

Financial Services Compensation Scheme Levy Calculation Notes

2014/15 Rates

HOW IS THE FSCS LEVY CALCULATED?

A. Overview

The FSCS levy is made up of two elements:

- Management expenses; and
- Compensation costs.

Management expenses levy – covers the costs of running the compensation scheme. The management expenses levy is made up of *base costs* (operating costs not directly related to the payment of compensation) and *specific costs* (operating costs that are directly related to the payment of compensation arising from valid claims).

The management expenses levy limit for 2014/15 was consulted on in the FCA's Consultation Paper CP14/1 (January 2014).

Compensation costs levy – provides the funds to make valid compensation payments. All participant firms are required to contribute to *base costs*. *Specific costs* and *compensation costs* are not payable by FSCS exempt firms or newly authorised firms in their first authorised year.

Changes to the way in which the FSCS Levy is calculated: Following concerns expressed about the structure, how costs are allocated, affordability and unpredictability of the FSCS's funding arrangements a further review of the FSCS Funding was instigated. It began in July 2012 and looked at the way in which the FSCS compensation and specific costs were funded – the Base cost element was not under review.

The outcome of the review was that from 2013/14 the way in which the FSCS is funded altered. For further information on the 2012/13 FSCS Funding Review, please refer to our Policy Statement PS13/4.

Following legal cutover in April 2013, firms who are dual regulated will pay FSCS Base Costs towards both their FCA and PRA fee-blocks.

B. Exemptions

Firms that have submitted valid exemptions (under *FEES 6.2.1R*), are excluded from specific and compensation costs, but are still liable for their share of base cost levies.

C. FSCS Levy - calculation

To calculate the FSCS Base Costs levy we need to know the Total Base Costs the FSCS require to raise in 2014/15 and the total Regulatory Costs of the FSCS participants for each contribution group within both FCA and PRA. FCA contribution groups start with A whilst PRA contributions groups start with P.

The table below lists the information used for the 2014/15 rates.

| Contribution Group | Total Regulatory Cost | FSCS Base Costs to be Levied |
|---------------------------|------------------------------|-------------------------------------|
| AP00 | 16,366,694 | 200,000 |
| A000 | 16,764,340 | 110,000 |
| A001 | 60,988,231 | 390,000 |
| A002 | 16,033,516 | 120,000 |
| A003 | 22,747,063 | 140,000 |
| A004 | 38,416,032 | 230,000 |
| A006 | 306,774 | 2,000 |
| A007 | 42,555,460 | 340,000 |
| A009 | 12,427,782 | 120,000 |
| A010 | 43,434,224 | -1,000,000 |
| A013 | 66,944,480 | 570,000 |
| A014 | 11,729,206 | 70,000 |
| A018 | 15,611,361 | 110,000 |
| A019 | 25,846,428 | 20,000 |
| A021 | 13,426,970 | -542,000 |
| PA01 | 150,492,096 | 1,400,000 |
| PA03 | 28,231,191 | 790,000 |
| PA04 | 36,967,896 | 890,000 |
| PA06 | 1,772,360 | 40,000 |
| Total | | 4,000,000 |

To calculate the specific costs levy and compensation costs levy we also need to know the total FSCS tariff data for each class and the amounts FSCS are to raise for each class. The table below details these figures for 2014/15.

| Class – Tariff Base | Tariff Base | FSCS Specific Costs | FSCS Class Compensation Costs |
|----------------------------|--------------------|----------------------------|--------------------------------------|
| SA01-PD | 1,006,018,138,008 | 16,947,490 | -947,490 |
| SB01-RNPI | 44,268,528,318 | 1,797,718 | 51,452,282 |
| SB01-EGTL | 68,608,887,447 | 599,239 | 17,150,761 |
| SB02-AEI | 8,589,708,670 | 15,849,741 | 22,150,259 |
| SC01-RNPI | 81,312,938,978 | 215,815 | -215,815 |
| SC01-EMR | 969,140,510,536 | 71,938 | -71,938 |
| SC02-AEI | 3,277,067,223 | 4,060,387 | 28,939,613 |
| SD01-AEI | 4,034,334,481 | 481,655 | -481,655 |
| SD02-AEI | 3,818,082,452 | 12,231,588 | 99,768,412 |
| SE02-AEI | 952,196,111 | 758,251 | 1,241,749 |
| Total | | 53,013,822 | 218,986,178 |

Sample calculation

Firm X is solo regulated by the FCA and is allocated to the A013 contribution group and in FSCS classes SC02 and SD02.

At the valuation date of 31 December 2013 it had annual income of £480,000 in respect of FCA fee-block A013, £288,000 of eligible annual income in respect of class SC02 (Life & Pensions intermediation) and £192,000 of eligible annual income in respect of class SD02 (Investment intermediation).

Based on the annual income of £480,000 the A013 FCA regulatory cost (the FCA charge after discounts but before deductions) for 2014/15 will be £1,067.80

The FCA regulatory cost for the minimum fee (fee-block A000) for 2014/15 is £1,000 and the FCA prudential costs (fee-block AP00) for 2014/15 will be £126.00.

Base Costs Levy: Base costs are calculated by reference to the share of a firm's regulatory cost as a proportion of the total regulatory costs (in each contribution group). The calculation is shown below.

| A000 Contribution Group | | | |
|--|--|---|-------|
| Base Costs Levy | $\frac{\text{Firm's A000 FSCS Reg.Cost} \times \text{A000 Base Costs to be raised}}{\text{Total A000 FSA Regulatory Costs}}$ | $\frac{1,000 \times 110,000}{16,764,340}$ | £6.56 |
| Total A013 FSCS Base Costs Levy | | | £6.56 |

| A013 Contribution Group | | | |
|--|--|--|-------|
| Base Costs Levy | $\frac{\text{Firm's A013 FSCS Reg.Cost} \times \text{A013 Base Costs to be raised}}{\text{Total A013 FSA Regulatory Costs}}$ | $\frac{1,067.80 \times 570,000}{66,944,480}$ | £9.09 |
| Total A013 FSCS Base Costs Levy | | | £9.09 |

| AP00 Contribution Group | | | |
|--|--|--|-------|
| Base Costs Levy | $\frac{\text{Firm's AP00 FSCS Reg.Cost} \times \text{AP00 Base Costs to be raised}}{\text{Total A013 FSA Regulatory Costs}}$ | $\frac{126.00 \times 200,000}{16,366,694}$ | £1.54 |
| Total A013 FSCS Base Costs Levy | | | £1.54 |

Compensation and Specific Costs Levy: The Specific and Compensation costs are calculated by reference to the share of the firm's tariff data as a proportion of the total FSCS tariff data (in each sub-class). These calculations are shown below.

| SC02 Class : Life & Pensions intermediation | | | |
|--|--|---|-----------|
| Specific Costs Levy | $\frac{\text{Firm's SC02 tariff data} \times \text{Total FSCS SC02 Specific Cost}}{\text{Total SC02 fee tariff base}}$ | $\frac{288,000 \times 4,060,387}{3,277,067,233}$ | £356.84 |
| Compensation Costs Levy | $\frac{\text{Firm's SC02 tariff data} \times \text{Total FSCS SC02 Compensation Cost}}{\text{Total SC02 fee tariff base}}$ | $\frac{288,000 \times 28,939,613}{3,277,067,233}$ | £2,543.31 |
| Total SC02 FSCS Levy | | | £2,900.15 |

| SD02 Class : Investment mediation | | | |
|--|--|---|-----------|
| Specific Costs Levy | $\frac{\text{Firm's SD02 tariff data} \times \text{Total FSCS SD02 Specific Cost}}{\text{Total SD02 fee tariff base}}$ | $\frac{192,000 \times 12,231,588}{3,818,082,452}$ | £615.09 |
| Compensation Costs Levy | $\frac{\text{Firm's SD02 tariff data} \times \text{Total FSCS SD02 Compensation Cost}}{\text{Total SD02 fee tariff base}}$ | $\frac{192,000 \times 99,768,412}{3,818,082,452}$ | £5,017.06 |
| Total SD02 FSCS Levy | | | £5,632.15 |

Therefore the FSCS Levy total for Firm X during 2014/15 will be:

| FSCS Levy Type | Value |
|---|------------------|
| A000 Levy (Base Costs) | £6.56 |
| A013 Levy (Base Costs) | £9.09 |
| AP00 Levy (Base Costs) | £1.54 |
| SC02 Levy (Specific & Compensation Costs) | £2,900.15 |
| SD02 Levy(Specific & Compensation Costs) | £5,632.15 |
| Net FSCS Levy Total | £8,549.49 |