that those companies who paid the levy in 2008/09 would pay, on average, 9% more in cash terms in 2009/10.

Responses received

Several respondents commented that we needed to carefully explain the increase in the amount we require and the rates we apply.

In general, respondents supported the extension of the preparers levy to large private entities and public sector organisations and the proposed discounts for both groups.

Our feedback

Our response to the feedback is as follows:

- Our decision to reduce core operating costs by £0.2m in our 2009/10 budget will enable us to apply rates which are lower than those we proposed. The minimum levy will be 7% higher than 2008/09. Those UK companies which paid the levy in 2008/09

will pay, on average, 7% more in cash terms in 2009/10 (although there is a potentially wide range of increases or decreases for individual companies).

- The increases are largely attributable to the reduction in the Government contribution to the FRC's costs in 2009/10 compared to previous years.
- We believe that it is appropriate to provide the proposed discounts for both large private entities and public sector organisations in 2009/10, but we will keep the level of the discounts under review for future years.

Rates to be applied

In order to raise the amount we require, we will apply the following rates:

Band	Organisation size £m	2009/10 levy per £m	2008/09 levy per £m
1 Minimum levy	Up to 100m	Min levy £980	Min levy £915
2	100-250m	£9.39	£6.00
3	250-1,000m	£7.17	£4.58
4	1,000-5,000m	£5.12	£3.27
5	5,000-25,000m	£0.0853	£0.0545
6	>25,000	£0.0171	£0.0109

The following example illustrates the way in which the 2009/10 levy will be calculated for a UK

LSE Main Market Company, a large private entity and a public sector organisation each of

which is £1.3bn in size:

Example	UK LSE Main Market company with a market value of £1.3bn	Large private entity with a turnover of £1.3bn	Public sector organisation with expenditure of £1.3bn
Organisation size £m	Levy payable at 2009/10 rates (£)	Levy payable at 2009/10 rates (£)	Levy payable at 2009/10 rates (£)
Up to 100m	980	490	245
100-250m	1,408	704	352
250-1,000m	5,378	2,689	1,344
1,000-5,000m	1,536	768	384
Total	9,302	4,651	2,325

Three – Insurance and pension levies

The amount we require for our activities in relation to actuarial standards and regulation in 2009/10 will be allocated across our funding groups as follows:

	2009/10 Budget		2008/09 Budget	
	£m	%	£m	%
Funding groups				
Actuarial profession	0.3	10	0.2	10
Insurance sector (life and general insurance companies which are required to pay the FSA regulatory fees)	1.25	45	1.1	45
Pension sector (pension schemes subject to the Pensions Regulator's general levy)	1.25	45	1.1	45
Total	2.6	100	2.4	100

Insurance levy

Our initial proposal

In our December consultation paper we noted that we would not be in a position to finalise the levy rate until the FSA confirmed their rates for the relevant Fee-blocks.

Responses received

No respondents commented on the levy rate, but one respondent did draw attention to the fact that some insurance companies are also subject to the pension levy in respect of aspects of their business.

Our feedback

We have noted the continuing issue of the relationship between the insurance and pension levies; but remain of the view that the current basis for applying the insurance levy to entities subject to regulation by the FSA and the pension levy to pension schemes subject to regulation by the Pensions Regulator remains appropriate.

Rate to be applied

In 2009/10 we will maintain the rate implemented in 2008/09 - a levy equivalent to 1.7% of the FSA regulatory fees.

Pension levy

Our initial proposal

The consultation paper proposed a levy of £3.10 per 100 members on pension schemes with 1,000 or more members compared to £2.90 per 100 members in 2008/09.

Responses received

One respondent noted that the proposed increase was above the rate of inflation.

Our feedback

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

Rate to be applied

A levy of £3.00 per 100 members will apply to pension schemes which are subject to the Pensions Regulator's general levy and which have 1,000 or more members, using the latest information on scheme membership provided to the Pension Regulator in its scheme returns. There will be a minimum levy of £30.

Questions about the 2009/10 Levies should be sent to:

Policy and Planning Manager
Financial Reporting Council
5th Floor, Aldwych House
71-91 Aldwych
London WC2B 4HN
e-mail: levy@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

For general information about the work of the FRC, please see our website at www.frc.org.uk. For any further enquiries, please contact us at the above address

© The Financial Reporting Council Limited 2009

The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368.
Registered Office: 5th Floor, Aldwych House, 71-91 Aldwych, London WC2B 4HN.



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
