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Dear Stephen

Proposal to merge the UKLA with the FRC contained in HM Treasury Consultation: A new approach to financial regulation: judgement, focus and stability

Thank you for asking the Actuarial Profession, along with the FRC's other stakeholders, to submit our views on the proposal contained in the above consultation to consider if this might be an appropriate time to merge the UK Listing Authority (UKLA) and the Financial Reporting Council (FRC). We understand that you will find it helpful information as you prepare your own response to that consultation.

The Actuarial Profession's observations are set out below but our main concern centres on how any change in the FRC's constitution and/or remit is likely to impact adversely on its wider role and responsibilities including those for the oversight of both the accountancy and actuarial professions, public interest disciplinary cases for those professions and actuarial technical standard setting. We would hope that any response you make to Government will deal quite expressly with this issue.

Observations

The rationale behind the Government's wider regulatory reform can be summarised as its need to deal with the weaknesses of the tripartite model comprising the Bank of England, the Financial Services Authority (FSA) and the Treasury.

Dilution of Effect

The FSA's wide remit from dealing with issues ranging from the safety and soundness of large global investment banks to the customer practices of small high-street financial advisers is seen as a weakness. Currently the FRC already has a wide mandate as the UK's independent accounting, auditing and actuarial technical standards regulator, particularly considering its size (an organisation of 90 staff, which has remained relatively constant in staffing numbers since the FRC's formation). There is a real danger that increasing its mandate further will weaken its effectiveness in any one of its current regulatory areas.

Please reply to Staple Inn Hall

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Much of the FRC's company-related work applies to oversight of the arrangements for the computation and presentation stage of financial information which is then used and relied on by investors and the like. In this sense the FRC's work, role and functions go to core providers of that information whereas the UKLA's role relates to the companies which issue securities traded in financial markets. The FSA regulates certain activities relating to securities. Given the wider remit of the FSA's work as a whole, and that the Listing Regime was reviewed earlier this year to ensure greater clarity of structure and the obligations on issuers under it, there seems to be a stronger case for the FSA to remain the listing authority with such responsibilities being transferred to the new Consumer Protection and Markets Authority (CPMA) in due course.

Fit with Current Role

It is also important that the UK's regulatory framework sits well alongside those in the wider European community. We note at paragraph 1.23 of the consultation document that the CPMA will represent the UK at the new European Securities and Markets Authority. It could not do this role effectively if it did not also have responsibility for being the UKLA.

The proposal is positioned as a step towards the creation of a strong Companies regulator under the Department for Business Skills and Innovation (BIS). It is not clear whether in the longer term such a regulator would also be responsible for other aspects of corporate compliance such as pensions (including personal accounts) and employment legislation, and we would hope that there are high level discussions between the various government departments - the Treasury, Revenue and Customs, BIS and the Department for Work and Pensions, with advice from the Better Regulation Executive - to plan out the total regulatory landscape rather than tackling things in a piecemeal fashion. There is a need to ensure that the arrangements work well for small and medium sized enterprises as well as for listed companies. The oversight of professional bodies does not sit comfortably in this mix.

The oversight of the Actuarial Profession was placed under the umbrella of the FRC by voluntary agreement of the Profession following the Morris Review. At the time the Treasury promised a review of the arrangements after a few years and then statutory underpinning of those arrangements. We agreed that it was important that the Board for Actuarial Standards (BAS) had completed its initial suite of standards before we would be in a position to assess the effectiveness of the regime but we would hope that this review would take place before any further change to the FRC's remit is undertaken.

The structure of the FRC with its separate operating bodies is unique amongst regulators. In previous responses to the FRC's budget and plan we have commented on the potential weakness in these bodies not acting as an integrated whole. Extending the remit of the organisation as a whole would seem to exacerbate that problem.

If the FRC is to become the listing authority:

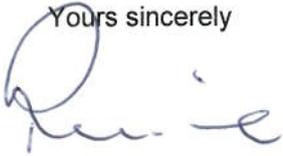
1. From where will the additional funding come?
2. Will that funding be 'ring fenced' from the funding of the FRC's other activities?
3. If there will be 'guaranteed funding' will that cause a conflict of interest within the FRC as to the activities that it prioritises and the general way in which it operates?
4. Will the relevant staff at the UKLA (as well as the systems and allied functions) be transferred to the FRC and, if so, who will bear the costs associated with that? and

5. Will the revised organisation be in split locations?

As the FSA currently has a mandate directly relating to the activities that go to producing the securities which are the subject matter of the listing rules, we question what the merger of the UKLA with the FRC will achieve that is not being accomplished at present.

In summary, as there is a risk that the FRC's pre-existing responsibilities might be adversely affected, the Actuarial Profession is not in favour of the FRC merging with the UKLA but rather feels that the new CPMA becoming the UK's listing authority is the preferred approach.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Ronnie Bowie', with a large, stylized initial 'R'.

Ronnie Bowie
President
Institute and Faculty of Actuaries