IFA REPRESENTATION 02/23

FCA regulated fees and levies: rates proposals for 2023/24 (CP23/7)

The IFA welcomes the opportunity to comment on the consultation paper published on 5 April 2023.

We would be happy to discuss any aspect of our response and to take part in any further consultations in this area.

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Established in 1916, the Institute of Financial Accountants (IFA) is an internationally recognised professional accountancy membership body. Our members work within micro and small to medium-sized enterprises or in micro and small to medium-sized accounting practices advising micro and SME clients. We are part of the Institute of Public Accountants (IPA) of Australia Group, the world's largest SME-focused accountancy group, with more than 49,000 members and students in 100 countries.

The IFA is a full member of the International Federation of Accountants (IFAC) the global accounting standard-setter. We are recognised by HM Treasury and the Financial Services Authority in the Isle of Man to supervise our members for the purposes of compliance with the Money Laundering Regulations.[1]

For more information, please contact the IFA mail@ifa.org.uk

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[1] The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017

Our comments

1. The IFA's interest (and that of its members) in the consultation paper arises primarily in the activities of the Office for Professional Body Anti-money laundering Supervision (OPBAS) and the proposed levy for the professional body supervisors (PBSs). It is our view that there has always been a lack of transparency in respect of OPBAS's strategic planning. Therefore, we have chosen to provide only general comments in response to this consultation paper.

2. We welcome the recognition by the FCA that *'many businesses, including those we regulate, are facing cost pressures. […] As a result, we propose freezing minimum and flat rate fees to ease the pressure on the smallest firms.'*[2] This is important to the IFA and the firms it supervises for anti-money laundering compliance, which are all small and micro practices. (The increase in the minimum fee for PBSs last year was 6.2%, and there was no explanation given then of why that increase was more than the increase in the annual funding requirement of 4.96%.)

3. The FCA's Business Plan for 2023/24 was published alongside the fees and levies consultation paper. It appears the only line in the Business Plan relating to the supervision of the PBSs is under 'Key activities we will continue during 2023/24'. It simply states: 'Continue to enhance our proactive supervision through the Office for Professional Body Anti-Money Laundering Supervision'.[3] This is vague and provides no basis on which to assess the reasonableness of the costs being incurred by OPBAS. (The FCA's 2022/23 Business Plan was similarly vague regarding OPBAS, saying only that the FCA would 'Proactively supervise through the Office for Professional Body Anti-Money Laundering Supervision'.)

4. There is a reference in paragraph 1.8 of the consultation paper to the reasons behind the increase in the annual funding requirement (£684.2m), which include 'inflationary pressure'. At a time when employers are being asked to restrict pay increases to significantly below the rate of inflation, we would expect this aspect of the annual funding requirement to be contained accordingly.

5. There are errors in table 2.1, which make it difficult to respond to this consultation. However, it appears that the estimated annual funding requirement (AFR) of £684.2 million represents an increase of 8.5% over the actual costs incurred in 2022/23. This includes estimated costs of ongoing regulatory activities of £664.4 million (an increase of 7.5%) and exceptional expenditure on the Future Regulatory Framework project of £12.7 million, which 'will affect all FCA fee-payers'.[4]

6. The proposed increase in the variable fee last year was 20.9%, with no explanation/justification in last year's consultation paper. Similarly, in the consultation paper for 2023/24, the proposed increase of 9.6% is not explained. In summary, the consultation paper does not provide sufficient information to be able to draw any conclusions.

7. The nature of professional firms subject to AML supervision by their professional body supervisors is very different to those firms falling within other fee-blocks. Therefore, we reiterate our view that the funding of OPBAS should be ringfenced and accompanied by a business plan detailing how funding will be applied to OPBAS's supervisory activities.

8. We support the work of OPBAS and are committed to working alongside OPBAS (or its successor under a future supervisory framework) to uphold the public interest. However, we are concerned that the current funding model places undue reliance on the largest PBSs for its funding. Supervisory independence must be dependent upon public funding if decision-making in the public interest is to be assured.

Contact details

Should you wish to discuss this response further, please contact Tim Pinkney, Head of Practice Standards, by email at timp@ifa.org.uk.

[2] FCA regulated fees and levies: rates proposals for 2023/24 (CP23/7), page 5
[3] FCA, Business Plan 2023/24
[4] FCA regulated fees and levies: rates proposals for 2023/24 (CP23/7), page 7