



FAO David Andrews; Ethan Moxam

Sent by email only:

21 October 2022

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**FRC Funding the Audit, Reporting and Governance Authority:
Consultation on the Financial Reporting Council proposals
Response on behalf of the Institute and Faculty of Actuaries (IFoA)**

We refer to the FRC consultation on its future funding proposals, published in July 2022. This consultation invites responses on or before 21 October 2022.

This response is on behalf of the IFoA. Broadly, we welcome the proposal to base future funding arrangements for ARGA on principles of fairness, transparency, and proportionality. The introduction of a statutory basis for ARGA's funding arrangements provides stability and certainty for ARGA and its stakeholders, in the public interest. The proposals therefore provide a positive platform to explore appropriate future funding arrangements between the IFoA and ARGA.

We make some general observations below, and also set out our responses to the specific consultation questions relevant to actuarial regulation, in the annex to this letter. These are made in good faith and are intended to build on the ongoing constructive dialogue between the IFoA and FRC in this area.

General observations

The IFoA's response is qualified by the absence of any detailed statutory context at this time. Until that legislative detail is available, it is not possible for the IFoA to evaluate the detailed implications of the proposal. Our comments are restricted to observations of principle and the IFoA reserves the right to comment further when the detail is available.

The proposed funding principles are that ARGA will calculate its funding levies based on fairness, transparency and proportionality. These principles for internal evaluation and cost calculation are welcomed. The proposal explains that this approach to calculation will be transparently communicated to entities subject to a funding request. That detail of how the levies will be calculated will be contained in the ARGA Funding Rule Book (available in due course). It is hoped that these rules will also clarify the extent to which the detailed calculation breakdowns themselves will be shared with entities subject to a statutory funding request and, separately, to the public. That clarification is consistent with the commitment to meaningful transparency and is essential to the IFoA to allow it to fulfill its own accounting obligation to its governing body and members, as a Royal Chartered not-for-profit organisation. In the absence at this stage of any detail, our understanding and assumption is that the net cost to the IFoA of the new arrangements will not increase significantly beyond the level of its current levy. This is upon the basis that proportionate oversight of the IFoA will continue under the new regime, in accordance with the Government's stated policy position. Were this assumption not to be correct we would need to understand the basis for any significantly increased financial impact, and also opportunity to consult and potentially seek approval from our members on any necessary increase in their subscriptions, The IFoA is funded by its members, with subscriptions often paid on their behalf by employers, and ultimately therefore by clients and consumers.

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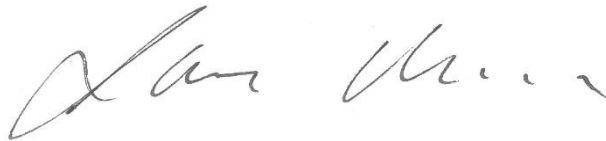
The proposal broadly appears to be that the IFoA levy will be ringfenced to equate to the cost of its own oversight on a "costs incurred" basis. That obligation for payment will rest on a statutory basis, to which both ARGA and the IFoA will be subject. We are aware that the FRC is alive to the risks of "regulatory capture", real or perceived, which we have raised to ensure that this risk is managed appropriately. Subject to the management of this risk, and confirmation in relation to the actual real terms financial impact, the IFoA is supportive of the principle that it pays for oversight but not for ARGA's direct regulatory activities. We recognise that much of the detail is still to be developed but would welcome the establishment of a clear principle that costs will not be sought to be recouped from the IFoA under these proposals unless directly attributable to ARGA actuarial oversight of IFoA relevant regulatory/qualification activities within scope of ARGA's actuarial oversight role.

That broad approach (costs incurred for oversight) appears to be qualified in certain respects in the consultation document, for example in relation to centralised overheads and the cost of transitional arrangements to ARGA. We look forward to continuing our collaborative discussions with the FRC to establish a clear understanding of this aspect, and, in due course to receiving more detailed clarification so that we can fully evaluate the financial impact of the proposal.

The annual approach provides both clarity and a meaningful opportunity for the IFoA to engage in the process every year. This aspect of the proposal will be enhanced by clear links to the FRC's Three Year Plans to facilitate longer-term forecasting, for budgeting purposes. The IFoA welcomes the inclusion of detailed cost estimates just as soon as practical to allow all parties subject to funding levies to fully evaluate these proposals. This will aid the certainty and stability of funding arrangements in the future and improve overall fairness and transparency.

We look forward to discussing these matters in further detail with you.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Stephen Mann". The signature is fluid and cursive, with a large initial 'S' and 'M'.

Stephen Mann
Chief Executive
Institute and Faculty of Actuaries

Annex

IFoA Responses to Specific Questions

Question 1 Do you have any comments on the proposed guiding principles for ARGAs overall funding arrangements?

The proposed funding principles are that ARGAs will calculate its funding levies based on fairness, transparency and proportionality. These principles for internal evaluation and cost calculation are welcomed. In particular we welcome the confirmation that the detailed calculation will be transparently communicated to entities subject to a funding request.

Question 2 Do you have any comments on the proposals for setting ARGAs annual funding requirement?

We support the commitment to transparency and in particular to consultation over a three year strategy time horizon. As a not-for-profit membership organisation, funded by member subscriptions, the IFoA has limited ability to absorb unplanned significant cost impacts and is in turn accountable to its membership for its expenditure. We welcome the commitment to avoiding cross-subsidisation.

Question 3 Do you have any comments on the proposed approach to setting ARGAs annual levies?

That detail of how the levies will be calculated will be contained in the ARGAs Funding Rule Book (available in due course). It is hoped that these rules will also clarify the extent to which the detailed calculation breakdowns themselves will be shared with entities subject to a statutory funding request and, separately, to the public. That clarification is consistent with the commitment to meaningful transparency and is essential to the IFoA to allow it to fulfill its own accounting obligation to its governing body and members, as a Royal Chartered not-for-profit organisation.

Question 9 Do you have any comments on the proposed approach to setting ARGAs annual levies for its responsibilities in relation to public interest actuarial work?

The proposal broadly appears to be that the IFoA levy will be ring-fenced to equate to the cost of its own oversight on a "costs incurred" basis. With two caveats we are broadly supportive of this approach, which appears reasonable, recognising that ARGAs direct actuarial regulatory activities (technical standard setting, monitoring and enforcement) will be focused on public interest activities and not on IFoA membership and therefore it would we believe be inappropriate and inequitable for these direct regulation costs to be borne by IFoA members. Consistent with this approach, we would welcome the establishment of a clear principle that costs will not be sought to be recouped from the IFoA under these proposals unless directly attributable to ARGAs actuarial oversight of relevant IFoA regulatory/ qualification activities. In saying this our two caveats are as follows:-

1. Our understanding, subject to further detail, that the net cost to the IFoA of the new arrangements will not increase significantly beyond the level of its current levy. This is upon the basis that oversight of the IFoA will continue on a proportionate basis under the new regime, in accordance with the Government's stated policy position. Were this assumption not to be correct we would need to understand the basis for any significantly increased financial impact, and also have opportunity to consult and potentially seek approval from our members on any necessary increase in their subscriptions. The IFoA is funded by its members, with subscriptions often paid on their behalf by employers, and ultimately therefore by clients and consumers.
2. The risk of perceived 'regulatory capture'. We are aware that the FRC is alive to this risk and it will be important that this is managed appropriately given new arrangements where actuarial oversight will be entirely funded by the IFoA.

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?

We have no additional comments at this stage, but welcome the commitment to further substantive consultation.