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Friday 21 October 2022

Dear FRC colleagues,

**Funding the Audit, Reporting and Governance Authority – consultation on the Financial Reporting Council proposals**

We welcome the opportunity to respond to your consultation on funding the Audit, Reporting and Governance Authority (ARGA).

The Quoted Companies Alliance has examined the proposals and responds from the viewpoint of small and mid-sized quoted companies.

Overall, we broadly support many of the proposals contained within the consultation regarding the funding of ARGA. However, we set out below answers to certain specific questions.

If you would like to discuss our response in more detail, please do not hesitate to contact us.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Tim Ward".

Tim Ward  
Chief Executive  
Quoted Companies Alliance

**Q1 Do you have any comments on the proposed guiding principles for ARGA's overall funding arrangements?**

Yes. We agree that the proposed guiding principles should follow the principles on which the Government consulted, which are that the ARGA funding model should be fair, transparent and proportionate. However, regarding the principle of proportionality, and while we agree that the amounts charged to entities within each group should take account of an entity's size, it is not clear why the FRC does not propose to adjust levy contributions to reflect risk. When considering public companies, the difference between the biggest companies on the UK's market and the small and mid-caps that make up the significant majority is stark. They have vastly different levels of resources, and have a very different impact when considering systemic risk.

We urge the FRC to re-consider its approach to the principle of proportionality to take a more risk-based approach so that smaller entities, with a low-level of systemic risk, can have their levy payments adjusted.

**Q2 Do you have any comments on the proposals for setting ARGA's annual funding requirement?**

Yes. We broadly agree with the annual funding requirement.

However, rather than only considering the resources ARGA requires for each of its regulatory activities, we believe that there would be merit in providing some disclosure on how the regulator has avoided producing unnecessary costs and that there is value for money.

Moreover, we strongly disagree with the proposal in paragraph 4.11 that there should be a provision for top-up levies in the event of underbudgeted costs. We believe that this should only be possible in highly exceptional circumstances and done in an open and transparent manner with a suitable period of notice.

**Q3 Do you have any comments on the proposed approach to setting ARGA's annual levies?**

We have no comments.

**Q4 Do you have any comments on the proposed approach to setting ARGA's annual levies for its responsibilities in relation to audit?**

Yes. We agree that a direct levy on PIE auditors, calculated on the basis of each firm's overall fees from audits of PIEs in the previous year, is, in principle, an appropriate approach.

**Q5 Do you have any comments on our proposals for funding ARGA's responsibilities in relation to accountants and their professional bodies?**

We have no comments.

**Q6 Do you have any comments on the proposed approach to setting ARGA's annual levies for its responsibilities in relation to corporate reporting?**

No. We largely agree with the proposed approach to setting ARGA's annual levies for its responsibilities in relation to corporate reporting subject to our concerns highlighted in our response to Q1 being addressed.

**Q7 Do you have any comments on the proposed approach to setting ARGA's annual levies for its responsibilities in relation to corporate governance?**

We have no comments.

**Q8 Do you have any comments on the proposed approach to setting ARGAs annual levies for its responsibilities in relation to investor stewardship?**

We have no comments.

**Q9 Do you have any comments on the proposed approach to setting ARGAs annual levies for its responsibilities in relation to public interest actuarial work?**

We have no comments.

**Q10 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 comments.