Funding the Audit, Reporting and Governance Authority

Consultation on the Financial Reporting Council proposals

Financial Reporting Council

July 2022

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Introduction

The Government will be establishing the Audit, Reporting and Governance Authority (ARGA) as the successor to the Financial Reporting Council (FRC). ARGA's role will be to protect and promote the interests of investors, other users of corporate reporting and the wider public interest.

As set out in its response to the consultation on the White Paper '*Restoring trust in audit and governance*', the Government intends to give ARGA statutory funding so that it can operate on a sustainable and independent basis. ARGA will be empowered to make rules requiring that *market participants* pay a levy to meet the costs of carrying out its regulatory functions. The Government has asked the FRC to consult on how ARGA should charge market participants, ensuring that the right people and organisations will be levied in a proportionate manner.

This consultation document invites views on the high-level principles on which ARGA's funding model should be based. The proposal for statutory funding has been well received by stakeholders and the FRC's intention is that ARGA's statutory funding arrangements should be developed with the benefit of the views of all those with an interest in its role.

The proposals set out in this document flow from the approach set out in the White Paper and are based on the core principles of fairness, transparency and proportionality. There should be a clear line of sight between ARGA's objectives, its annual plan and budget and the amounts levied from each funding group.

Following this consultation, and subject to the Government's legislative plans, the FRC expects to consult further on detailed aspects of the proposed arrangements, to be contained in a Rule Book. The aim will be to ensure that the arrangements can be operated efficiently and effectively in pursuit of ARGA's regulatory objectives and take account of wider developments in the UK regulatory framework. In establishing the new arrangements, ARGA will comply with the Regulators' Code.

The FRC looks forward to a constructive and engaged debate on our proposed funding model so that the new regulator can operate on a sound and durable basis.

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1. Why we are consulting and general information

1.1 The Government intends that the FRC will transition to the Audit, Reporting and Governance Authority (ARGA). The new authority will play a leading role within the UK framework for corporate governance, corporate reporting, auditing, accountancy and actuarial work.

1.2 The Government intends to give ARGA statutory powers to raise a levy so that it has a sustainable and independent basis to carry out its regulatory activities and has asked the FRC to consult on how these powers should be applied.

1.3 The consultation seeks views on three issues: the overall approach to ARGA's funding; the proposed funding model; and the groups that should fund each of ARGA's` regulatory activities. The aim is to ensure that the right groups are levied in a proportionate manner.

1.4 Following the consultation, the FRC will issue a feedback statement responding to stakeholders' views and noting those issues on which there will be further consultation.

Consultation details

Issued: 29 July 2022.

Respond by: 21 October 2022.

Enquiries to: frc.plan.budget@frc.org.uk

Consultation reference: Funding the Audit, Reporting and Governance Authority – consultation on the Financial Reporting Council proposals.

Audiences:

Views are sought from all groups with an interest in ARGA's operations. This consultation will be of particular interest to the entities falling within the proposed funding groups and their professional advisers, including:

Users and preparers of accounts

Companies, including listed and large private companies

Investors, including institutional investors, and those who advise them

Others who rely on audited accounts

Insurers, pension schemes, pension scheme sponsors and funeral plan trusts who rely on actuarial information

Auditors, including auditors of public interest entities; accountants and actuaries; and audit and accountancy firms

Regulatory and professional bodies.

Territorial extent – Some aspects of the Government's policies are devolved matters in Scotland, Wales and Northern Ireland. Congruent with the Government policies for the reform of audit, corporate reporting, corporate governance and actuarial regulation, the FRC proposals set out in this consultation document are intended to apply across the whole of the UK subject to the agreement of the devolved administrations, which the Government will seek in developing legislation.

Equality and diversity considerations

We do not consider that the proposals in this consultation document adversely affect any of the groups with protected characteristics, but we will keep equality and diversity issues under review as we further develop our plans for ARGA's funding arrangements.

How to respond

Email to: frc.plan.budget@frc.org.uk

When responding, please state whether you are providing views as an individual or representing the views of an organisation.

It would be helpful if responses could be framed in direct response to the questions posed in each section of the document, and listed in full at Annex A, though additional comments and evidence are also welcome.

Confidentiality and data protection

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation unless you request that your response is treated in confidence.

2. Executive summary

Context

2.1 In the White Paper '*Restoring trust in audit and corporate governance*', published in March 2021, the Government consulted on a range of proposals with three broad aims: building trust and credibility in the UK's audit, corporate reporting and corporate governance system; ensuring accountability for those playing key roles in that system; and increasing resilience and choice in the statutory audit market. The Government Response to the consultation, published in May 2022, confirms that it will implement the proposal in the White Paper to establish a new regulator, the Audit, Reporting and Governance Authority (ARGA).

2.2 ARGA will play a key role in delivering each of the Government's overall aims. The new authority's overarching objective will be to protect and promote the interests of investors, other users of corporate reporting and the wider public interest.

2.3 The Government Response sets out its intention to give ARGA statutory powers to raise a levy so that it has a sustainable and independent basis on which to carry out its regulatory activities. The March 2021 White Paper set out initial proposals for the way in which ARGA should be funded and should operate its statutory levies. In its response to the consultation, and taking account of the comments received, the Government confirms that it will take forward the proposals set out in the White Paper, including giving ARGA the power to make rules requiring that market participants pay a levy to meet the regulator's costs of carrying out its regulatory functions. The Government has asked the FRC to consult on the mechanisms for charging and ensuring that the right people and organisations are levied in a proportionate manner

2.4 This FRC consultation paper has been published with the support of Government and reflects the Government's intentions for audit regulation and the definition and treatment of Public Interest Entities (PIEs).

2.5 The proposals take account of the FRC's *Position Paper 'Restoring Trust in Audit and Governance'* published in July 2022. The Position Paper sets out how the FRC will support the Government's reforms as it transitions to ARGA.

Proposed approach

2.6 ARGA's expenditure and funding arrangements should operate in line with the Government's *Managing Public Money* principles. ARGA's annual funding requirement should be based on the budget that is set for its regulatory responsibilities, defined as 'activity blocks', and allocated to the prescribed groups of market participants ('funding groups') responsible for funding each activity block. Overheads and corporate costs should be allocated proportionately.

2.7 In determining who should contribute to ARGA's funding within the terms of these arrangements, we have considered the purpose of the Government reforms that have led to its proposal, its intended regulatory roles as set out in the Government Response, and the public interest in its work.

2.8 We propose that the following groups of market participants should contribute the major share of ARGA's funding:

- The auditors of Public Interest Entities (PIEs) should fund audit regulation, including standard-setting, supervision and enforcement. Audit firms in scope should pay an annual levy based on their fee income from PIE audits.
- The recognised supervisory bodies (RSBs) should also contribute to costs of setting auditing standards, and together with the recognised qualifying bodies (RQBs) should meet the costs of overseeing their regulatory functions. The professional bodies should pay an annual levy based on the size of their membership.
- The accountancy professional bodies should meet the costs of overseeing the performance of their regulatory roles through an annual levy.
- Listed companies, large private companies and other entities falling within the definition of PIEs should fund the costs of regulating corporate reporting, including reporting and audit standard-setting, monitoring, and enforcement against directors. Listed companies should fund ARGA's work in relation to corporate governance and audit committees. Contributions from listed companies should be through an annual preparers levy based on their market capitalisation; other PIEs should pay an annual preparers levy based on turnover or equivalent measures of size.
- Institutional investors will have a particularly strong interest in ARGA's work on investor stewardship and should therefore meet the costs of that work. Those investment managers and insurance companies authorised and regulated by the FCA should pay an annual levy aligned with the FCA fee methodology and structure. Pension schemes should contribute through a separate levy.
- While recognising the importance of actuarial advice for a number of groups, we propose that actuarial regulation undertaken by ARGA should be funded by the actuarial professional body or bodies and the main intended beneficiaries of actuarial regulation - insurers, large pension schemes and large funeral plans.

2.9 Some entities will fall into more than one category and should be levied accordingly. Within each funding group, members should be levied on a transparent and foreseeable basis. Entities within some groups should, subject to ARGA's enforcement procedures, contribute to the costs of cases successfully taken against them.

2.10 Sections 6 to 11 set out our proposals for the Activity Blocks and funding groups for each activity.

2.11 In our assessment, the blocks and the respective funding groups set out for the purpose of this consultation on the funding model for ARGA, are self-apparent. We will, however, welcome views on alternatives to the proposals set out in this consultation paper subject to the guiding principles of fairness, transparency and proportionality.

Impact

2.12 The FRC's Three Year Plan 2022-25, published in March 2022, sets out our funding requirement for 2022/23 and our projected increase in headcount and expenditure in the three years to 2024/25. Following this high-level consultation on funding principles, the FRC will provide an indication of the levy amounts that are likely to be applied to the proposed funding groups.

2.13 Under our proposed funding model most of the entities that currently contribute to FRC funding would be subject to ARGA's statutory levies, once the necessary legislation is in place. However, some entities that currently contribute to the FRC's costs would not be included, including those AIM companies and public sector bodies that do not meet the definition of a PIE.

2.14 The Government proposes that ARGA's local public audit functions should be funded directly by the Department for Levelling Up, Housing and Communities (DLUHC) rather than a statutory levy. These functions are not therefore included in this consultation.

3. Guiding principles

3.1 The funding model we propose is designed to fund ARGA's operations in pursuit of its regulatory objectives, and with regard to its regulatory principles. The Government Response confirmed that ARGA's general objective will be:

- to protect and promote the interests of investors, other users of corporate reporting and the wider public interest.

3.2 ARGA's two operational objectives, which will underpin its regulatory activities, will be:

- to promote high quality audit, corporate reporting, corporate governance, accounting and actuarial work; and
- to promote effective competition in the market for statutory audit work.

3.3 The Government propose that ARGA should have regard to four regulatory principles:

- promoting innovation in statutory audit work, corporate reporting, corporate governance and actuarial work;
- promoting brevity, clarity and usefulness in corporate reporting;
- working closely with other regulators in the UK and internationally; and
- anticipating emerging corporate governance, reporting, professional regulation, actuarial or audit risks by being forward-looking and acting proactively where possible.

3.4 The funding model should therefore provide resources to meet all ARGA's objectives. This will include initiatives such as those undertaken by the FRC on corporate culture, ESG and the response to climate change, promoting best practice as an alternative to prescriptive regulation where appropriate, responding to technological and other developments in the markets, supporting innovation through the work of the Financial Reporting Lab, working with other UK regulators, membership of international bodies, and influencing international initiatives.

3.5 The proposals set out in this consultation document are designed to follow the principles on which Government consulted, which are that the ARGA funding model should be:

- *Fair*, funded by market participants, that is persons or bodies to which ARGA's activities directly relate or which otherwise benefit from those activities.
- *Transparent*, with information made publicly available on the costs and activities being funded by levy payers, and the basis for the apportionment model.
- *Proportionate*, to avoid any significant adverse impact on growth and competition, the levy contributions should consider factors such as the size and type of body being levied.

Fair

3.6 Although there is a wide public interest in standards of corporate governance and reporting, it is the intention that ARGA's work should be funded by those market participants to which ARGA's activities directly relate or who directly benefit from those activities.

3.7 Subject to the legislation that Government puts in place, we propose that the funding groups should include those groups of entities that:

- are supervised, monitored or inspected, held to account or otherwise directly regulated by ARGA;
- are subject to standards or codes which are set by ARGA (though as noted in section 8, we do not propose to levy micro-entities that apply reporting standards set by ARGA);
- apply standards, codes, guidance or other regulatory requirements set or endorsed by ARGA; or
- can be identified as directly benefitting from ARGA's regulatory activities, including its work to influence international standards and promote innovative solutions to corporate governance, reporting, auditing, investor stewardship and actuarial issues.

3.8 Final decisions on the scope of ARGA's funding arrangements and the definition of the funding groups will depend on the legislation Government puts in place. The arrangements will provide for changes in their scope.

Transparent

3.9 ARGA should consult annually on its funding requirement and the levies that are charged, explaining the basis on which they have been set. ARGA should also consult publicly on any changes to its funding policies and the scope of its levies.

3.10 ARGA should make information publicly available on the costs and activities being funded by levy payers. The basis for the apportionment model and the way in which levies are calculated should be set out in a Funding Rule Book (analogous to the FCA FEES Rule Book). Levies should be charged based on objective data, and publicly available data where possible.

3.11 In line with the provisions of the Regulators' Code, ARGA's website should provide guidance on its funding arrangements.

Proportionate

3.12 ARGA should operate its funding model on a basis that is cost-effective and, as far as possible, stable from the perspective of ARGA's levy-payers. The amounts required from each funding group should be in proportion to a reasonable assessment of the scope and nature of ARGA's regulatory activities or the benefits of ARGA regulation for that group; and should not have any significant adverse impact on growth and competition.

3.13 We do not propose that, in general, levy contributions should be adjusted to reflect the risks associated with individual sectors or entities. Nor should contributions be calibrated to incentivise behaviours by offering discounts for certain outcomes. We do, however, believe that the amounts charged to the entities within each group should take account of an entity's size, and the importance of ARGA regulation for that group. ARGA should be able to set a minimum size for the organisations to which levies will apply. For smaller organisations a flat rate levy may be more efficient. In line with the principle of proportionality, there will be groups that fall within the categories set out in section 3.7 that are not required to contribute to ARGA funding.

3.14 In line with the Regulators' Code, ARGA will aim to ensure that the costs of complying with ARGA's funding requirements – including through the provision of tariff data – do not impose disproportionate costs on levy payers.

3.15 While recognising that market participants generally benefit from high standards of conduct, the costs of operating ARGA's enforcement regimes should be met by specific funding groups, determined by reference to the scope of each regime. Where it is provided for in the legislation governing the regime, costs of an individual case should be recovered at the successful conclusion of the case.

3.16 We do not propose that ARGA should seek to retain financial sanctions under any of the ARGA enforcement regimes. In line with Managing Public Money, financial sanctions should pass to Government.

Question 1

Do you have any comments on the proposed guiding principles for ARGA's overall funding arrangements?

4. ARGA's annual plan, budget and funding requirement

Annual plan and budget

4.1 ARGA will operate its funding arrangements within the terms of a Framework Document agreed with BEIS and HM Treasury.

4.2 ARGA will publish each year, following public consultation, a business plan and budget explaining the basis on which it will set its funding requirement and levies. The plan and budget, which will determine the resources sought from stakeholders through the statutory funding arrangements, will be reviewed and approved by the Secretary of State as provided for under the Framework Agreement.

4.3 The business plan will be based on a published three-year strategy and include an annual work programme and key indicators. ARGA will report on the delivery of its regulatory objectives in its Annual Report.

Annual funding requirement

4.4 ARGA will each year set a funding requirement for each of its regulatory activities, which in aggregate will comprise its overall annual funding requirement. This will be set at a level that provides ARGA with adequate resources to perform its regulatory functions, deliver the projects and activities in its published plan, maintain its ability to drive innovation and respond to regulatory issues that require attention, and enable it to influence UK and international developments in support of its overall objectives.

4.5 ARGA will consult on the annual funding requirement and explain the basis on which it has been set for each regulatory activity and in aggregate. For each activity, ARGA will consider the resources it requires for the period of its three-year strategy and will take account of any under or over-collection from earlier years.

4.6 In setting the annual funding requirement for each regulatory activity to meet the costs of that activity, ARGA will apportion overhead costs in proportion to the direct costs of each activity - unless an alternative allocation provides a fairer basis for allocating the costs. In any event, ARGA will avoid cross-subsidies between different activities, and will publish the basis on which central costs are allocated and policies on working capital and reserves.

Annual funding requirement – enforcement

4.7 The Government intend that ARGA should operate four enforcement regimes: for auditors, accountants, directors and actuaries. ARGA's funding model should enable it to operate effective investigative and enforcement arrangements for each of these regimes.

4.8 The overall budget and funding requirement for ARGA's enforcement regimes will need to cover work on cases, support for those engaged in cases, work to maintain the framework of published policies and procedures for the enforcement regimes, and the core costs of ARGA's enforcement team, including professional development, knowledge management and cross-cutting case issues. There will in addition be an allocation of corporate overheads. To avoid cross-subsidy and apply the proposed activity block approach, there should be an annual budget and funding requirement for each of the four regimes (as a defined activity block) within the overall enforcement budget, charged to the entities in scope for each regime.

4.9 Annual expenditure on enforcement, as cases are taken forward and concluded, is inherently difficult to budget for. The funding arrangements for ARGA's enforcement regimes will therefore require it to set an annual budget and funding requirement for its enforcement activities recognising that this is likely to be more or less than is actually required. In consulting on its annual budget and funding requirement, ARGA should acknowledge the likely fluctuations in expenditure on enforcement activities and hence the amounts it will require from certain funding groups.

4.10 In setting the budget and funding requirement for each enforcement regime, and hence determining the annual levies to fund that regime, ARGA will take into account data on the annual costs of cases and on case costs recovered. (For the existing Audit Enforcement Procedure and planned accountancy regime this will require us to use FRC data; for the new directors and actuarial regimes we will need to establish a basis for setting the initial budget). As for other elements of ARGA funding, the funding requirement for each scheme will be based on the annual budget adjusted for over or under-spends for the previous year.

4.11 In line with the Government proposals, there should also be provision for top-up levies in the event of underbudgeted costs, and for levy funds to be pooled as cash flow, albeit separate annual accounts will be maintained for each regime.

Annual funding cycle

4.12 The annual funding cycle will be part of the overall ARGA planning and reporting cycle. It will operate as follows:

Autumn	ARGA determines its overall funding requirement for the following year.
January	ARGA publishes for consultation its annual funding requirement and proposed levies.
April	ARGA publishes its levies for the coming year with a feedback statement responding to any points raised by stakeholders on the annual levies and noting any changes to the funding arrangements.
April onwards	ARGA collects the levies.

Question 2

Do you have any comments on the proposals for setting ARGA's annual funding requirement?

5. Setting ARGA's annual levies

Procedures

5.1 The following key documents will set out the procedures and processes that will govern the annual levies. They will be prepared in accordance with *Managing Public Money*, and flow from the funding model set out in section 3 and the arrangements proposed in section 4. Each document will be published and made available on ARGA's website:

ARGA Funding Principles. These will set out the policies underpinning ARGA's levies. There will be provision for future scope changes - including arrangements for introducing additional levies to fund regulatory activities phased in following the establishment of ARGA.

ARGA Funding Rule Book. This will set out the basis on which levies are calculated. It will be broadly unchanged from year to year in its structure but will be updated annually for (a) the levy rates that will apply in the reference year, and (b) specific changes in the application of the rules that have been subject to announcement and consultation.

Annual Levy Consultation Document. This will explain the proposed levy rates in the context of ARGA's annual Plan & Budget.

Annual Levy Feedback Statement. This will confirm the levy rates that will be applied and any changes to the ARGA Funding Rule book.

Calculating the levies

5.2 The ARGA Funding Rule Book will be prepared within the legislative framework that Government provide, and subject to consultation. The Rule Book will specify:

- the activities for which the levies are being applied and the costs that are being charged,
- those prescribed groups that will be required to pay the levies,
- the period for which the levies will be charged,
- the timetable for paying the levies for each group,
- the data required from each group or entity for the purposes of the levies,
- the way in which the levies will be calculated.

5.3 The Rule book will specify all matters of detail, including the process for collecting levy payments, procedures and processes for data collection, data cleansing, appeals (adjustments and refunds), invoicing and queries, the basis on which unpaid amounts can be recovered (for example as civil debts to ARGA) and the interest payable on late payments.

Question 3

Do you have any comments on the proposed approach to setting ARGA's annual levies?

6. Audit regulation

6.1 As Competent Authority for audit in the UK, ARGA will set auditing and ethical standards, monitor audit quality and investigate and take enforcement action where appropriate. The Government intends to give ARGA new powers to monitor the audit market and audit firm resilience more effectively and powers to take action against regulatory non-compliance.

6.2 Currently, the FRC obtains its funding for audit regulation through the Consultative Committee of the Accountancy Bodies (CCAB). Following the approach set out by Government in its White Paper, we propose that ARGA implements a significant change to this arrangement. ARGA should seek funding:

- for certain functions through a direct levy on the PIE audit firms, calculated on the basis of each firm's overall fees from audits of PIEs in the previous year;
- for certain functions through an annual levy on the professional bodies; and
- for certain functions through contributions from both groups.

6.3 The individual PIE audit firms and each professional body will be required to submit the necessary annual data. As far as possible, ARGA will base its requests for levy data on information that is already gathered for other purposes.

6.4 It will be for further consideration how the levies are applied to the professional bodies. At present the CCAB bodies determine the basis on which each member body contributes to the overall FRC funding requirement. As ARGA will apply levies to each body, it will need to establish a basis for calculating the levy that fairly takes into account the importance of ARGA's regulatory activities for each body.

6.5 We recognise that the bodies (including CCAB and other bodies) will wish themselves to consider the appropriate basis for applying the levies. The annual contribution could be calculated on the basis of the size of the membership of each body, or through a minimum contribution from each body supplemented by a levy based on the size of membership. We will consult further in due course and would welcome initial views on the options ARGA should consider.

6.6 The following table summarises our proposals for funding the audit activity blocks. The activities listed here and for other blocks are non-exhaustive.

	Activity block	Proposed funding group
A1	**Audit market and audit firm supervision**	PIE audit firms
	Apply measures to boost resilience, competition and choice in the audit market. *Monitor developments in the statutory audit market; require information relating to firms' audit quality*	

	and firm wide resilience; and require audit firms to address any concerns identified. *Commission expert reviews of PIE audit firms.* *Set the meaningful percentage share for the purpose of shared audits.* *Set rules on operational separation of audit and non-audit functions within multidisciplinary firms.* *Operate a market share cap in the event of a failure of a major audit firm.* *Exercise market monitoring powers under the Enterprise Act 2002.* *Hold firms to account for audit quality.* *Drive forward-looking audit firm supervision.* *Drive enhanced firm resilience.*	
A2	**Auditor registration**	PIE audit firms
	Control and oversee the registration of PIE auditors.	
A3	**Auditing standards**	50% PIE Audit firms 50% RSBs
	Issue auditing standards and guidance and influence the development of international auditing standards.	
A4	**Audit quality review**	PIE audit firms
	Monitor the quality of statutory audit by PIE audit firms.	
A5	**Audit Enforcement**	PIE audit firms
	Operate a statutory investigation and enforcement regime in respect of auditors.	
A6	**Professional oversight**	RSBs/RQBs
	Recognition and oversight of the Recognised Supervisory and Qualifying Bodies	
A7	**Third country auditor regulation**	Third Country auditors RSBs

		Listed companies through the preparers levy
	Third country audit functions – including registration, monitoring and enforcement	

Competition, choice and resilience in the UK audit market

6.7 ARGA's role in promoting competition, choice and resilience in the UK audit market will complement its key objective of promoting and improving audit quality over time. ARGA will supervise the major audit firms, including their governance, structure, audit quality management, culture and resilience, and will report views on each firm accordingly.

6.8 This work will ultimately benefit the firms themselves and the wider public interest; and we believe that it is fair and proportionate for the major audit firms subject to direct supervision to provide the necessary funding through their annual levy; and that they should contribute in proportion to their fee income from PIE audits.

PIE auditor registration

6.9 With Government support, the FRC has consulted on its proposals for assuming responsibility for PIE Auditor Registration. The FRC Board approved the necessary regulations in July 2022.

6.10 This role will be to ensure that firms and registered individuals who sign PIE audit reports meet the registration requirements in the regulations. It will be an integral part of the FRC and eventually ARGA's regulatory toolkit and should therefore be funded by the firms subject to registration and supervision.

6.11 The regulations state that it is a requirement that a registered firm pays any registration fees imposed by the FRC. We propose that this role should be funded solely by the registered firms. This could either be through a discrete annual registration fee or as part of the annual levy charged to each firm based on its audit fee income from PIE audits.

6.12 On balance, we favour incorporating the costs of auditor registration within the annual levy as a simpler mechanism that will not in practice make a difference to the overall charge to each firm. However, should the operation of the new audit registration arrangements, once implemented, suggest that it would be fairer to apply a separate annual charge for individual firms, ARGA could consult further on its charging policy.

Standards

6.13 The FRC currently provides auditing and ethical standards, with guidance for auditors on their application. It also provides standards on Audit Engagements, Providing Assurance on Client Assets to the Financial Conduct Authority, Investment Reporting, and Review Standards for Interim Financial Statements that provide basic principles and essential procedures, with related guidance, for accountants on assurance engagements closely related to an audit of financial statements.

6.14 As UK audit regulator, ARGA's role in setting UK auditing standards and influencing the development of international standards will benefit both audit firms with PIE audits and the wider audit profession.

6.15 In the absence of a suitably precise metric, we propose that the costs of developing and maintaining auditing standards should be allocated in the following proportions:

- 50% should be met by to audit firms with PIE audits; and
- 50% should be met by the recognised supervisory and qualifying bodies on behalf of the wider audit profession - representing firms and individuals applying ARGA standards to work that does not involve PIE audits.

6.16 The contributions from audit firms with PIE audit clients should be calculated as part of the annual levy applied to each firm. The contributions from the recognised bodies should be calculated as part of the overall levy on each body.

Monitoring

6.17 The FRC currently recovers the actual costs of its annual programme of audit quality reviews by agreement with the CCAB. We propose that in line with the overall approach to annual planning, budgeting and funding, ARGA should set an annual budget for its programme of reviews and recover the costs through the levy on audit firms with PIE audits (as a class rather than individually) – adjusting the following year's levies to reflect any over or under collection from the previous year.

6.18 In practice this will mean that the largest of the audit firms, with the majority of PIE audits, will fund substantially the largest share of the costs of the annual programme. This would seem to be both fair and proportionate.

Auditor Enforcement

6.19 Continuing the current FRC role, ARGA will operate an investigation and enforcement regime in respect of auditors – the Audit Enforcement Procedure (AEP). Following from the principles set out in section 3.15, we propose that the PIE audit firms should fund the AEP.

Professional oversight

6.20 ARGA will oversee the regulatory activities of the recognised supervisory and qualifying bodies. ARGA will need to be satisfied that each RSB and RQB should continue to be recognised for the purpose of statutory audit; and will provide independent oversight of audit qualifications awarded by the RQBs for the purpose of statutory audit.

6.21 FRC's responsibilities for professional oversight are currently funded by the CCAB which itself determines the proportion of the overall contribution to be provided by each of its member bodies. We propose that in future ARGA should levy each body separately for oversight of its activities as an RSB (based on the number of member firms) and as an RQB based on numbers of qualified members. But the FRC is open to alternative suggestions as to how these costs might most fairly be allocated.

Third country auditors

6.22 The FRC is responsible for the regulation of auditors of companies outside the UK that have issued securities admitted to trading on UK regulated markets (third country auditors - TCAs). ARGA will assume this role.

6.23 Under UK law, audit regulation involves the principles of 'equivalence' (where another country is deemed to apply a consistent standard of audit oversight) and 'adequacy' (where the Competent Authorities of other countries are deemed 'adequate' for the purposes of sharing audit working papers).

6.24 With Government agreement, and following consultation, the FRC currently funds the cost of equivalence assessments from the TCA registration fee (10%), the audit professional bodies (45%), and the preparers levy (45%). The cost of 'adequacy' assessments is met from the preparers levy on listed companies. We propose that ARGA should continue this arrangement, under which listed entities contribute to an element of audit regulation, subject to review in the light of ARGA's overall responsibilities and funding arrangements.

Mutual Recognition Agreements

6.25 The UK is seeking Mutual Recognition Agreements (MRAs) with individual third countries through which statutory audit rights held by the third country's auditors will be recognised in the UK, with recognition of UK qualifications in the third country on a reciprocal basis. The MRAs will benefit both UK and third country interests.

6.26 We propose that the initial programme of work to establish MRAs should be funded by the professional bodies as part of their overall contribution to current FRC, and in future ARGA's, regulatory oversight regime, but that this arrangement should be kept under review.

Question 4

Do you have any comments on the proposed approach to setting ARGA's annual levies for its responsibilities in relation to audit?

7. Supervision of accountants and their professional bodies

7.1 The Government propose to introduce a new statutory regime for the oversight of accountancy to include not only the chartered bodies but also professional bodies whose members are required to hold professional-level accountancy qualifications. This will cover all aspects of these bodies' regulatory functions other than those where separate statutory oversight arrangements already exist (such as statutory audit services and those directly supervised by other regulators including insolvency services, anti-money laundering supervision and legal service).

7.2 The FRC proposes that the regulation of accountants and their professional bodies should be funded through annual levies on the professional bodies within the scope of the oversight arrangements and the enforcement regime.

Reference	Accountants	
B1	**Oversight**	Professional accountancy bodies
	Independent oversight of the professional accountancy bodies' regulatory functions.	
B2	**Enforcement**	Professional accountancy bodies
	Enforcement in cases involving members of the professional accountancy bodies that relate to the public interest.	

7.3 The new enforcement regime for accountants will cover all relevant professional bodies. The cases that are taken on will relate to matters within ARGA's general objectives and functions (principally corporate reporting) which give rise to public interest concerns. The regime for accountants should be funded by accountancy profession through arrangements consistent with those for audit firms and auditors.

7.4 All the professional bodies in scope will be required to contribute to the costs of the oversight and enforcement regimes. We would welcome views on whether and how membership in terms of numbers of firms and individuals and the importance of ARGA regulation for each body should be taken into account.

Question 5

Do you have any comments on our proposals for funding ARGA's responsibilities in relation to accountants and their professional bodies?

8. Regulation of corporate reporting

8.1 The Government propose to give ARGA new powers to strengthen the current corporate reporting review function and to hold directors to account where they breach requirements in carrying out their statutory duties.

8.2 We propose that companies and other PIEs in scope should fund ARGA's work in relation to corporate reporting through an annual levy on defined categories of accounts preparers (the preparers levy). In line with the Government's tiered approach to corporate reporting requirements, the funding requirement for each category, and the levy charged, will be set on the basis of ARGA's activities in relation to that category.

8.3 Following this approach, ARGA's preparers levy should cover listed companies (whose contributions to the FRC are collected at present by the FCA alongside the annual listing fees based on the tariff data submitted to the FCA), large private companies, and other entities falling within the definition of PIEs. We do not propose to continue the current FRC arrangements under which all AIM and public sector bodies are charged a preparers levy: the levy will only be collected from these entities if they fall within the definition of PIEs.

8.4 In general, the categories of accounts preparers should be asked to contribute in proportion to the importance of each activity for each category of preparer and the size of the preparer. We do not propose to seek a contribution from all entities preparing accounts within the requirements of UK company law.

8.5 We propose that as far as possible the ARGA preparers levy should be based on data which companies in scope are required to provide on an annual basis. This will include, where applicable, data on market capitalisation. For large private companies, and any other entity falling with the PIE definition (including LLPs), we would welcome views on whether we should calculate the annual levy on the basis of turnover disclosed in the company's previous years accounts (as at present), use an alternative measure of size, or set a fixed annual fee.

8.6 We will further develop and consult on the proposed arrangements for the preparers levy in the light of the outcome of the FCA consultation on listing arrangements following the Primary Markets Effectiveness Review. We will take into account the arrangements agreed with Government for ARGA's role in securing funding for the UK Endorsement Board and the UK contribution to international standard-setting bodies.

8.7 Subject to that further consideration, the following sections set out our initial proposals for the corporate reporting activity blocks and the funding group for each activity.

Reference	Regulation of corporate reporting	
C1	**UK standards**	Accounts preparers
	Issue UK accounting standards and provide guidance on accounting matters.	

	Set requirements (additional to Company Law) for directors' statutory duties relating to corporate reporting and how directors should demonstrate compliance.	
C2	**Review the quality of reporting (primary focus on reporting by PIEs)**	Accounts preparers
	Ensuring that the provision of financial and other information, including directors' reports, by public and large private companies complies with Companies Act requirements.	
C3	**Enforcement scheme**	Accounts preparers
	Operate a statutory investigation and enforcement regime in respect of directors' corporate reporting and audit-related duties	
C4	**International standards**	Accounts preparers
C4 (a)	*UK Endorsement Board*	
C4 (b)	*UK contribution to international standards for financial and sustainability reporting*	
C5	**Audit committees**	Accounts preparers
	Set minimum requirements on audit committees in relation to the appointment and oversight of auditors – including on stakeholder engagement.	
	Monitor firms' compliance with audit committee requirements.	

UK standards

8.8 UK Company Law currently recognises two financial reporting frameworks. Listed companies are required to apply UK-adopted IFRS. Other entities, including large private companies, can choose to apply UK GAAP for the preparation of their accounts.

8.9 ARGA will (as the FRC does at present) provide the UK framework based on specific requirements set by Government in Company Law and accounting standards which ARGA will set and maintain. The UK framework includes the requirements that apply to micro-entities.

8.10 ARGA could in principle apply levies to all entities subject to the requirements of UK Company Law in order to support its work to set and influence UK reporting standards. However, the FRC takes the view that it would be disproportionate to levy all UK account preparers.

International standards

8.11 The UK Endorsement Board (UKEB) has been set up by Government as an independent body to adopt IFRS for use in the UK and to influence the development of international accounting standards. The UKEB is accountable to the Secretary of State for its technical decision-making and is currently subject to FRC oversight in respect of its governance and due process.

8.12 ARGA is expected to continue to oversee the UKEB, and to collect the costs of its operations from UK market participants on a statutory basis. The costs will be recovered through ARGA's annual preparers levy from those preparers required to adopt UK-endorsed IFRS.

Corporate reporting review

8.13 The FRC propose that ARGA's role in monitoring the quality of corporate reporting should be funded by listed companies, large private companies and other entities falling within the definition of PIEs. This activity block will include ARGA's work to:

- develop and operate a programme of review of annual reports and accounts based on risk assessment which is informed by priority sectors that are determined annually;
- enquire into reports and accounts falling within its remit which come to its attention, whether through selection for review or through referrals and complaints;
- ensure that any published findings in respect of the corporate reporting of an entity are, where appropriate, brought to the attention of other authorities; and
- liaise with the FCA and other authorities in the UK and internationally to foster the consistent application of accounting requirements and improve the compliance of financial information with reporting requirements.

Enforcement against company directors

8.14 ARGA will establish the directors' enforcement regime, to enforce directors' corporate reporting and audit-related duties. All directors of PIEs will be in scope of this new scheme.

8.15 Subject to decisions on the scope and operation of the new regime, it is proposed that this regime should be funded by accounts preparers through the annual preparers levies on listed companies and other PIEs.

Audit committee oversight

8.16 The Government will give ARGA the power to set minimum requirements on audit committees in relation to the appointment and oversight of auditors, and to monitor compliance with the new requirements on audit committees. The monitoring will be conducted through reviews of publicly available information and through new powers to obtain information and reports. Through its corporate reporting review role ARGA will have power to monitor and enforce any audit committee-related disclosure requirements in the annual report. ARGA will be given powers to impose sanctions for failures to comply.

8.17 It is proposed that this work should be funded by those categories of preparers to which the audit committee requirements apply.

XBRL FRC Taxonomies

8.18 The FRC has led the UK initiative to develop the necessary taxonomies to support electronic reporting of company accounts and returns to Companies House and HMRC. The FRC is responsible for issuing, consulting on and maintaining UK taxonomies, which cover both IFRS and UK standards.

8.19 We will consider with Government the appropriate future funding model for this important work and whether it should in future be funded on the same basis as work to set and maintain UK and international corporate reporting standards.

Question 6

Do you have any comments on the proposed approach to setting ARGA's annual levies for its responsibilities in relation to corporate reporting?

9. Corporate governance

9.1 The FRC currently maintains the UK Corporate Governance Code and its associated guidance. The FRC played a leading role in the Coalition Group that issued the Wates Corporate Governance Principles for Large Private Companies.

9.2 The Government proposes that ARGA take forward the FRC's work to promote high standards of corporate governance and should strengthen the UK Corporate Governance Code in respect of internal controls. The Code-based approach will continue to apply to Premium listed companies through the FCA listing rules; but it will influence governance expectations for a wider range of companies.

9.3 The FRC proposes that ARGA's work on corporate governance should be funded by, respectively, listed companies within the scope of the UK Corporate Governance Code, and those entities that fall within the governance principles for large private companies - collected through the annual preparers levy on those entities. This work will include ARGA's role in reviewing relevant aspects of companies' annual reports and accounts.

Reference	Corporate governance	
D1	*Maintaining and monitoring the UK Corporate Governance Code and its associated guidance*	Listed companies in scope
D2	*Monitoring the quality of corporate governance by UK listed companies*	Listed companies in scope
D3	*Monitoring the quality of corporate governance by large private companies*	Companies in scope

Question 7

Do you have any comments on the proposed approach to setting ARGA's annual levies for its responsibilities in relation to corporate governance?

10. Investor stewardship

10.1 The FRC sets and maintains the UK Stewardship Code 2020. The Code sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. ARGA will take on that role as an integral part of its overall responsibilities and will seek funding from the investor community for its work in setting and promoting compliance with Code.

10.2 The UK Stewardship Code applies to asset owners such as pension schemes, insurers, foundations, endowments, local government pension pools and sovereign wealth funds and asset managers who manage assets on behalf of UK clients or invest in UK assets. It also applies to service providers such as investment consultants, proxy advisors, data and research providers that support asset owners and asset managers to exercise their stewardship responsibilities.

10.3 The Government has asked the FRC – working with the FCA, the Department of Work and Pensions and the Pensions Regulator – to carry out a review of the regulatory framework for effective stewardship, including the operation of the Code. It is expected that the review will begin late in 2023 and that it will assess the effectiveness of the Code and the need for any further regulation in this area.

10.4 To date the work on the UK Stewardship Code has been funded by the FRC from its levies on listed companies. However, we regard the principal investor groups to which the Code applies as the main (though not sole) beneficiaries of this work. We therefore propose that ARGA's funding model should include a specific contribution from FCA-authorised asset owners and managers, insurance companies and large pension schemes. We will consult further on the funding arrangements for ARGA's work on investor stewardship.

Reference	investor stewardship	
	Maintaining and developing the UK Stewardship Code and its associated guidance	FCA authorised portfolio managers [FCA fee block A.7] FCA authorised fund managers [FCA fee block A.9]
	Monitoring the quality of reporting on the UK Stewardship Code and maintaining the signatory list.	Insurers [FCA fee blocks A3 and A4] Large pension schemes

Question 8

Do you have any comments on the proposed approach to setting ARGA's annual levies for its responsibilities in relation to investor stewardship?

11. Actuarial regulation

11.1 The Government intends that ARGA should oversee and regulate the actuarial profession, and that this should be placed on a statutory basis.

11.2 Actuarial regulation is predominantly directed at individuals that undertake public interest actuarial work and the actuarial professional bodies. The Government recognises that the identification and definition of public interest actuarial work is not straightforward and proposes to identify the public interest by reference to the entity that undertakes or commissions the work. The Government does not propose to establish a system to regulate entities directly, though in exceptional circumstances action may be taken in relation to an entity where the individual responsible for completing the relevant work cannot be identified or where an issue may arise because of wider issues within an entity. The intention is that the regulatory regime should focus on work undertaken by, or for, PIEs; but should also work in relation to large pension schemes and funeral plan trusts within the perimeter for statutory regulation of the actuarial profession. ARGA will be required to publish and keep under review the scope of the actuarial work that it intends to regulate in the public interest.

11.3 The FRC's actuarial regulatory role is currently funded by the Institute and Faculty of Actuaries and the principal intended beneficiaries of actuarial regulation - insurers and pension schemes. Each of these groups contributes a defined proportion of the overall annual costs of actuarial regulation. The FRC allocates 10% of the costs to the actuarial professional body, 45% to FCA-regulated insurers, and 45% to large pension schemes (with 5,000 or more members). These proportions were set following public consultation.

11.4 In determining fair and proportionate funding arrangements for ARGA's actuarial activities, we propose that the professional body/bodies should primarily fund the costs of overseeing their activities which are in scope and should contribute proportionately to other elements of actuarial regulation and to ARGA's central costs. The remaining, larger, element of ARGA's actuarial budget should cover standard-setting, monitoring and enforcement, and should be met by:

- insurers through an annual levy set by ARGA based on their scale as reported to the FCA;
- pension schemes through an annual levy based on their membership numbers as reported annually to the Pensions Regulator; and
- large funeral plan trusts through an annual levy proportionate to their size.

11.5 Under this approach the costs of standard-setting, monitoring and enforcement should be largely shared by insurers, large pension schemes and large funeral plan trusts, determined by a funding formula based on the most suitable metrics. The metrics will be set following further consultation.

11.6 Decisions on the scope and operation of the enforcement regime will determine the allocation of the overall costs of the enforcement function and arrangements for meeting and recovering the costs of individual cases where these are not funded through the annual levies.

Reference	Actuarial regulation	Actuarial funding groups
E1	**Standards**	Insurers, large pension schemes and large funeral plan trusts
	Setting technical actuarial standards	
E2	**Oversight of the actuarial profession**	Actuarial professional body/bodies
	Independent oversight of the regulatory functions.	
E3	**Monitoring**	Insurers, large pension schemes and large funeral plan trusts
	Monitoring compliance with technical actuarial standards.	
E4	**Enforcement**	Insurers, large pension schemes and large funeral plan trusts
	Operate a public interest investigation and enforcement scheme.	

11.7 For insurers, it is proposed that ARGA should levy those entities in FCA fee blocks A3 and A4. As at present, the levy on pension schemes will apply to schemes above a defined size. The arrangements for levying large funeral plan trusts will take into account the FCA regulatory regime for funeral plan providers to be introduced from July 2022.

Question 9

Do you have any comments on the proposed approach to setting ARGA's annual levies for its responsibilities in relation to public interest actuarial work?

Question 10

Do you have any initial comments on the metrics that should be applied to determine the appropriate share of the costs of actuarial regulation between the proposed funding groups?

Annex - Consultation questions

Question 1

Do you have any comments on the proposed guiding principles for ARGA's overall funding arrangements?

Question 2

Do you have any comments on the proposals for setting ARGA's annual funding requirement?

Question 3

Do you have any comments on the proposed approach to setting ARGA's annual levies?

Question 4

Do you have any comments on the proposed approach to setting ARGA's annual levies for its responsibilities in relation to audit?

Question 5

Do you have any comments on our proposals for funding ARGA's responsibilities in relation to accountants and their professional bodies?

Question 6

Do you have any comments on the proposed approach to setting ARGA's annual levies for its responsibilities in relation to corporate reporting?

Question 7

Do you have any comments on the proposed approach to setting ARGA's annual levies for its responsibilities in relation to corporate governance?

Question 9

Do you have any comments on the proposed approach to setting ARGA's annual levies for its responsibilities in relation to public interest actuarial work?

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Do you have any initial comments on the metrics that should be applied to determine the appropriate share of the costs of actuarial regulation between the proposed funding groups?

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