



FINANCIAL REPORTING COUNCIL (FRC) LEVY ON PENSION SCHEMES

FREQUENTLY ASKED QUESTIONS

Why have I received an invoice from the FRC?

The Financial Reporting Council (FRC) is collecting a levy from pension schemes subject to the Pensions Regulator's general levy as part of the arrangements agreed by HM Treasury for funding its new responsibilities for actuarial standards and regulation.

The FRC is the United Kingdom's independent regulator for corporate reporting and governance. We operate with the support of the Government and other stakeholders, with statutory powers deriving from Parliament, to promote confidence in corporate reporting and governance in the UK.

Following the Morris Review of the Actuarial Profession, published in March 2005, HM Treasury asked the FRC to take on new responsibilities for setting actuarial standards (including standards relating to pension and insurance business) and overseeing the regulation of the Actuarial Profession. In April 2006, we assumed our new responsibilities. We work closely with the Department for Work and Pensions, the Pensions Regulator and the Financial Services Authority (FSA) in carrying out our new role.

This note is intended to answer the main questions you may have in relation to the FRC pension levy.

How has the FRC pension levy been calculated?

For 2006/07, we intend to raise a total of £0.8m from the approximately 2000 schemes which will be subject to the FRC pension levy in 2006/07.

In order to raise this amount the levy has been set at a rate of £2 per 100 members for schemes with 1,000 or more members, to include defined benefit, defined contribution and hybrid schemes, and incorporating public service schemes and personal pension plans. We have excluded smaller schemes from the levy for 2006/07 on the grounds that the costs of collection would be excessive in relation to the amount of the levy that would be collected from those schemes.

Scheme membership for individual schemes has been calculated on the basis of the latest scheme returns provided to the Pensions Regulator. It includes all scheme members included in those returns.

What are the FRC's responsibilities in relation to actuarial standards and regulation?

Our objectives are:

- to set independent and high quality standards in relation to pensions, insurance and other matters where actuaries provide advice
- to promote the integrity, competence and transparency of the Actuarial Profession

to the benefit of all those who rely on actuarial advice, directly or indirectly.

We are working closely with the Pensions Regulator and the FSA to ensure that our standards provide, where appropriate, the necessary basis for actuaries advising pension funds and insurance companies to provide advice in a form which enables those entities to comply with the Pensions Regulator's guidance, DWP Regulations and FSA rules. In addition to our standard-setting role, we are overseeing the activities of the Actuarial Profession in regulating its members and implementing the recommendations of the Morris Review, and we are extending our independent disciplinary arrangements to cover public interest cases involving actuaries.

Information on the FRC's role in relation to actuarial standards and regulation is available on our website at www.frc.org.uk This gives details of our governance and accountability and our Plan & Budget for 2006/07 - the basis for the funding arrangements for 2006/07, including the pension levy.

Who is being asked to contribute to the costs of the FRC's new responsibilities?

Following consultation in the context of the Morris Review - and further consultation by the FRC - it was agreed by HM Treasury that the costs the FRC incurs in relation to its responsibilities for actuarial standards and regulation should be met by the main beneficiaries of the new arrangements: life and general insurance companies, pension funds and the Actuarial Profession.

This is in line with the way that the Pensions Regulator and FSA are funded. The actuarial standards for which we are now responsible are relevant to users of actuarial advice, the administrators, trustees and managers of pension funds and the directors of insurance companies as well as to those providing such advice.

Our arrangements for funding our new responsibilities are designed to ensure that pension funds, insurance companies and the Actuarial Profession contribute a reasonable share of the costs we incur, and that the arrangements for collecting the contributions are as straightforward and cost-effective as possible.

For 2006/07, our actuarial responsibilities are being funded through:

- A contribution from the Actuarial Profession equivalent to 10% of the total costs incurred in relation to actuarial standards and regulation - £0.2m in 2006/07.
- A contribution from the pension sector through a levy on the “pension levy group” equivalent to 45% of the total costs - £0.8m in 2006/07. The pension levy group comprises pension schemes which are subject to the Pensions Regulator’s general levy, identified on the basis of information on scheme membership provided to the Pensions Regulator in its scheme returns.
- A contribution from the insurance sector through a levy on the “insurance levy group” equivalent to 45% of the total costs - £0.8m in 2006/07. The insurance levy group comprises life and general insurance companies which are required to pay the relevant FSA regulatory fees (FSA fee blocks A3 and A4). The levy is being collected by the FSA alongside its own fees.

We believe that the new arrangements will be proportionate and cost-effective. They will provide, at a modest cost, benefits for members of occupational and personal pension schemes, including public service pension schemes, and insurance policy-holders, by establishing an independent framework for setting actuarial standards and the regulation of the Actuarial Profession.

What is the FRC’s authority for collecting the levy?

Section 17 of the Companies (Audit, Investigations and Community Enterprise) Act 2004, as amended by section 1275 of the Companies Act 2006, provides a power for the Secretary of State to make regulations enabling the FRC to recover its costs through a levy. Included within the scope of this power are the administrators of public service pension schemes within the meaning of Section 1 of the Pension Schemes Act 1993 and trustees or managers of occupational and personal pension schemes within the meaning of that Section.

It is intended that our new responsibilities should be funded through non-statutory arrangements on the basis of an understanding with the pension and insurance sectors, and the Actuarial Profession, in a way that takes into account the benefits the new regime should provide for these groups in particular. However, should a voluntary approach prove unsustainable, the statutory powers may be invoked to secure payment of the levy and any outstanding contributions in relation to 2006/07 - although the FRC’s clear preference is to avoid the need for this.

The Pensions Act 2004 (Disclosure of Restricted Information) (Amendment of Specified Persons) Order 2006, which came into force on 7 December 2006, provides the necessary statutory authority for the Pensions Regulator to provide the FRC with the information it needs to calculate the amount of the levy in relation to individual schemes.

How are we involving the pension sector in our new role?

The combination of legislation and the requirements of the Pensions Regulator recognise that administrators, trustees and managers are responsible for the key decisions concerning the funding of pension schemes, and that they will do this with the benefit of actuarial information. This clearer recognition of the advisory nature of the actuarial input and the executive nature of the decisions of administrators, trustees and managers places additional demands on them that they need to be in a position to exercise. In recognition of this it is our intention to pay particular attention to the needs of users, and the consistency and clarity of actuarial information.

As part of our approach to this issue we are developing a conceptual framework that will establish consistent principles and concepts that apply to actuarial information. It is our intention that this will help make actuarial information more transparent. In developing the framework we will seek the views of users, including the pension and insurance sectors, as well as practitioners and other regulators.

We will be reviewing the effectiveness of the monitoring and scrutiny of actuarial work, including the peer review arrangements introduced by the Actuarial Profession, which will become mandatory from 1 January 2007. We will also be reporting on the Actuarial Profession's progress in implementing the relevant recommendations of the Morris Review.

What should I do if I have any further questions?

If you have a question about the calculation of the levy in relation to a specific scheme or the method of payment, please contact the Levy Collection Team on 01522 836860 or e-mail frc@hbs.uk.com

If you have a question about any other matter in relation to the levy, please e-mail your question to David Andrews at the FRC on plan@frc.org.uk

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