

Regulatory fees and levies: policy proposals for 2018/19

Consultation Paper

CP17/38**

November 2017

How to respond

We are asking for comments on this Consultation Paper (CP) by 15 January 2018.

You can send them to us using the form on our website at: www.fca.org.uk/cp17-38-response-form.

Or in writing to:

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1 Summary

Why we are consulting

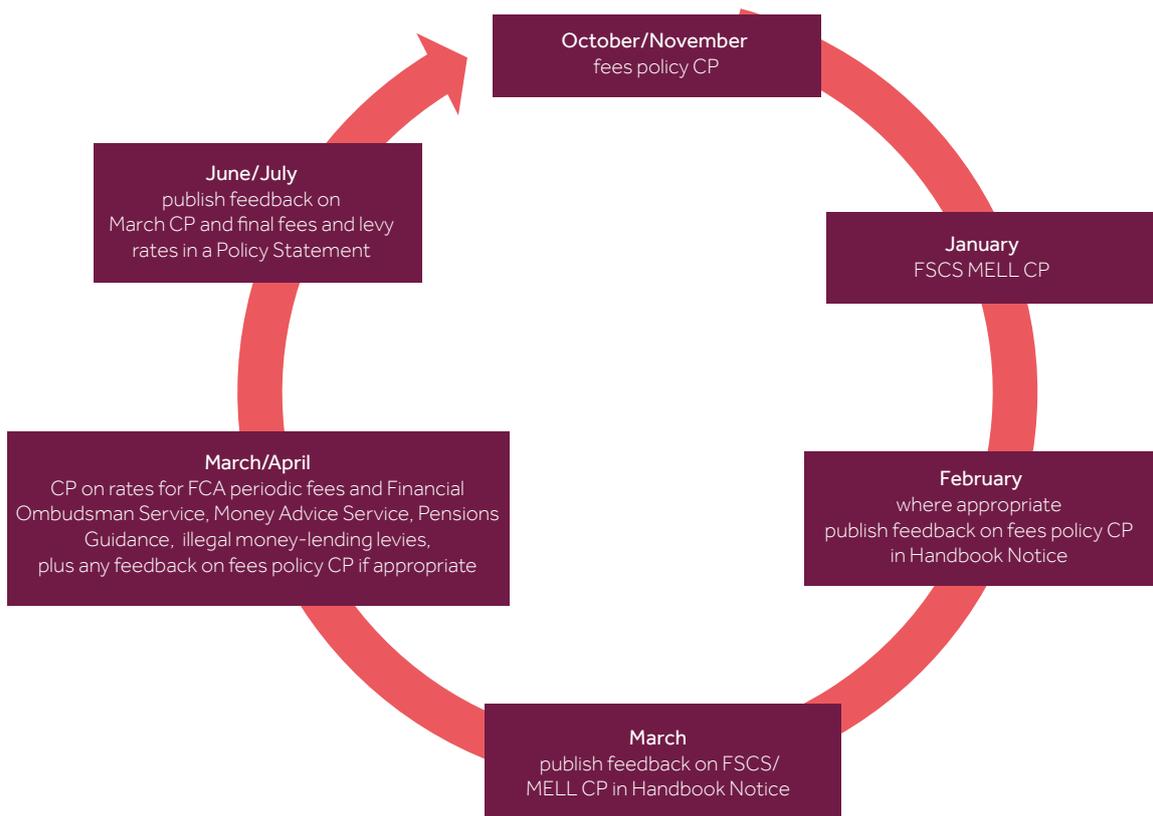
- 1.1** This consultation paper (CP) sets out our proposed policy changes to the way that FCA fees will be raised from 2018/19. We are funded entirely by the fees and levies recovered from the firms we regulate. We do not receive any funding from other sources.

Who this applies to

- 1.2** Each chapter deals with a specific policy area and identifies the firms and other bodies it will affect. There is a summary in Table 1.1 of this CP.
- 1.3** This CP contains no material directly relevant to retail financial services consumers, although our fees are indirectly met by financial services consumers.

The wider context of this consultation

- 1.4** Generally, our annual fees consultation follows this cycle:





- October/November – we consult on any changes to the policy on how fees and levies are raised. We provide feedback on the responses received to this consultation in the following February/March Handbook Notice or the March/April CP.
- January – we consult on the Financial Services Compensation Scheme (FSCS) management expenses levy limit (MELL). This is a joint consultation with the Prudential Regulation Authority (PRA). We provide feedback on responses received in the March Handbook Notice.
- March/April – we consult on FCA periodic fees rates for the next financial year (1 April to 31 March) and any proposed changes to application fees or other fees. We also consult on the Financial Ombudsman Service general levy, Money Advice Service, Pensions Guidance and illegal money-lending levies for the next financial year.
- June/July – we publish feedback on the responses received to the March CP together with final fees and levy rates in a policy statement.

Summary of proposals

- 1.5** Each chapter deals with a self-contained area of policy, as summarised below.
- 1.6** Chapter 2 consults on the proposed tariff data (measure of the size of firms within a fee-block) we will use to calculate insurers' FCA periodic fees and the Financial Ombudsman Service annual levies from 2018/19. Since the introduction of Solvency II in 2016, we have had to amend the FEES manual rules relating to tariff data for firms that are subject to Solvency II reporting requirements, and consider any implications for 'non-directive firms' that are not subject to Solvency II. The PRA has published a separate consultation paper (CP) covering its insurers' tariff data fees rules.
- For FCA periodic fees we are proposing to adopt the PRA's revised tariff data, but propose different weightings between the premium income and liabilities elements of the tariff data for general insurers.
 - For the Financial Ombudsman Service we propose to mirror the FCA's proposed changes in relation to the Compulsory Jurisdiction (CJ) premium income tariff data. We also propose to no longer differentiate 'relevant' business (i.e. business conducted with consumers). The Financial Ombudsman is also consulting on proposed changes in relation to the Voluntary Jurisdiction (VJ) tariff data.
- 1.7** Chapter 3 proposes changes to update the scope of our financial penalty scheme (FPS).
- 1.8** Chapter 4 invites views on whether and how we might refine the definition of credit-related income to take account of the specific circumstances of consumer hire agreements. We use income as the basis for calculating consumer credit fees. This chapter responds to concerns raised by firms which undertake consumer hire agreements. It reviews the issues to initiate discussion and does not make any proposals for consultation.

- 1.9** Chapter 5 informs Northern Ireland credit unions, co-operatives and community benefit societies how they will fit into our fees structure when we become their registration authority in 2018.
- 1.10** Chapter 6 seeks views on whether we should recover our administration costs by charging firms which require us to issue them with paper invoices through the post, instead of using the automated invoicing system. If there is support, we will consult next year on introducing a charge from 2019/20.
- 1.11** Chapter 7 consults on a revised methodology for calculating the levy which funds the debt advice work of the Money Advice Service. The proposal is to align the levy more closely with firms' lending activities.
- 1.12** We consulted separately in October on proposals for recovering the costs of establishing and running the Office for Professional Body Anti-Money Laundering Supervision (OPBAS), which the government intends to house within the FCA early in 2018.¹

Equality and diversity considerations

- 1.13** Overall we do not think that the proposals in this CP adversely impact any of the groups with protected characteristics under the Equality Act 2010. But we will continue to consider the equality and diversity implications of the proposals during the consultation period, and will revisit them when publishing the final rules.
- 1.14** In the meantime we welcome your comments on any equality and diversity considerations you believe may arise.

Next steps

- 1.15** Please consider our proposals and send us your comments on the questions in this CP by 15 January 2018. Use the online response form on our website or write to us at the address on page 3 of this document.
- 1.16** We will consider your comments and publish our feedback, along with our rules, in our Handbook Notice in March 2018.

¹ Recovering the costs of the Office for Professional Body Anti-Money Laundering Supervision (OPBAS): fees proposals (CP17/35, October 2017)



Table 1.1: Fee payers likely to be affected by each chapter of this CP

Issue	Fee-payers likely to be affected	Chapter
Tariff measures for insurers	General insurers in fee-block A.3 and life insurers in fee-block A.4, including both Solvency II firms and non-directive firms	2
Update scope of financial penalty scheme	All fee payers, especially those in G fee-blocks	3
Possible changes to definition of consumer hire income	For discussion only - all firms in fee-blocks CC.1 and CC.2, especially those which undertake consumer hire agreements	4
Fees to be paid by Northern Ireland credit unions and societies when the FCA becomes their registration authority in 2018	For information only - Northern Ireland credit unions, co-operatives and community benefit societies (formerly industrial and provident societies)	5
Discussion of charge for firms that do not use online invoicing	For discussion only - all firms	6
Money Advice Service – debt advice levy	Deposit takers in fee-block A.1, home finance providers in fee-block A.2, consumer credit firms that undertake lending and all other firms in fee-blocks CC.1 and CC.2	7

2 Insurers' tariff data from 2018/19

(FEES 4 and FEES 5 - draft rules in Appendix 1)

- 2.1** We are consulting on the proposed tariff data (measure of the size of firms within a fee-block) we will use to calculate insurers' FCA periodic fees and the Financial Ombudsman Service annual Compulsory Jurisdiction (CJ) levies from 2018/19. The Financial Ombudsman Service is also consulting on proposed tariff data for its Voluntary Jurisdiction (VJ), so where relevant 'we' (below) refers to both the FCA and the Financial Ombudsman Service.
- 2.2** Since the introduction of Solvency II in 2016, we have needed to amend the FEES Manual rules relating to tariff data for firms that are subject to Solvency II reporting requirements and consider any implications for 'non-Directive firms' (i.e. firms not subject to Solvency II). As highlighted in CP16/23, Solvency II regulatory data were not available for use as tariff data to calculate fees and levies for 2017/18 or for us to evaluate the impact on fees and levies paid by Solvency II and non-Directive firms. So last year we consulted on and put in place transitional arrangements to enable us to reuse the same tariff data that we used to calculate 2016/17 fees to calculate 2017/18 fees.
- 2.3** With most firms having reported regulatory data for the first financial year under Solvency II, we are now consulting on proposed revised tariff data for calculating insurers' fees and levies from 2018/19. The overall objectives underlying our proposals are that the revised tariff data should:
- map as closely to the current tariff data as practicable
 - ensure consistency of treatment between Solvency II and non-Directive insurers, and
 - be sourced from returns firms already submit for regulatory purposes ('regulatory data')

Using regulatory data reduces the burden on firms and us. Firms do not have to maintain systems and processes to identify additional and/or adjust data specifically for fees or levy purposes. We will not have to maintain systems and processes to collect and validate such additional and/or adjusted data.

- 2.4** The Prudential Regulation Authority (PRA) has published a separate CP² covering its insurers' tariff data fees rules and those of the Financial Services Compensation Scheme levy.
- 2.5** For FCA periodic fees we are proposing to adopt PRA's revised tariff data. However, for general insurers we are proposing different weightings between the premium income and liabilities elements of the tariff data than the PRA is proposing. For the Financial Ombudsman Service annual CJ levies we are proposing to adopt the revised premium income tariff data for FCA periodic fees and to no longer differentiate 'relevant' business (i.e. business conducted with consumers). In the case of the VJ levies we are

2 <http://www.bankofengland.co.uk/prd/Documents/publications/cp/2017/cp1617.pdf>

consulting on proposing to also adopt the revised premium income tariff data for FCA periodic fees but continuing to differentiate 'relevant' business.

FCA periodic fees - revised tariff data

General insurers

- 2.6** We are proposing to adopt the same revised tariff data as the PRA but we are proposing to keep the current weightings between premiums and liabilities unchanged as summarised in table 2.1.

Table 2.1: A.3 Insurers – general fee-block

PRA/FCA current tariff data and weightings:

- Annual gross premium income (GPI) – minimum threshold > £0.5m
- Gross technical liabilities (GTL) – minimum threshold > £1m
- Weighted 90% GPI 10% GTL

PRA/FCA proposed revised tariff data:

Solvency II firms (including Friendly Societies) and non-directive firms

- Gross written premium (GWP) for fees purposes* - minimum threshold > £0.5m
- Gross best estimate liabilities (BEL) for fees purposes* - minimum threshold > £1m

* Full definitions including sourcing to regulatory data forms/fields are detailed through the draft rules in Appendix 1

FCA proposed weightings

Solvency II firms (including Friendly Societies) and non-directive firms

- Weighted 90% GWP and 10% BEL - unchanged from current weightings

Solvency II firms

- 2.7** For general insurers, gross written premium (GWP) is derived from regulatory data and is the premium written gross of reinsurance from direct business, proportional reinsurance accepted and non-proportional reinsurance accepted. It is a very similar concept to GPI and should result in firms having a similar fees outcome before and after Solvency II.

- 2.8** Best estimate liabilities (BEL) is derived from regulatory data and is firms' non-life (including annuities stemming from non-life) best estimate gross discounted cash outflows. While it differs from GTL by being based on discounted future cash flows, it is a broadly similar concept which should again mean firms are charged similar fees as under the current tariff data.

Non-directive firms

- 2.9** For non-Directive firms the proposed tariff data will also be derived from regulatory data. The proposed tariff data for premium income and liabilities are in line with the current GPI and GTL tariff data and should give broadly similar outcomes to the new tariff data proposed for Solvency II firms set out in table 2.1.

Friendly societies

- 2.10** Given that Directive friendly societies report the same Solvency II data, we propose that they should be subject to the same fee calculation method as other Solvency II firms rather than come under a separate rule. In the case of non-Directive general insurance friendly societies, we also propose to align the fees calculation method for this class of firm with that for other non-Directive firms.
- 2.11** This would ensure that friendly societies and other insurers are treated consistently. The definition of GWP and BEL under Part 3 FEES 4 Annex 1AR of the draft rules in Appendix 1 reflects this consistent treatment.

Composition between premiums and liabilities - weightings

- 2.12** The current weightings between premium income and liabilities tariff data set out in table 2.1 were established under the Financial Services Authority (FSA), the predecessor regulator to the FCA and PRA.
- 2.13** We are proposing not to change the current weightings for general insurers of 90% premium and 10% liabilities. This level of weighting to premiums reflects the focus of our resources on the underlying regulated activities and the annual renewal nature of general insurance business. Excluding liabilities altogether would mean that firms that are winding down or in run-off would not make a proportionate contribution to the recovery of our costs, although they would continue to represent a risk to our consumer protection and market integrity objectives.
- 2.14** However, we welcome views on why alternative weightings should be adopted.

Impact of our proposals

- 2.15** To help firms assess the impact of the proposed changes, we provide in table 2.2 estimated indicative fee rates for general insurers to use to assess the likely impact of the proposed revised tariff data on their 2018/19 fees compared to 2017/18 fees.

Table 2.2: A.3 Insurers – general fee-block indicative fee-rates

Tariff data	Weightings	Minimum threshold	2017/18 actual (i)	2018/19 indicative rates (ii)	Movement (iii)
GPI to GWP	90%	>£0.5m	£345.71	£310.97	-10%
GTL to BEL	10%	>£1m	£18.53	£19.87	+7%

Notes:

- (i) The 2017/18 actual rates are based on the amount of 2015 GPI/GTL tariff data reported by firms and was set to recover the 2017/18 £24.9m annual funding requirement (AFR) allocated to A.3.
- (ii) The indicative rate is calculated:
 - using 2016 GWP/BEL tariff data that are currently available. The final rates will be based on 2017 data,
 - on the basis that it recovers the proportion of the 2017/18 allocated AFR represented by the firms that have provided the available GWP/BEL tariff data. The final rates will be based on the 2018/19 AFR allocated to A.3,
- (iii) The movement between 2017/18 actual rates and the 2018/19 indicative rates does not represent the movement individual firms will see in their fees. The movements firms will see in their individual fees could be significantly different as it will take into account changes in their individual 'premium income' and 'liabilities' tariff data since 2015 as well as the revised basis for calculating it.

Q1: Do you agree with our proposed tariff data for general insurers for us to calculate their FCA periodic fees from 2018/19? If not, why not?

Q2: Do you have any comments on the proposed weightings between premiums and liabilities for general insurers? Should alternative weightings be used and, if so, why?

Life insurers

2.16 We are proposing to adopt the same revised tariff data as the PRA, but are proposing to change the current weightings between premiums and liabilities which are summarised in table 2.3.

Table 2.3: A.4 Insurers – life fee-block

PRA/FCA current tariff data and weightings:

Current tariff data:

- Adjusted gross premium income (AGPI) – minimum threshold > £1m
- Mathematical reserves (MR) – minimum threshold > £1m
- Weighted 75% AGPI and 25% MR

PRA/FCA proposed revised tariff data:

Solvency II firms

- Gross written premium (GWP) for fees purposes* - minimum threshold > £1m
- Best estimate liabilities (BEL) for fees purposes* - minimum threshold > £1m
- Weighted 50% GWP and 50% BEL

Non-directive firms i.e. non-Solvency II firms

- Exempt from periodic fees other than the minimum fee

* Full definitions including sourcing to regulatory data forms/fields are detailed through the draft rules in Appendix 1

Solvency II firms

2.17 The current tariff data AGPI is based on the concept of the 'annual premium equivalent measure' (APE) and consists of new single premium business, plus firms' new regular premium business multiplied by 10. Any premiums relating to pension fund management or trustee investment plans are deducted from AGPI. The current tariff data of MR used for fees also excludes business relating to pension fund management and trustee investment plans.

2.18 Since tariff data for life insurers were last reviewed under the FSA, the life insurance industry has evolved and the concept of APE is no longer as commonly used. So we propose using GWP instead of AGPI as tariff data: this would mean no differentiation in the treatment of single premiums and regular premiums for fees purposes.

2.19 Under the AGPI tariff data business transacted through advisers/tied agents is divided by 2 which is not taken into account under GWP reported by firms. In line with our overall objective that tariff data should be sourced from returns already submitted by firms we are proposing that this differentiation is no longer made.

2.20 We propose to use BEL to replace MR. We consider BEL to be the most appropriate scalar of balance sheet size and preferable to alternative measures such as technical provisions. This is because it does not include the risk margin or transitional measure for technical provisions, which could distort fees outcomes in some years.

2.21 We propose to exclude business relating to corporate pension funds from both GWP and BEL, similar to the current approach where business relating to pension fund management and trustee investment plans are excluded from the measures of AGPI and MR.

Composition between premiums and liabilities - weightings

2.22 The current weightings between premium income and liabilities tariff data set out in table 2.3 were also established under the FSA.

2.23 We propose to weight GWP and BEL equally for life insurers. This change better reflects the long-term nature of their business, the risks they pose to our objectives and the activity we undertake. However, we also recognise that this change will in itself result in significant movements (winners and losers) in fees paid by some life insurers.

2.24 We therefore welcome views on why we should adopt alternative weightings.

Non-directive firms

2.25 All 'non-Directive' life insurance firms are relatively small in size. To reflect the low risks these firms pose to our objectives and to minimise the regulatory burden on smaller firms, we propose that all non-Directive life insurance firms should be exempt from FCA periodic fees, apart from the minimum fee.

Impact of our proposals

2.26 Given limitations with the reliability of regulatory data reported by some life insurers the PRA did not include indicative fee-rates in their August CP. The reliability of the regulatory data provided to the PRA has since improved so we are able to provide in table 2.4 estimated indicative fee rates for life insurers to use to assess the likely impact of the proposed revised tariff data and weightings on their 2018/19 fees compared to 2017/18 fees.

Table 2.4: A.4 Insurers – life fee-block indicative fee-rates

Tariff data	Weightings	Minimum threshold	2017/18 actual (i)	2018/19 indicative rates (ii)	Movement (iii)
Current weightings					
AGPI to GWP	75%	>£1m	£525.91	£275.5 to £178.8 (iv)	-48% to -66% (iv)
MR to BEL	25%	>£1m	£11.08	£8.25	-26%
Proposed weightings					
AGPI to GWP	50%	>£1m	£525.91	£184.2 to £119.5 (iv)	-65% to -77% (iv)
MR to BEL	50%	>£1m	£11.08	£16.44	+48%



Notes:

- (i) The 2017/18 actual rates are based on the amount of 2015 AGPI/MR tariff data reported by firms and was set to recover the 2017/18 £41.8m AFR allocated to A.4.
- (ii) The indicative rate is calculated:
 - using 2016 GWP/BEL tariff data that are currently available. The final rates will be based on 2017 data,
 - on the basis that it recovers the proportion of the 2017/18 allocated AFR represented by the firms that have provided the available GWP/BEL tariff data. The final rates will be based on the 2018/19 AFR allocated to A.4
- (iii) The movement between 2017/18 actual rates and the 2018/19 indicative rates does not represent the movement individual firms will see in their fees. The movements firms will see in their individual fees could be significantly different as it will take into account changes in their individual 'premium income' and 'liabilities' tariff data since 2015 as well as the revised basis for calculating it.
- (iv) Some unusually large reinsurance transactions occurred during the 2016 reporting year, which means that the indicative fee rates for GWP in 2016 may not be representative of fee rates in future years. A range of indicative fee rates/movements for GWP is therefore given to highlight the effect of including and excluding these transactions. As aggregate BEL is not significantly affected by these transactions, just one indicative fee rate is shown for BEL.

Q3: Do you agree with our proposed tariff data for life insurers for us to calculate their FCA periodic fees from 2018/19? If not, why not?

Q4: Do you have any comments on the proposed weightings between premiums and liabilities for life insurers. Do you believe alternative weightings should be used and, if so, why?

Q5: Should all non-Directive life insurance firms be exempt from FCA periodic fees, apart from the minimum fee?

Sourcing revised tariff data

- 2.27** We would source the proposed revised tariff data discussed in this CP from the regulatory data reported to the PRA. But in the case of the revised tariff data for European Economic Area (EEA) branches we will have to continue to separately collect these data from these firms.
- 2.28** The window between Solvency II annual returns being submitted to regulators and fees needing to be calculated and invoiced to firms is short (though the window will gradually increase over the next few years). This limits the time available to carry out data-quality work to ensure that firms' regulatory data is robust and accurate.
- 2.29** So we are proposing to amend the FEES Manual rules so we can use the previous year's Solvency II tariff data for calculating fees levies for individual insurers for 2018/19. We will do this if we have not received the necessary 2017 tariff data or it is not complete or is insufficiently reliable by the time that the PRA and FCA need to invoice firms for 2018/19 fees. Our annual fees rates consultation for 2018/19 (to be published in March/April 2018) will also reference 2016 based tariff data for insurers.

Q6: Do you agree with the proposals on sourcing the revised tariff data for insurers?

Financial Ombudsman Service annual levies

2.30 For the Financial Ombudsman Service annual CJ levies we are proposing to adopt the same revised premium income tariff data as proposed for FCA periodic fee and to no longer differentiate 'relevant' business (i.e. business conducted with consumers). In the case of the VJ levies we are consulting on proposing to also adopt the revised premium income tariff data for FCA periodic fees but continuing to differentiate 'relevant' business. The proposed revised tariff data is summarised in table 2.5.

Table 2.5: Financial Ombudsman Service annual levies

Industry block	Current tariff base	Proposed revised tariff base
Compulsory Jurisdiction		
2. Insurers – general (excluding firms in blocks 13 and 15)	'Relevant' annual gross premium income (GPI)	Gross written premium (GWP) for fees purposes*
4. Insurers – life (excluding firms in block 15)	'Relevant' adjusted annual gross premium income (AGPI)	
Voluntary Jurisdiction		
2V VJ participants undertaking general insurance activities	'Relevant' annual gross premium income(GPI)	'Relevant' gross written premium (GWP) for fees purposes*
3V VJ participants undertaking life insurance activities	'Relevant' adjusted annual gross premium income (AGPI)	

Notes:

Block 13 covers cash plan health providers and Block 15 covers Friendly Societies whose tax-exempt business represents 95% or more of their relevant business. Both blocks have flat fees only.

'Relevant' refers to relevant business under FEES 5.3.8R i.e. business conducted with consumers

* Full definitions including sourcing to regulatory data forms/fields are detailed through the draft rules in Appendix 1

CJ levy

2.31 We do not currently require firms to adjust GPI (general insurers) or AGPI (life insurers) to differentiate 'relevant' business (i.e. business conducted with consumers) for FCA periodic fees, but firms are required to adjust GPI and AGPI to differentiate 'relevant' business for the CJ levy. We are proposing to use the revised GWP tariff data (which is drawn from regulatory data) instead of GPI and AGPI data for the CJ levy, and to remove the requirement for firms to differentiate 'relevant' business for the CJ levy in relation to this data. This is in line with our overall objectives for revising insurers' tariff data (discussed under paragraph 2.3). In particular, firms will no longer have to maintain systems and processes to identify 'relevant' GWP and we will not have to maintain systems and processes to collect and validate the additional data. This reduces the administrative burden of the fees and levies collection for both firms and us.



CJ levy impact of our proposals

2.32

To help firms assess the impact of the proposed changes, we provide in table 2.6 estimated indicative levy rates for general and life insurers to use to assess the likely impact of the proposed revised tariff data on their 2018/19 fees compared to 2017/18 levies. These indicative rates take into account of the proposal that the revised GWP tariff data does not differentiate 'relevant' business.

Table 2.6: CJ levy indicative levy-rates

Industry blocks	Tariff data	2017/18 actual (i)	2018/19 indicative rates (ii)	Movement (iii)
2. Insurers – general	Relevant GPI to GWP	£0.1268 per £1,000 of relevant GPI, subject to a minimum levy of £100	£0.054 per £1,000 of GWP, subject to a minimum levy of £100	-57%
4. Insurers - life	Relevant AGPI to GWP	£0.01730 per £1,000 of AGPI subject to a minimum fee of £130	£0.0085 to £0.0055 (iv) per £1,000 of GWP, subject to a minimum levy of £130	-51% to -68% (iv)

Notes:

- (i) The 2017/18 actual rates are based on the amount of 2015 relevant GPI/AGPI tariff data reported by firms and was set to recover the 2017/18 general levy budget allocated to industry blocks 2 and 4.
- (ii) The indicative rates are calculated:
 - using 2016 GWP tariff data that are currently available and which does not differentiate 'relevant' business
 - The final rates will be based on 2017 data,
 - on the basis that it recovers the proportion of the 2017/18 allocated general levy budget represented by the firms that have provided the available GWP tariff data. The final rates will be based on the 2018/19 general levy budget allocated to industry blocks 2 and 4.
- (iii) The movement between 2017/18 actual rates and the 2018/19 indicative rates does not represent the movement individual firms will see in their levies. The movements firms will see in their individual levy could be significantly different as it will take into account changes in their individual 'premium income' tariff data since 2015 as well as the revised basis for calculating it.
- (iv) Some unusually large reinsurance transactions occurred during the 2016 reporting year, which means that the indicative fee rates for GWP in 2016 may not be representative of fee rates/movements for GWP is therefore given to highlight the effect of including and excluding these transactions.

VJ levy

2.33

The Financial Ombudsman Service is proposing, subject to consultation responses, to retain the link to 'relevant' business (i.e. business conducted with consumers falling within its jurisdiction) for the VJ levy. This is because:

- some insurers participating in the VJ are international businesses, and removing the link to 'relevant' business may mean the VJ levy is based on international business which clearly falls outside the jurisdiction of the Financial Ombudsman Service, and
- the VJ levy for all other industry blocks is based only on 'relevant' business.

- 2.34** The Financial Ombudsman Service does not have sufficient data to demonstrate the impact of the proposal, and would welcome the views on the proposed changes to the VJ levy from VJ participants falling within industry blocks 2V or 3V.

Sourcing revised tariff data

- 2.35** For the Financial Ombudsman Service annual levies, CJ and VJ, we are proposing to adopt the same proposals for sourcing of the revised tariff premium income data as proposed for FCA periodic fees set out under paragraphs 2.27 to 2.29.

Q7: Do you agree with our proposed tariff data for insurers and the proposals relating to the sourcing of the revised tariff data for us to calculate the CJ and VJ Financial Ombudsman Service annual levies from 2018/19? If not, why not?



3 Financial penalty scheme – for consultation

(Text in Annex 3)

- 3.1** Financial penalties we impose on firms are paid to Treasury net of certain enforcement costs (retained penalties). Our financial penalty scheme (FPS) sets out how we apply retained penalties to the benefit of firms (other than the firms on which the penalty was imposed). Under the FPS we apply retained penalties, received in any financial year, as a rebate to the periodic fees paid in the following financial year by firms in certain fee-blocks.
- 3.2** We have carried out a technical review of the current FPS to ensure that the fee-blocks stated as coming within its scope are up to date. We are proposing to update the current FPS to include the fee-blocks set out in table 3.1.

Table 3.1: Fee-blocks to be added to the FPS

Fee-blocks	Regulations
B.	Recognised Auction Platforms Regulations 2011
G.1	Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017
G.2,G.3,G.4, G.5	Payment Services Regulations 2017*
G.10, G.11	Electronic Money Regulations 2011
G.15	Regulated Covered Bonds Regulations 2008
G.20, G.21	Mortgage Credit Directive Order 2015
G.25	Data Reporting Regulations 2017**

Notes:

* Due to replace the Payment Services Regulations 2009 which will take effect in January 2018.

** Will take effect in January 2018.

- 3.3** Overall these changes will bring the scope of the FPS fully into line with the requirements of paragraph 21 of Schedule 1ZA to the Financial Services and Markets Act 2000 (FSMA). Annex 3 represents the current FPS which we have modified (additional text underlined deleted text struck out) to reflect the proposed changes.

Q8: Do you have any comments on the proposed changes to the financial penalty scheme?

4 Consumer credit: definition of income for consumer hire agreements for discussion

- 4.1** In this chapter we invite discussion of any refinements that might be made to the definition of consumer credit income in FEES 4 Annex 11B in relation to consumer hire agreements. If there is support for a revised definition, we may consult in April 2018 with a view to introducing it from 2019/20. We are not consulting on any rule changes at this stage. This chapter will be of interest to all consumer credit firms.
- 4.2** A number of firms that undertake consumer hire agreements have argued that our definition of income for fees purposes requires them to report total hire charges as income, whereas lenders of unsecured loans are able to deduct repayments of principal, reporting only the interest and other financial charges they levy. We have agreed to review the issues and invite a wider debate. We want to receive views on whether there is inconsistency in the present position and, if so, how we might revise the methodology without giving rise to further unintended inconsistencies. We recover a fixed amount from firms each year. If adjusting the definition had the effect that certain firms reported lower incomes, it follows that they would pay lower fees and consequently the fees of other firms which do not undertake that activity would need to rise to make up the balance. If the outcome was a fairer distribution of cost recovery, such an adjustment might be considered reasonable. We welcome views from all firms carrying out consumer credit activities.

Differences between reporting of income for consumer hire and unsecured loans

- 4.3** With unsecured lending the customer receives a loan either in cash or to finance the purchase of goods or services and makes repayments of interest and principal. Our definition of consumer credit income requires firms to report repayments of interest and any other financial charges (eg administration charges, default fees, etc) as income only. They do not report repayments of principal as credit-related income because that is their own money being returned to them.
- 4.4** A consumer hire agreement is a lease under which the customer pays for the use of an asset, such as a car, television or computer. Ownership of the asset remains with the lessor and the lessee has to return it at the end of the contract, though there may be options to extend the contract, either as it stands or by replacing the original asset with an upgrade. If there is an option to purchase at the end of the agreement, then the lease would become a hire-purchase (HP) agreement.
- 4.5** HP therefore lies between consumer hire and unsecured lending. The customer is hiring goods with an option to purchase, but with no obligation to take ownership of the asset at the end of the contract. Both consumer hire and HP usually include ancillary services such as delivery and installation, call-out repairs, servicing, etc. However HP is treated as a form of credit, and the cash price of the goods is deemed to be the amount of credit advanced, with an APR calculated on the assumption that the customer will exercise the option to purchase. The cash price must be stated in the agreement and pre-contract information, and also in advertising as part of a



representative example, and the firm must be prepared to sell the goods for cash at that price. In contrast, in consumer hire the goods may not be available for purchase, in which case there is no cash price to quote.

4.6 The distinction between interest and principal does not therefore apply in consumer leases and so our definition of income treats all of the payments relating to consumer hire as economic benefits arising out of the regulated activity. FEES 4 Annex 11B defines credit-related income as:

'the gross inflow of economic benefits (i.e. cash, receivables and other assets) recognised in the firm's accounts during the reporting year in respect of, or in relation to, the provision in the UK of the regulated activities specified ... without netting off the operating costs or business expenses.'

FEES 4 Annex 13 Table 2(9)(a) specifies that firms should exclude repayments of principal.

4.7 Table 4.1 illustrates the impact that firms have told us this definition has on a consumer lease and an unsecured loan. It takes the example of a lease on a television which cost the lessor £500 (including the cost to the firm of finance to purchase it) and a loan for £500 at 20% interest. The figures for the leasing agreement were given to us by a trade body. On an 18-month agreement, a customer would pay £540 on the lease compared with £600 on the loan, but the firm would report credit-related income of £540 on the lease compared with £100 on the loan where only the interest is reported. If, instead of a consumer lease or unsecured loan, the firm had priced the television at £500 and set up an HP agreement with the same monthly repayments, then it would have reported the £40 difference as interest.

Table 4.1: Illustration of reportable credit-related income on a consumer lease and an unsecured loan

Consumer hire agreement to lease television		Unsecured loan to purchase television	
18-month hire agreement		18 months, interest rate 20%	
Cost to retailer of TV	£500	Price of TV	£500
Monthly rent	£30	Monthly repayment	£33.33
Total paid by customer	£540	Of which:	
		Principal	£27.78
		Interest	£5.56
		Total paid by customer	£600
		Total interest	£100
Consumer credit income	£540	Consumer credit income	£100

4.8 The challenge is to find a consistent way of identifying a value equivalent to interest which can be reported as income in a lease.

- 4.9** Any methodology for reporting consumer hire income must be fair, clear and verifiable so that we can be confident that firms are reporting their data consistently and on a comparable basis with the wider population of fee-payers.

Models of consumer lease

- 4.10** There are two basic leasing models, described for accounting purposes as:
- Finance lease
 - Operating lease
- 4.11** The UK Financial Reporting Standard FRS 102, which many UK firms use to report leasing agreements in their accounts, defines these as follows³:
- Finance lease: A finance lease substantially transfers to the lessor the risks and rewards incidental to ownership. FRS 102 notes that a finance lease includes where the lease transfers ownership of the asset to the lessee by the end of the lease term, or where the lessee has the option to purchase. It also includes where the lease term is for the major part of the economic life of the asset, or where the present value of the minimum lease payments amounts to at least substantially all of the fair value of the asset. In such cases the asset is not expected to have practical value to the lessor once the lease term has ended. It follows that, because the lessor is not concerned with the re-sale value, the asset will not be included in its balance sheet and will not record depreciation.
 - Operating lease: Any lease which is not a finance lease is an operating lease. The asset is expected to have a strong residual value once the lease term has ended, and the lessor intends to recover its costs either through subsequent leasing or by re-selling the goods to a third party. As the value of the asset is important to the firm its depreciation will typically be recorded in the firm's accounts. Operating lease - recovering costs through resale
- 4.12** Where there is a strong market for second-hand goods, the lessor may recover the costs through re-sale at the end of the agreement. These agreements will be treated as operating leases. With an operating lease, the asset stays on the lessor's balance sheet, with the accounts tracking depreciation.
- 4.13** A car-leasing firm gave us the example of a car leased for two years at a rental of £271.20 per month. Under the current definition, the credit-related income would be £6,508.80 over the two years. However, the firm's finance costs for the purchase of the vehicle were £370.29 per month, amounting to £8,888.96 over two years, much higher than the revenue. As Table 4.2 shows, the profit comes after the end of the agreement when the car is sold. To keep the figures simple, the table works on a purchase price of £15,000 for the new car and depreciation at 40% after two years, so the firm was able to sell at £9,000.

Table 4.2: Calculation of profit on vehicle hire

³ Although it includes some requirements for lessors and provides a sound basis for analysis, it should be recognised that FRS 102 is primarily intended for lessees. FRS 102 is being revised in response to the new international lease accounting standard which is expected to come into effect from January 2019.

Purchase cost of car	£15,000.00
Rental income	£6,508.80
Re-sale of car (40% depreciation)	£9,000.00
Profit	£508.80

- 4.14** This example suggests that, under an operating lease, depreciation might stand as equivalent to repayment of principal under an unsecured loan or HP agreement. We assumed depreciation at 40% after two years. This reduced the value of the car by £6,000, from £15,000. Subtracting £6,000 from the total rental charge of £6,508.80 leaves reportable income of £508.80 or £254.40 per year. The lessor's accounts will include depreciation, so all the factors in this equation can be checked against the firm's audited accounts.
- 4.15** If the hire of the television worth £500 in Table 4.1 was undertaken under an operating lease then Table 4.3 illustrates how depreciation could be factored into the calculation of credit-related income, assuming 20% depreciation per year.
- 4.16** Unlike a loan which is normally repayable over a fixed term, consumer leases may be extended beyond the initial agreement. Table 4.3 supposes that the 18 month agreement in Table 4.1 was extended to five years and then for another two years. In reality, a customer is unlikely to hire a television for so long without upgrading to a new model. This would be treated as a fresh agreement. Depreciation would be re-calculated on the value of the new television and the monthly payments would probably increase. Table 4.3 instead assumes a long hire period without any upgrade to illustrate how income would be reported if the agreement were extended beyond the residual value of the goods on hire. For the initial 18-month agreement, the firm would report credit-related income of £390 instead of £540 and over the 42-month extension to five years, it would report £910 instead of £1,260. By the time the agreement was extended beyond the five year depreciation period, the television would have no residual value and so the full rental income would be reported as credit-related income. This seems reasonable because the customer is paying for the service not the asset.

Table 4.3: Illustration of impact of depreciation on income in an operating lease extending beyond the residual value of the asset

Depreciation at 20% per year	£100 per year
Monthly rental payment	£30
Initial agreement: 18 months	
Value of television at start of agreement	£500
Depreciation over 18 months	£150
Value of television at end of agreement	£350
Receipts from 18 monthly rental payments	£540
Subtract £150 depreciation from rental receipts	£390
Therefore credit-related income	£390
Extension of agreement by 42 months to 5 years	
Value of television at start of agreement	£350
Depreciation over 42 months	£350

Value of television at end of agreement	£0
Receipts from 42 monthly rental payments	£1,260
Subtract £350 depreciation from rental receipts	£910
Therefore credit-related income	£910
Extension of agreement by 24 months to 7 years	
Value of television at start of agreement	£0
Depreciation over 42 months	£0
Value of television at end of agreement	£0
Receipts from 24 monthly rental payments	£720
Subtract £0 depreciation from rental receipts	£720
Therefore credit-related income	£720

Finance lease - recovering costs through the rental charge

- 4.17** When the lessor recovers the costs of purchase through monthly rent, the lessee benefits from servicing agreements, call-out repairs and other services which they would not enjoy as an owner.
- 4.18** We understand that there are several ways of reporting income under finance leases and they may not readily correspond with our definitions of income for fees purposes. We welcome further information from firms on the assumptions they currently build into reporting their income in their accounts and for their credit-related FCA income if different, and any suggestions for adapting our definition to align it more closely with the ways they prepare their accounts.
- 4.19** The issues we are aware of include:
- Depreciation: Although firms may not keep the assets on their balance sheet and maintain a record of depreciation, a finance lease nevertheless includes assumptions about the value of the asset over time, whether or not they are carried through to the accounts. The asset is assumed to depreciate to zero, or close to zero, by the end of the hire period (since otherwise it will be an operating lease). This is the same principle on which HP accounting is based. So, referring back to Table 4.1, a television valued at £500 would be treated as depreciating to £0 after 18 months. That would leave a reportable income of £40 on the 18-month agreement.
 - Implicit interest: We believe some firms report implicit interest as revenue from finance leases. This has been defined as 'the rate at which the present value of the lease payments and any unguaranteed residual value is equal to the sum of the fair value of the underlying asset and any initial direct lessor costs.'⁴ In Table 4.1, the present value of lease payments over 18 months was £540, and the residual value should be £0. The fair value of the asset plus the costs of finance are £500, so the implicit interest amounts to £40 – ie 5.33% per year.
 - Indefinite agreements: Both of these examples assume a fixed-term contract but some consumer hire agreements are indefinite, or are open-ended with a minimum term. Where there is a minimum duration, the firm might use that as the basis for its calculation. Where there is no minimum term, it might review the hire periods it

⁴ Institute of Chartered Accountants in England and Wales, *IFRS 16 Leases: Putting theory into practice* (2017, p 11).



has agreed for equivalent goods, or available typically in the market for such goods, and apply a term for the sake of the calculation. It would need evidence to justify the assumptions it has made if challenged.

Proxy value for interest

- 4.20** While depreciation appears to provide a basis for calculating reportable consumer hire income under operating leases, some firms are sceptical about the comparability of assumptions about depreciation in finance leases. They have proposed that, under finance leases, the FCA should specify a mandatory proxy for interest in our definition of income and apply it to the total rental income as equivalent to principal. If a proxy were to be introduced, we would have to collect evidence to establish what a representative figure might be, and whether a standard figure would be appropriate for all types of finance lease.
- 4.21** There is a precedent for the FCA setting a proxy measure. Many retail businesses do not receive any commission from lenders when they refer customers who wish to take out loans to purchase goods. Because they are carrying out the credit-related activity of credit-broking which we have to regulate, other firms would have to pick up our costs if they reported no income. We accordingly require such firms through FEES 4 Annex 11B to apply the formula of Bank of England Bank Rate (currently 0.5%) plus 5% to the total value of the loan they have brokered. As our consultation explained when we introduced the measure in 2015, the figure was based on a review of broking charges, and bringing the base rate into the calculation ensured that the formula kept track of the cost of borrowing so would not need to be consulted on whenever interest rates changed.⁵
- 4.22** A proxy figure would enforce consistency but would inevitably be arbitrary. Even if an initial proxy appeared to generate reasonable figures in a particular case, it is questionable whether it would in others, or over time. Finance leases cover a wide range of different assets, with differing values and depreciation rates.
- 4.23** There are also questions about the figure the interest should be applied against. Total rental income does not appear to be equivalent to principal since it implies the firm makes no profit from the rental, which is implausible. The cost of purchase of the asset is a more likely equivalent to principal.

Issues for discussion

- 4.24** We invite comments on all of the issues discussed in this chapter and suggestions for any other options we have not considered.

⁵ FCA regulated fees and levies: rates proposals 2015/16 (CP15/14, March 2015)

4.25 Our questions for discussion are:

- Q9:** Do you think that the definition of income for consumer hire leases should be revised? If you undertake consumer hire agreements, please use representative examples to illustrate how you interpret our current definition of income when reporting to us, and the impact of any suggestions you make for improvement.
- Q10:** Do you have any comments on the various options for defining consumer hire income that we have discussed in Chapter 4?
- Q11:** Can you suggest any other ways of refining the definition of consumer hire income?



5 Northern Ireland credit unions, cooperative societies and community benefit societies – for information

- 5.1** On 6 April 2018 responsibility for the registration of credit unions and industrial and provident societies in Northern Ireland will transfer to us from the Northern Ireland Department for the Economy (DfE) under the Financial Services Act 2012 (Mutual Societies) Order 2018 (2018 Order). Under the Credit Unions and Co-operative and Community Benefit Societies Act (Northern Ireland) 2016, industrial and provident societies will be renamed co-operative and community benefit societies. The transfer will not require changes to any of our fees rules and so we are not consulting in this CP, but we believe it would be helpful to summarise our fees framework for the benefit of the firms that are joining our regulatory system. This chapter is therefore for information only and will be of interest to Northern Ireland credit unions and industrial and provident societies.
- 5.2** Since we are funded entirely by the firms we regulate, we recover our costs through fees in a way that is as fair and efficient as possible.
- 5.3** We charge application fees from new firms. Although we are taking on a new role as registration body for these Northern Irish firms, we recognise them as existing firms and will not make any charge for re-registration. They will fall into our existing fees structure and pay periodic (annual) fees as set out in our FEES manual.⁶ They can expect to receive their invoices between July and September. There are no additional charges for transactions during the year.
- 5.4** Firms should note the annual cycle of fees consultation summarised at paragraph 1.4 of this CP, and they should check our website at the appropriate times of year to keep up to date. We will consult on the 2018/19 fee rates in a CP in March or April 2018, and firms will receive their first invoices between July and September 2018.

Credit unions

- 5.5** Northern Ireland credit unions are already regulated by us, and by the PRA for prudential purposes, and so the change in registration authority will make no difference to the fees they pay us. These are based on their modified eligible liabilities (MELs), ie deposits.

6 www.handbook.fca.org.uk/handbook/FEES/

Table 5.1: Annual fees payable by credit unions, 2017/18⁷

Value of MELs	Fee
Up to £0.5m	£87
Up to £2m	£295
Up to £10m	£542
Above £10m	£542 plus variable rate of £15.43 - £25.46 per £m ⁵

Industrial and provident societies

- 5.6** At present, Northern Ireland industrial and provident societies are charged for their transactions with DfE. As explained in paragraph 5.3, we do not charge transaction fees. They will be registered by us as 'unauthorised mutuals', paying a flat rate annual fee on the basis of their total assets as set out in Appendix 1 of the FEES manual. The current rates are shown in Table 5.2.

Table 5.2: Annual fees payable by unauthorised mutuals, 2017/18⁸

Total assets	Fee
£0 - £50,000	£65
> £50,000 - £100,000	£125
>£100,000 - £250,000	£205
>£250,000 - £1,000,000	£265
>£1,000,000	£480

⁷ For detailed rates see FEES 4 Annex 2A – www.handbook.fca.org.uk/handbook/FEES/4/Annex2A.html

⁸ See FEES Appendix 1, Annex 1 – www.handbook.fca.org.uk/handbook/FEES/App/1/Annex1.html



6 Mandatory online invoicing from 2019/20 – for discussion

6.1 In this chapter we seek views on whether we should require all fee-payers to receive their fees invoices via our online invoicing system from 2019/20, and charge an administrative fee to any firms that choose to continue with paper invoices. Subject to feedback, we would expect to consult on any new rules next year. This chapter is of interest to all fee-payers, but especially those that still prefer to receive paper invoices.

6.2 Online invoicing is an environmentally friendly paperless process which significantly enhances the efficiency of our fee invoicing and collection process by eliminating paper. The number of fee-payers has more than doubled since we took over responsibility for regulating consumer credit in 2014, and the web-based invoicing application has enabled us to invoice the 30,000 new fee-payers and absorb the increased cashing work without a proportionate increase in resources and costs.

6.3 About 85% of our authorised firms are registered and using online invoicing, leaving about 8,000 receiving paper invoices. We encourage all firms to register for online invoicing and most new joiners are automatically set up with access to the online system. Only a small number of firms have opted out and requested paper invoices. The vast majority of firms use online invoicing because they find it easier and more convenient than paper invoicing. Firms also benefit from:

- the application being a one-stop shop for all fees information (online statements, useful links etc),
- offering an online card payment facility, and
- immediate email notification when invoices or any other fees correspondence (eg non-payment reminders letters) have been issued.

The application has a proven track record of delivering a good reliable service to firms and we have had positive feedback from firms who use it.

6.4 Paper invoicing for a small percentage of firms requires a separate process to be in place which is inefficient. Printing and distributing 8,000 invoices as well as the associated paper and postage costs is expensive and time-consuming. In addition, firms which are not online receive other fees correspondence by post, including reminder letters for non-payment of fees and credit notes, further increasing our costs and making us less efficient as we need to manually record these.

6.5 These additional costs are carried by the whole body of fee-payers. We believe that firms wishing to preserve this manual service should pay for it, rather than expecting other firms to share the costs. We estimate that a charge of £50 to £100 per year would cover our costs, but we will review the figures before consulting formally next year. The charge is likely to increase in the future as the number of firms receiving paper invoices declines and any economies of scale are eroded.

Q12: Do you have any comments on whether we should in future charge firms which choose not to take advantage of online invoicing?

7 Money Advice Service - debt advice levy for consultation

(FEES 7 – draft rules in Appendix 2)

- 7.1** In this chapter we are consulting on amending the methodology for collecting the Money Advice Service debt advice levy from 2018/2019.
- 7.2** The Money Advice Service is funded by financial services firms through two levies:
- The money advice levy
 - The debt advice levy
- 7.3** The Money Advice Service⁹ took on responsibility for the coordination and provision of debt advice from 1 April 2012. The Money Advice Service provides grants to a range of organisations to provide debt advice services across the UK. These services are funded from the debt advice levy that we collect from regulated firms. The total budget for debt advice in 2017/18 is £48m.
- 7.4** There is a direct relationship between lending, both secured and unsecured, and the potential for consumers to get into debt, a subset of which can lead to harm through problem debt. Our policy aim has always been to align the collection of the levy with the volume of regulated firms' secured and unsecured lending.
- 7.5** When the Financial Services Authority (the predecessor regulator) established the methodology to collect the levy it was not responsible for the regulation of consumer credit and consequently unsecured lending. This meant a proxy was needed to collect the levy from those firms most likely to be engaged in such lending. The A.1 (deposit acceptors) fee-block was felt to provide the most appropriate fee-block to cover firms who were likely to be engaged in unsecured lending. As we did not collect data directly on this lending, data from the Bank of England were used to calculate the levy.
- 7.6** We have since been given responsibility for regulating consumer credit. This means we now directly regulate all lenders and receive data directly on unsecured lending through their regulatory returns.
- 7.7** On taking on responsibility for the regulation of consumer credit, we put in place a provisional arrangement which required a contribution to debt advice funding from all firms undertaking consumer credit activities through the money advice consumer credit levy, in the CC1 and CC2 fee-blocks. As this was an interim arrangement we indicated in June 2015 that we would assess the composition of the recovery of debt advice funding once the authorisation process for consumer credit firms was nearly complete. We have now reached this stage and, having reviewed the current methodology, we are proposing changes to make the levy meet our overall policy aim more effectively.

9 The Money Advice Service is referred to in the Financial Services and Markets Act 2000 and our FEES manual as the Consumer Financial Education Body (CFEB)



7.8 Prior to the transfer of consumer credit regulation, the allocation of funding for debt advice was split 50% to the A.1 fee-block and 50% to the A.2 fee-block (Home finance providers and administrators). This used a model that accounts for both total lending and write off levels and is based on Bank of England data.

7.9 Nearly all consumer credit firms that have applied for full authorisation have had their applications considered. Those we have authorised are now reporting their levels of unsecured lending through their regulatory returns to us. Having analysed the regulatory returns data, we are consulting on how we collect the debt advice levy to better align this with firms' lending. Our proposal is that funding for debt advice currently recovered from firms in the A.1 fee-block is instead recovered from firms that undertake consumer credit lending through a new fee-block, CC3 (Consumer credit lending), using the value of lending as the measure of size of the firms within the fee-block (tariff base). We do not propose to change the way firms in A.2 are levied. Firms paying the money advice consumer credit levy will no longer contribute to funding debt advice.

7.10 The table below shows the current and proposed recovery of the levy.

Table 7.1: Current and proposed recovery of debt advice funding

Fee-blocks	Current 2017/18		Proposed from 2018/19 (i)	
A.1 Deposit takers – includes firms that do not do unsecured lending but excludes credit card companies who do	£21m	44%		
A.2 Home finance providers and administrators – secured lending	£21m	44%	£24m	50%
CC1 and CC2 Consumer Credit fee-blocks – includes credit card companies but also firms that do not do unsecured lending e.g. credit brokers	£6m	12%		
CC3 Consumer credit lending (new fee-block) – firms that undertake unsecured lending – see note (ii)			£24m	50%
Total	£48m	100%	£48m	100%

Notes:

- (i) This column shows the proportions of debt advice funding that will be recovered through fee-blocks A.2 and CC3 from 2018/19. The actual amounts will be based on the debt advice funding requirement for 2018/19 which will be published in our March/April 2018 fees and levies rates consultation paper.
- (ii) Firms should refer to the draft rules in Appendix 2 – FEES 7 Annex 2, which sets out the full definition of the new CC3 fee-block.

7.11 Under the current methodology, some firms (e.g. credit card companies) which carry out significant amounts of unsecured lending are not contributing to the 44% of debt advice funding recovered from the A.1 fee-block. These firms only make a contribution to the 12% of debt advice funding recovered through the existing consumer credit fee blocks. This means that, for example, credit card companies pay a relatively small proportion of the levy despite representing a large proportion of total unsecured lending. Our proposals align the funding of debt advice more closely with the actual lending firms do, but it will mean some firms will pay a larger levy than they do now.

7.12 We believe the new approach is fair to firms and better meets our policy intention that firms who provide secured and unsecured lending should fund the Money Advice Service debt advice work.

Impact of proposals

7.13 We provide in table 7.2 estimated indicative 2018/19 levy rates for the fee-blocks affected for firms to use to assess the likely impact of the proposals on their 2018/19 levies compared to 2017/18 levies.

Table 7.2: Indicative levy rates

Fee-blocks	Minimum threshold	2017/18 actual	2018/19 indicative (i)
A.1 Deposit acceptors	£ million of unsecured debt >0	Levy (£/£m or part £m of unsecured debt) 174.98	Not applicable
A.2 Home finance providers and administrators	£ million of secured debt >0	Levy (£/£m or part £m of secured debt) 16.50	Levy (£/£m or part £m of secured debt) 18.39
CC1 and CC2 Consumer Credit fee-blocks (ii)	£ thousand of annual income (AI) > 250	Levy (£/£ thousand or part thousand of AI) 0.37	Levy (£/£ thousand or part thousand of AI) 0.10
CC3 Consumer credit lending (new fee-block (ii))	£ million of value of lending (VoL) >0	Not applicable	Levy (£/£m or part £m of VoL) 121.21

Notes:

- (i) The indicative rates have been calculated on the basis of recovering the amounts of debt advice funding as set out in table 8.1. The actual amounts will be based on the debt advice funding requirement for 2018/19 which will be published in our March/April 2018 fees and levies rates consultation paper.
- (ii) We are not proposing to change the current £10 minimum fee payable by all firms in the CC1 and CC2 fee-blocks with annual income up to £250,000.
- (iii) The indicative levy rate for the new CC3 fee-block has been calculated based on the volume of lending reported by firms to date. Not all firms have reported to date so the actual levy for 2018/19 could change significantly.

7.14 Overall firms that currently pay the unsecured debt advice levy under the A.1 fee-block will see a reduction in the levy they pay reflecting that more firms are contributing to the levy based on their lending in the new CC3 fee-block. Firms that pay the secured debt advice levy will see an increase in the levy they pay reflecting the move back to recovering 50% of total debt advice funding from this fee-block. Around 94% of the firms that currently pay the money advice consumer credit levy under the CC1 and



CC2 fee-blocks will see no change as they only pay the minimum fee of £10 – the other 6% will see a decrease. This reflects that they are no longer contributing to debt advice funding.

Credit unions

- 7.15** Credit unions are mutual organisations that offer basic savings and loan facilities to their members, many of which cannot obtain such services from mainstream banks, building societies and credit card companies. Most credit unions lend money direct to borrowers where the interest rate charged does not exceed the statutory cap.¹⁰ This type of lending is exempt and is not a regulated consumer credit activity. Most credit unions will therefore not pay the debt advice levy under fee-block CC3. Those that carry on non-exempt lending will.
- 7.16** We are proposing a concession for credit unions that do come under the CC3 fee-block so that they will not pay the debt advice levy on the first £2m of their lending. Smaller credit unions below this level will not pay any levy and larger credit unions will only pay the levy on the value of lending above this level.

Community Finance Organisations credit unions

- 7.17** Community Finance Organisations (CFOs) capture community benefit societies, registered charities and community interest companies which have to meet statutory requirements to be classed by us as CFOs. Given these firms are similar to Credit Unions, we are proposing to apply the same concession as we are for Credit Unions – under this proposal CFOs will not pay the debt advice levy on the first £2m of value of lending.

Source lending data

- 7.18** For the new CC3 fee-block we will source the value of lending data used to calculate the revised unsecured debt advice levy from data item CCR003 which forms part of the returns firms submit for regulatory purposes. Full details of the data we will use are defined under Part 2 FEES 7 Annex 2 in Appendix 2 draft rules.
- 7.19** European Economic Area (EEA) branches (passported into the UK) and some Authorised Professional Firms (APFs) do not submit the CCR003 form. We have therefore included in Part 2 FEES 7 Annex 2 a provision for these firms to provide the equivalent CCR003 value of lending data.

¹⁰ For credit unions in Great Britain, the statutory cap is 3% per month. For credit unions in Northern Ireland the statutory cap is 1% per month. Any form of lending above these statutory caps is prohibited.

Single Financial Guidance Body

- 7.20** Consulting this year will also allow us to have the revised methodology in place ahead of the establishment of the Single Financial Guidance Body (SFGB) which the government has committed to having in place no earlier than 1 October 2018. The same methodology will apply to the provision of debt advice in Scotland, Wales and Northern Ireland that will be delivered through the devolved authorities and funded by a levy on the financial services industry. The body will combine the services currently provided by the Money Advice Service, PensionWise and The Pensions Advisory Service.

Q13: Do you have any comments on our proposed amendments to the methodology for collecting the Money Advice Service debt advice levy from 2018/2019?



Annex 1

Questions in this paper

- Q1:** Do you agree with our proposed tariff data for general insurers for us to calculate their FCA periodic fees from 2018/19? If not, why not?
- Q2:** Do you have any comments on the proposed weightings between premiums and liabilities for general insurers? Should alternative weightings be used and, if so, why?
- Q3:** Do you agree with our proposed tariff data for life insurers for us to calculate their FCA periodic fees from 2018/19? If not, why not?
- Q4:** Do you have any comments on the proposed weightings between premiums and liabilities for life insurers. Do you believe alternative weightings should be used and, if so, why?
- Q5:** Should all non-Directive life insurance firms be exempt from FCA periodic fees, apart from the minimum fee?
- Q6:** Do you agree with the proposals on sourcing the revised tariff data for insurers?
- Q7:** Do you agree with our proposed tariff data for insurers and the proposals relating to the sourcing of the revised tariff data for us to calculate the CJ and VJ Financial Ombudsman Service annual levies from 2018/19? If not, why not?
- Q8:** Do you have any comments on the proposed changes to the financial penalty scheme?
- Q9:** Do you think that the definition of income for consumer hire leases should be revised? If you undertake consumer hire agreements, please use representative examples to illustrate how you interpret our current definition of income when reporting to us, and the impact of any suggestions you make for improvement.
- Q10:** Do you have any comments on the various options for defining consumer hire income that we have discussed in Chapter 4?
- Q11:** Can you suggest any other ways of refining the definition of consumer hire income?



- Q12:** Do you have any comments on whether we should in future charge firms which choose not to take advantage of online invoicing?
- Q13:** Do you have any comments on our proposed amendments to the methodology for collecting the Money Advice Service debt advice levy from 2018/2019?



Annex 2

Compatibility statement

Compliance with legal requirements

1. This annex explains our reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA). Under section 138I of FSMA, the FCA, the Financial Ombudsman Service and the Money Advice Service are exempt from the requirement to carry out and publish a cost benefit analysis regarding such proposals.
2. When consulting on new rules, we are required by section 138I(2)(d) of FSMA to explain why we believe making the proposed rules is compatible with our strategic objective, advances one or more of our operational objectives, and has regard to the regulatory principles in s.3B of FSMA. We are also required by s.138K(2) of FSMA to state our opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.
3. This annex also sets out our view of how the proposed rules are compatible with our duty to discharge our general functions (which include rule-making) in a way that promotes effective competition in the interests of consumers (s.1B(4)). This duty applies in so far as promoting competition is compatible with advancing our consumer protection and/or integrity objectives.
4. This annex further includes our assessment of the equality and diversity implications of these proposals.

Our objectives and regulatory principles

5. Our proposals set out in this consultation are not intended in themselves to advance our operational objectives. However, they will enable us to fund the activities we need to undertake in 2018/19 to meet our responsibilities under FSMA. Therefore, these proposals will indirectly advance our operational objectives of:
 - delivering consumer protection - securing an appropriate degree of protection for consumers
 - enhancing market integrity - protecting and enhancing the integrity of the UK financial system
 - building competitive markets - promoting effective competition in the interests of consumers

6. We also consider that these proposals are indirectly compatible with our strategic objective of ensuring that the relevant markets function well because they will again enable us to fund the activities to meet it. For the purposes of our strategic objective, 'relevant markets' are defined by s.1F of FSMA. In the rest of this annex, reference to objectives means both our strategic objective and operational objectives.
7. In the case of the Financial Ombudsman Service, the proposals in this consultation will contribute to the raising of the general levy to fund its activities in 2018/19 and enable it to meet its statutory function of providing a scheme for the quick and informal resolution of disputes between financial services firms and their customers. The proper functioning of the Financial Ombudsman Service also helps the FCA to meet its consumer protection objective.
8. In the case of the Money Advice Service, the proposals in this consultation will indirectly meet its statutory objectives of:
 - enhancing the understanding and knowledge of financial matters by members of the public
 - improve people's ability to manage their own financial affairs
 - assist the public with debt management, with a view to improving the availability, quality and consistency of debt advice services across the UK
9. In preparing the proposals set out in this consultation, we have had regard to the regulatory principles set out in s. 3B of FSMA. The most relevant regulatory principles are considered below.

The need to use our resources in the most efficient and economic way
10. Our proposals for consultation in this CP are about the basis on which we set fees to recover our costs rather than the way we carry out our business.
11. Our proposals for insurers' tariff data in chapter 2 are based upon the objective that the revised data should be sourced from returns firms already submit for regulatory purposes. This helps us to use our resources in a more efficient and economical way by reducing the administrative burden for collecting fees and levies. We will not have to maintain systems and processes to collect and validate additional or adjusted data.
12. In chapter 6 we initiate a discussion of whether we should charge firms which require us to send them paper invoices, rather than using the more cost efficient online invoicing system. We believe that catering for paper invoices inhibits our ability to make the most efficient and effective use of our resources.

The principle that a burden or restriction should be proportionate to the benefits
13. Sourcing the revised tariff data for insurers from regulatory data will reduce the burden on firms. They will not have to maintain systems and processes to identify additional and/or adjusted data specifically for fees or levy purposes.
14. Aligning the Money Advice Service debt advice levy more closely to the lending of the firms paying it is intended to target cost recovery more effectively on the firms whose activities can potentially generate demand for its services.



The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

15. The proposals for collecting revised tariff data from insurers take account of the differences between general and life insurance business by applying specific tariff data to the general/life insurers fee-block/industry blocks. The proposals also ensure, as far as practicable, consistency of treatment between Solvency II and non-Solvency II firms. We believe we have achieved a reasonable balance – taking into account that while these firms report different regulatory data they come within the same fee-block or industry block.
16. Our discussion of options for refining the definition of income reported by consumer hire firms arises out of concerns they have raised that their business models are different from those of other consumer credit firms, so may need to be treated differently.
17. We are informing Northern Ireland mutual societies that they will fall into the existing structure for other mutual societies when we become their registration authority.
18. Our proposal to apply a concession for Credit Unions and Community Finance Organisations, who are subject to the revised Money Advice Service debt advice levy, recognises the nature of the lending these firms undertake.

The principle that we should exercise of our functions as transparently as possible

19. We have included two discussion chapters in this CP to open up our internal debate on the relevant issues to an external audience before deciding whether to proceed with specific proposals for consultation.
20. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s. 1B(5)(b) of FSMA). We do not believe our proposals have a direct bearing on financial crime.

Expected effect on mutual societies

21. In chapter 5 we explain how Northern Ireland mutual societies will be integrated into our fees system. We do not believe any of our consultation proposals have a significantly different impact on authorised firms that are mutual societies from the impact on other authorised firms.

Compatibility with the duty to promote effective competition in the interests of consumers

22. Our fees enable us to fund our activities, including our duty to promote effective competition in the interests of consumers.
23. The changes we are proposing are intended to improve the targeting of our cost recovery, so that we apply our fees as fairly as possible across all fee-payers. Targeting our cost recovery should help to minimise any distortions to competition.

Equality and diversity

24. We are required under the Equality Act 2010 to 'have due regard' to the need to eliminate discrimination and to promote equality of opportunity in carrying out our policies, services and functions. We believe the policy proposals in this CP do not raise equality or diversity questions but we welcome comments on any equality and diversity issues you believe may arise.



Annex 3

Financial penalty scheme

1. Paragraph 21 of Schedule 1ZA of the Financial Services and Markets Act 2000 (FSMA) (as amended by the 2012 Act and the Legal Aid, Sentencing and Punishment of Offenders Act 2012 (Referral Fees) Regulations 2013) sets out how we should treat the financial penalties we impose on regulated persons (firms).
2. The key requirements are set out below.
 - The financial penalties we receive must be paid to the Treasury net of certain enforcement costs incurred in the financial year in which the penalties were received. These enforcement costs, which are defined in the legislation and subject to a power of direction by the Treasury, represent the 'retained penalties'.
 - For retained penalties, we must prepare and operate a scheme (the Financial Penalty Scheme (FPS)) for ensuring that retained penalties are applied for the benefit of firms.
 - Firms that have become liable to pay any penalty to us in any financial year do not receive any benefit from any penalty imposed on any firm under the scheme in the following year.
3. Under our FPS we apply retained penalties, received in any financial year, as a rebate to the periodic fees paid in the following financial year by firms in the fee-blocks set out in Table A.
4. The total retained penalties from any financial year will be allocated across these fee-blocks in proportion to the allocation of the enforcement budgeted costs for the following financial year. This will target the benefit from retained penalties to the fee-blocks that are paying for enforcement costs.
5. Enforcement costs are not allocated to the A.0 minimum fee fee-block. Therefore, retained penalties are not allocated to this fee-block.
6. The firms on which any penalty was imposed in a financial year will not receive any rebate to their periodic fees paid, for any retained penalties, in the following financial year.
7. Each year we publish a schedule setting out the:
 - total retained penalties in the previous financial year,
 - amount of retained penalties allocated to each fee-block, and
 - percentage rebate that will be applied in the following financial year to the periodic fees paid by the firms in those fee-blocks
8. A draft of this schedule is published in our annual fees rates CP in March; the final schedule is published in the subsequent policy and feedback statement to that consultation in June.

Table A: Financial Penalty Scheme – relevant fee-blocks

Fee-block
AP.0 FCA prudential
A.1 Deposit acceptors
A.2 Home finance providers and administrators
A.3 Insurers – general
A.4 Insurers – life
A.5 Managing agents at Lloyd’s
A.6 The Society of Lloyd’s
A.7 Portfolio managers
A.9 Managers and depositaries of investment funds, and operators of collective investment schemes or pension schemes
A.10 Firms dealing as principal
A.13 Advisory arrangers, dealers or brokers (not holding or controlling client money or assets, or both)
A.14 Corporate finance advisors
A.18 Home finance providers, advisers and arrangers
A.19 General insurance mediation
A.21 Firms holding client money or assets or both
B. Recognised investment exchanges and , operators of multilateral trading facilities and recognised auction platforms (only)
CCC.1 Consumer credit – limited permission
CCC.2 Consumer credit – full permission
E. Issuers and sponsors of securities
G.1 Persons registered under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017
G.2, G.3, G.4, G.5 Firms under the Payment Services Regulations 2017
G.10, G.11 Firms under the Electronic Money Regulations 2011
G.20, G.21 Firms under the Mortgage Credit Directive Order 2015
G.25 Firms under the Data Reporting Regulations 2017



Annex 4

Abbreviations used in this paper

AFR	Annual funding requirement
AGPI	Adjusted gross premium income
APFs	Authorised professional firms
BEL	Best estimate liabilities
CJ	Compulsory jurisdiction
CFOs	Community Finance Organisations (CFOs)
CP	Consultation Paper
DfE	Department for the Economy (Northern Ireland)
EEA	European Economic Area
FCA	Financial Conduct Authority
FEES	FEES Manual
FPS	Financial penalty scheme
FRS	Financial Reporting Standard
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
GPI	Gross premium income
GWP	Gross written premium
HP	Hire purchase
MEL	Modified eligible liabilities
MELL	Management Expenses Levy Limit
MR	Mathematical reserves
NFP	Not for profit

OPBAS	Office for Professional Body Anti-Money Laundering Supervision
PRA	Prudential Regulation Authority
PS	Policy statement
SFGB	Single Financial Guidance Body
Solvency II	Solvency II Directive (2009/138/EC)
VJ	Voluntary jurisdiction

We have developed the policy in this Consultation Paper in the context of the existing UK and EU regulatory framework. The Government has made clear that it will continue to implement and apply EU law until the UK has left the EU. We will keep the proposals under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework in the future.

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

All our publications are available to download from www.fca.org.uk. If you would like to receive this paper in an alternative format, please call 020 7066 9644 or email: publications_graphics@fca.org.uk or write to: Editorial and Digital team, Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS



Appendix 1

Fees (Tariff data for insurers from 2018/19)

Instrument 2018 (draft rules)

FEES (TARIFF DATA FOR INSURERS FROM 2018/19) INSTRUMENT 2018

Powers exercised by the Financial Ombudsman Service

- A. The Financial Ombudsman Service Limited fixes and varies the standard terms for Voluntary Jurisdiction participants relating to the payment of fees under the Voluntary Jurisdiction in Annex B to this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 225 (The scheme and the scheme operator); and
 - (2) paragraph 18 (Terms of reference to the scheme) of Schedule 17.
- B. The fixing and variation of standard terms relating to the payment of fees by the Financial Ombudsman Service Limited is subject to the approval of the Financial Conduct Authority.

Powers exercised by the Financial Conduct Authority

- C. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Act:
- (1) section 137A (The FCA’s general rules);
 - (2) section 137T (General supplementary powers);
 - (3) section 139A (Power of the FCA to give guidance);
 - (4) section 234 (Industry funding); and
 - (5) paragraph 23 (Fees) in Part 3 (Penalties and Fees) of Schedule 1ZA (The Financial Conduct Authority).
- D. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.
- E. The Financial Conduct Authority approves the fixing and variation of the standard terms relating to the payment of fees by the Financial Conduct Ombudsman Service Limited.

Commencement

- F. This instrument comes into force on [date] 2018.

Amendments to the Handbook

- G. The Glossary of definitions is amended in accordance with Annex A to this instrument.
- H. The Fees manual (FEES) is amended in accordance with Annex B to this instrument.

Citation

- I. This instrument may be cited as the Fees (Tariff Data for Insurers from 2018/19) Instrument 2018.

By order of the Board of the Financial Ombudsman Service Limited
[*date*]

By order of the Board of the Financial Conduct Authority
[*date*]

Annex A**Amendment to the Glossary of definitions**

In this Annex, underlining indicates new text.

Amend the following text as shown.

- non-directive firm* (1) (in *SUP* 11 (Controllers and close links) and *SUP* 16 (Reporting requirements)) (in accordance with the Financial Services and Markets Act 2000 (Controllers) (Exemption) Order 2009 (SI 2009/774)) a *UK domestic firm* other than:
- (a) a *credit institution* authorised under the *Banking Consolidation Directive*;
 - (b) an *investment firm* authorised under *MIFID*;
 - (c) a *management company* as defined in article 2(1)(b) of the *UCITS Directive*, authorised under that directive;
 - (d) a *Solvency II firm*.
- (2) (in *FEES* 4 Annex 1AR Part 3) has the meaning given to it in the Glossary of the *PRA Rulebook*.

Annex B

Amendments to the Fees manual (FEES)

In this Annex, underlining indicates new text and striking through indicates deleted text.

4 Periodic fees

4.2 Obligation to pay periodic fees

...

- 4.2.7K R Where the measure is not cumulative (e.g. the number of traders for fee-block A10), the *firm* must use the figure relating to its annual reporting date (e.g. 31 December for A10) or, if that is not available, the projected figure used when it was authorised. Table A sets out the reporting requirements for the key fee-blocks when actual data is not available:

Table A: calculating tariff data for second and subsequent years of authorisation when full trading figures are not available

Fee-block	Tariff base	Calculation where trading data are not available
...		
A3. Insurers - general	Annual gross premium income <u>Gross written premium for fees purposes (GWP)</u> for the financial year ended in the calendar year ending 31 December and gross technical liabilities <u>best estimate liabilities for fees purposes (BEL)</u> valued at the end of the financial year	Income <u>GWP</u> – apply the formula $(A \div B) \times 12$ to arrive at an annualised figure. Gross technical liabilities and mathematical reserves. BEL = <u>Use</u> data at valuation date or, if trading has not commenced by then, use projections provided at authorisation.
A4. Insurers - life	Adjusted gross premium income <u>Gross written premium for fees purposes (GWP)</u> for the financial year ended in the calendar year ending 31 December and mathematical reserves <u>best estimate liabilities for fees purposes (BEL)</u> valued at the end of the financial year	
...		

...

4.4 Information on which fees are calculated

...

4.4.2 R A *firm* (other than the *Society*) must send to the *FCA* (in its own capacity and, if applicable, in its capacity as collection agent for the *PRA*) in writing the information required under *FEES* 4.4.1R as soon as reasonably practicable, and in any event within two *months*, after the date specified as the valuation date in Part 5 of *FEES* 4 Annex 1AR in relation ~~of~~ to fees payable to the *FCA* (or *FEES* 4.2.7BR where applicable) unless *FEES* 4.4.2AR applies.

~~[Note: Transitional provisions apply to *FEES* 4.4.1R and *FEES* 4.4.2R for *firms* in activity groups A.3 and A.4 — see *FEES* TP 13]~~

4.4.2A R If a *firm* is a UK Solvency II firm, an *incoming EEA firm* or an *incoming Treaty firm* in activity group A.3 or A.4 and the *PRA* or the *FCA* has either:

- (1) not received the necessary tariff data on a timely basis in line with Part 3 and 5 of *FEES* 4 Annex 1AR; or
- (2) deemed the tariff data received to be incomplete or insufficiently reliable, by reference to a specific *firm* or across all or part of the activity group.

the *FCA* may use tariff data from the previous reporting period for the periodic fees calculation.

...

4 Annex FCA activity groups, tariff bases and valuation date 1AR

...

Part 3
 This table indicates the tariff base for each fee-block set out in Part 1.
 The tariff base in this Part is the means by which the *FCA* measures the amount of business conducted by a *firm* for the purposes of calculating the annual periodic fees payable to the *FCA* by that *firm*.

Activity group	Tariff base
...	
A.3	<u>GROSS PREMIUM INCOME GROSS WRITTEN PREMIUM FOR FEES PURPOSES AND GROSS TECHNICAL LIABILITIES BEST ESTIMATE</u>

	<p><u>LIABILITIES FOR FEES PURPOSES</u></p> <p><u>For insurers:</u></p> <p>The amount of <i>premium</i> receivable which must be included in the documents required to be deposited under IPRU(INS) (as defined in the Fees Part of the <i>PRA</i> Rulebook) 9.6 in relation to the financial year to which the documents relate but disregarding for this purpose such amounts as are not included in the document by reason of a waiver or an order under section 68 of the Insurance Companies Act 1982 carried forward as an amendment to IPRU(INS) (as defined in the Fees Part of the <i>PRA</i> Rulebook) under transitional provisions relating to written concessions in <i>SUP</i>;</p> <p><u>Gross written premium for fees purposes means:</u></p> <p>(1) for UK Solvency II firms, a <i>firm's</i> gross written premium as reported to the <i>PRA</i>, being the total of items entered under row codes R0110, R0120 and R0130, as expressed in column code C0200 where this column is completed for those row codes of the annual quantitative reporting template S.05.01.01;</p> <p>(2) for <i>incoming EEA firms</i> or <i>incoming Treaty firms</i>, a <i>firm's</i> gross written premium as reported to their <i>Home State regulator</i>, being the total of items entered under row codes R0110, R0120 and R0130, as expressed in column code C0200 where this column is completed for those row codes, of the annual quantitative reporting template S.05.01.01 but only in relation to the <i>regulated activities</i> of the <i>firm</i> which are carried on in the <i>United Kingdom</i>, (except those provided on a <i>cross border services</i> basis); and</p> <p>(3) for <i>non-directive firms</i>, a <i>firm's</i> gross premium written as reported to the <i>PRA</i> under item 11 of form 11, or where this is not reported because the <i>firm</i> is a <i>Swiss general insurer</i>, the entry at sheet 1, line 1, column 1, of form 20A, or where the <i>firm</i> is a <i>friendly society</i>, the income and expenditure account entry for gross premium written or contributions as income receivable, as appropriate under the Friendly Societies (Accounts and Related Provisions) Regulation 1994 (SI 1994/1983).</p>
	<p>AND the amount of gross technical liabilities IPRU(INS) (as defined in the Fees Part of the <i>PRA</i> Rulebook) Appendix 9.1 – Form 15, line 19) which must be included in the documents required to be deposited under FUND 3.4.8G IPRU(INS) (as defined</p>

in the Fees Part of the *PRA Rulebook*) 9.6R in relation to the financial year to which the documents relate but disregarding for this purpose such amounts as are not included in the document by reason of a *waiver* or an order under *section 68* of the Insurance Companies Act 1982 carried forward as an amendment to IPRU(INS) (as defined in the Fees Part of the *PRA Rulebook*) under transitional provisions relating to written concessions in *SUP*.

Best estimate liabilities for fees purposes means:

(1) for UK Solvency II firms, a firm's best estimate liabilities as reported to the *PRA*, being the sum of items entered under row codes R0010, R0370, R0380, R0410 and R0420, column code C0180, of the annual quantitative reporting template S17.01.01; plus the sum of items entered under row codes R0010, R0230, R0260, column codes C0090 and C0190, and the sum of items entered under row codes R0010 and R0030, column code C0140, of the annual quantitative reporting template S12.01.01;

(2) for incoming EEA firms or incoming Treaty firms, a firm's best estimate liabilities as reported to their Home State regulator, being the sum of items entered under row codes R0010, R0370, R0380, R0410 and R0420, column code C0180, of the annual quantitative reporting template S17.01.01; plus the sum of items entered under row codes R0010, R0230, R0260, column codes C0090 and C0190, and the sum of items entered under row codes R0010 and R0030, column code C0140, of the annual quantitative reporting template S12.01.01 but only in relation to the regulated activities of the firm which are carried on in the United Kingdom, except those provided on a cross border services basis; and

(3) for non-directive firms, a firm's total gross technical provisions as reported to the *PRA* under item 19 of form 15, or where this is not reported because the firm is a marine mutual, item 29 of form M2, or where the firm is a friendly society, the balance sheet entry C3 'claims outstanding' where this entry is required under the Friendly Societies (Accounts and Related Provisions) Regulations 1994 (SI 1994/1983); and otherwise zero.

Annual quantitative reporting template has the meaning given in Fees Chapter 1 Application and Definitions of the *PRA Rulebook*.

Corporate pension business has the meaning given in

	<p><u>Fees Chapter 1 Application and Definitions of the PRA Rulebook.</u></p> <p><u>UK Solvency II firm has the meaning given in Insurance General Application 2 of the PRA Rulebook.</u></p>
	<p>Notes:</p> <p>(1) in the case of either:</p> <p>(a) a pure reinsurer carrying on general insurance business through a branch in the United Kingdom; or</p> <p>(b) an insurer whose head office is not in an EEA State carrying on general insurance business through a branch in the United Kingdom; or</p> <p>(c) an EEA deposit insurer;</p> <p>the amount only includes premiums received and gross technical liabilities held in respect of its United Kingdom business;</p> <p>(2) for a Swiss general insurance company, premiums and gross technical liabilities include those relevant to the operations of the company's United Kingdom branch; and</p> <p>(3) a firm need not include premiums and gross technical liabilities relating to pure protection contracts which it reports, and pays a fee on, in the A.4 activity group.</p>
	<p>For friendly societies:</p> <p>Either:</p> <p>(a) the value of contributions as income under Schedule 7: Part I item 1(a) to the Friendly Societies (Accounts and Related Provisions) Regulations 1994 (SI 1994/1983) (the regulations) for a non-directive friendly society, included within the income and expenditure account; or</p> <p>(b) the value of gross premiums written under Schedule 1: Part I items I.1(a) and II.1.(a) of the regulations for a directive friendly society included within the income and expenditure account.</p>
	<p>Notes:</p> <p>(1) In both (a) and (b) above only premium receivable in respect of United Kingdom business are relevant.</p> <p><u>(1) The recovery of the FCA's annual funding requirement allocated to the A.3 fee-block will be</u></p>

	<p><u>weighted:</u></p> <p><u>(a) 90% from gross written premium for fees purposes; and</u></p> <p><u>(b) 10% from best estimate liabilities for fees purposes.</u></p> <p><u>(2) This tariff base (A.3 fee-block) does not include gross written premium for fees purposes and best estimate liabilities for fees purposes on which a <i>composite firm</i> reports data relevant for fee-block A.4.</u></p> <p><u>(3) Where any figure used in the calculation of this tariff base is a negative number, it shall instead be deemed to be zero.</u></p> <p><u>(2 4) For UK ISPVs this tariff base is not relevant and a flat fee set out in FEES 4 Annex 2AR is payable.</u></p>
A.4	<p><u>ADJUSTED GROSS PREMIUM INCOME</u> <u>GROSS WRITTEN PREMIUM FOR FEES</u> <u>PURPOSES AND MATHEMATICAL</u> <u>RESERVES BEST ESTIMATE LIABILITIES</u> <u>FOR FEES PURPOSES</u> (see FEES 4 Annex 12G)</p> <p>Amount of new regular <i>premium</i> business (yearly <i>premiums</i> including reassurances ceded but excluding cancellations and reassurances accepted), times ten;</p> <p>Plus:</p> <p>amounts of new single <i>premium</i> business (total including reassurances ceded but excluding cancellations and reassurances accepted). Group protection business (life and private health insurance) must be included;</p> <p>Less:</p> <p><i>premiums</i> relating to <i>pension fund management</i>;</p> <p>Less:</p> <p><i>premiums</i> relating to Trustee Investment Plans.</p> <p>For each of the above, business transacted through independent practitioners or tied agents (either single or multi tie) will be divided by two in calculating the adjusted gross premium income;</p> <p><u>Gross written premium for fees purposes means:</u></p> <p><u>(1) for UK Solvency II firms, a <i>firm's</i> gross written premium as reported to the PRA, being the item entered under row code R1410, column code C0300 of the annual quantitative reporting template S05.01.01 minus corporate pension business as</u></p>

	<p>reported to the <i>PRA</i> under the annual quantitative reporting template S14.01.01; and</p> <p><u>(2) for incoming EEA firms or incoming Treaty firms, a firm's gross written premium as reported to their Home State regulator, being the item entered under row code R1410, column code C0300 of the annual quantitative reporting template S05.01.01 minus corporate pension business as reported to the PRA under the annual quantitative reporting template S14.01.01 but only in relation to the regulated activities of the firm which are carried on in the United Kingdom, except those provided on a cross border services basis.</u></p>
	<p>AND</p> <p>the amount of mathematical reserves (IPRU (INS) (as defined in the Fees Part of the <i>PRA</i> Rulebook) Appendix 9.1R – Form 14, Line 11) which must be included in the documents required to be deposited under IPRU (INS) (as defined in the Fees Part of the <i>PRA</i> Rulebook) 9.6R in relation to the financial year to which the documents relate but disregarding for this purpose such amounts as are not included in the document by reason of a <i>waiver</i> or an order under section 68 of the Insurance Companies Act 1982 carried forward as an amendment to IPRU (INS) (as defined in the Fees Part of the <i>PRA</i> Rulebook) under transitional provisions relating to written concessions in <i>SUP</i>;</p> <p>Less</p> <p>mathematical reserves relating to <i>pension fund management</i>.</p> <p>Less</p> <p>mathematical reserves relating to Trustee Investment Plans.</p> <p><u>Best estimate liabilities for fees purposes means:</u></p> <p><u>(1) for UK Solvency II firms, a firm's best estimate liabilities as reported to the PRA, being the sum of items entered under row codes R0010 and R0030, column codes C0150 and C0210 minus the sum of items entered under row codes R0010 and R0030, column codes C0090, C0140 and C0190 of the annual quantitative reporting template S12.01.01; minus corporate pension business reported under the annual quantitative reporting template S14.01.01; and</u></p> <p><u>(2) for incoming EEA firms or incoming Treaty firms,</u></p>

a firm's best estimate liabilities as reported to their Home State regulator, being the sum of items entered under row codes R0010 and R0030, column codes C0150 and C0210 minus the sum of items entered under row codes R0010 and R0030, column codes C0090, C0140 and C0190 of the annual quantitative reporting template S12.01.01; minus corporate pension business reported under the annual quantitative reporting template S14.01.01 but only in relation to the regulated activities of the firm which are carried on in the United Kingdom, except those provided on a cross border services basis.

Annual quantitative reporting template has the meaning given in Fees Chapter 1 Application and Definitions of the PRA Rulebook.

Corporate pension business has the meaning given in Fees Chapter 1 Application and Definitions of the PRA Rulebook.

UK Solvency II firm has the meaning given in Insurance General Application 2 of the PRA Rulebook.

Notes:

~~(1) Only premiums receivable and mathematical reserves held in respect of United Kingdom business are relevant.~~

~~(2) An insurer must include in its calculation of adjusted gross premium income (AGPI) and mathematical reserves (MR) the value of MR and AGPI relating to all risks ceded to ISPVs.~~

~~(3) Trustee Investment Plans are the class of contract of insurance specified in Class III of Part II of Schedule 1 to the Regulated Activities Order (Contracts of long term insurance) and which are invested in pooled funds beneficially owned by the insurer and not earmarked to individual beneficiaries by that insurer.~~

(1) The recovery of the FCA's annual funding requirement allocated to the A.4 fee-block will be weighted:

(a) 50% from gross written premium for fees purposes; and

(b) 50% from best estimate liabilities for fees purposes.

(2) for non-directive firms, including non-directive composite firms to the extent that they come within

	<p>the A.4 fee block, the tariff base is not relevant to the level of fees due and only the minimum fee as specified in Part 2(b) of <i>FEES 4 Annex 2AR</i> is payable.</p> <p><u>(3) Where any figure used in the calculation of this tariff base is a negative number, it shall instead be deemed to be zero.</u></p>
--	--

...	
-----	--

Part 5

This table indicates the valuation date for each fee-block. A *firm* can calculate its tariff data in respect of fees payable to the *FCA* by applying the tariff bases set out in Part 3 with reference to the valuation dates shown in this table.

Activity group	Valuation date
----------------	----------------

...	
-----	--

A.3	<p>Annual gross <i>premium</i> income (GPI), for the financial year ended in the calendar year ending 31 December.</p> <p>AND</p> <p>Gross technical liabilities (GTL) valued at the end of the financial year ended in the calendar year ending 31 December.</p> <p>[Note: Transitional provisions apply—see <i>FEES TP 13</i>]</p> <p><u>The <i>firm's</i> gross written premium for fees purposes and its best estimate liabilities for fees purposes for the <i>firm's</i> financial year which ends in the calendar year to 31 December prior to commencement of the <i>fee year</i>.</u></p>
------------	--

A.4	<p>Adjusted annual gross <i>premium</i> income (AGPI) for the financial year ended in the calendar year ending 31 December.</p> <p>AND</p> <p>Mathematical reserves (MR) valued at the end of the financial year ended in the calendar year ending 31 December.</p> <p>[Note: Transitional provisions apply—see <i>FEES TP 13</i>]</p> <p><u>For UK Solvency II firms, including <i>composite UK</i></u></p>
------------	--

	<u>Solvency II firms</u> to the extent that they are required to report data used for this tariff base, the <u>firm's gross written premium for fees purposes and its best estimate liabilities for fees purposes, for the firm's financial year which ends in the calendar year to 31 December prior to commencement of the fee year.</u>
...	

4 Annex 2AR FCA Fee rates and EEA/Treaty firm modifications for the period from 1 April 2017 2018 to 31 March 2018 2019

Part 1

This table shows the tariff rates applicable to each of the fee blocks set out in Part 1 of FEES 4 Annex 1AR.

...

Activity group	Fee payable	
...		
A.3	Gross premium income (GPI) <u>Gross written premium for fees purposes (GWP)</u>	Periodic fee
	Band width (£million of GPI <u>GWP</u>)	Fee (£/m or part £m of GPI <u>GWP</u>)
	>0.5	345.71[tbc]
	PLUS	
	Gross technical liabilities (GTL) <u>Best estimate liabilities for fees purposes (BEL)</u>	General Periodic fee
	Band Width (£million of GTL <u>BEL</u>)	Fee (£/£m or part £m of GTL <u>BEL</u>)
	>1	18.53 [tbc]
For UK ISPVs the tariff rates are not relevant and a flat fee of £471 [tbc] is payable in respect of each FCA financial year (the 12 months ending 31 March)		

A.4	Adjusted annual gross premium income (AGPI) <u>Gross written premium for fees purposes (GWP)</u>	General Periodic fee
	Band Width (£million of AGPI <u>GWP</u>)	Fee (£/£m or part £m of AGPI <u>GWP</u>)
	>1	525.91[tbc]
	PLUS	
	Mathematical reserves (MR) <u>Best estimate liabilities for fees purposes (BEL)</u>	General Periodic fee
	Band Width (£million of MR <u>BEL</u>)	Fee (£/£m or part £m of MR <u>BEL</u>)
	>1	11.08[tbc]
...		

Part 2

The tables below show the tariff rates (minimum fees) applicable to each of the fee blocks set out in Part 2 of *FEES 4 Annex 1AR*.

Part 2(a) shows the tariff rates (minimum fees) payable to the *FCA* by *FCA-authorized persons* and Part 2(b) shows the tariff rates (minimum fees) payable to the *FCA* by *PRA-authorized persons*.

[**Note:** *PRA-authorized persons* will also pay minimum fees to the *PRA* as set out in Chapter 3 of the Fees Part of the *PRA Rulebook* ~~Rulebook~~ Rulebook.]

...

Part 2(b) tariff rates (minimum fees) payable to the FCA by PRA-authorized persons

A.0	(1)	£547 unless:	
		...	
	(b)		it is a <i>non-directive friendly society</i> that falls into the A.3 activity group but not the A.4 activity group and meets the conditions set out in (3)(a) and has, for

			that activity, 0.5 million or less in <u>gross written premium for fees purposes and holds best estimate liabilities for fees purposes of 1.0 million or less</u> , in which case the minimum fee payable is £235 [tbc]; or
		(c)	it is a <i>non-directive friendly society</i> that falls into the A.4 activity group but not the A.3 activity group and meets the conditions in (3)(b) and has, for that activity, written 1.0 million or less in <u>gross written premium for fees purposes and holds best estimate liabilities for fees purposes of 1.0 million or less</u> , in which case the minimum fee payable is £235 [tbc]; or
		(d)	it is a <i>non-directive friendly society</i> that falls into the A.3 and A.4 activity groups and meets the conditions in (3)(a) and (3)(b), in which case the minimum fee payable is £235[tbc].
	...		
	(3)	The conditions referred to in (1)(d) are that:	
		(a)	the <i>non-directive friendly society</i> falls into the A.3 activity group and has, for that activity, 0.5 million or less in gross premium income <u>gross written premium for fees purposes</u> and holds gross technical liabilities <u>best estimate liabilities for fees purposes</u> of 1.0 million or less;
		(b)	the <i>non-directive friendly society</i> falls into the A.4 activity group and has, for that activity, written 1.0 million or less in adjusted gross premium income <u>gross written premium for fees purposes</u> and holds mathematical reserves <u>best estimate liabilities for fees purposes</u> of 1.0 million or less.
		The figures for gross premium income, gross technical liabilities, adjusted gross premium income <u>gross written premium for fees purposes</u> and mathematical reserves <u>best estimate liabilities for fees purposes</u> are	

		the same as used for Part 1 of this Annex.
...		

...

4 Annex 12R **Guidance on the calculation of tariffs set out in FEES 4 Annex 1AR Part 3**

The following table sets out *guidance* on how a *firm* should calculate tariffs for fee-block A.4.

Adjusted Gross Premium Income (GWP) and Mathematical reserves (BEL) <u>Gross written premium for fees purposes</u> <u>Best estimate liabilities for fees purposes</u> - calculation of new regular premium business
<p>(1) In calculating the new regular <i>premium</i> business element of its Adjusted Gross Premium Income, a <i>firm</i> (A) should not include business transferred from another <i>firm</i> (B) under the procedure set out at <i>Part VII</i> of the <i>Act</i>, during the relevant financial year, provided that that transfer did not involve the creation of new contracts between the policyholders subject to the transfer and A. This is because that business is existing business even though it is new from the point of view of A. This means that if new contracts are created as part of the transfer, that business should be included in the calculation of A's new regular <i>premium</i> income business.</p> <p>(2) If any business is transferred to a <i>firm</i> (A) from another <i>firm</i> (B) under the procedure set out at <i>Part VII</i> of the <i>Act</i> and that business would have been included in B's tariff base as new regular <i>premium</i> business in the absence of such a transfer, this business should be included in either A's or B's tariff base, depending on the date of transfer. FEES 4.3.15R <u>4.3.17R</u> explains in whose tariff base it should be included.</p> <p>(3) Mathematical reserves <u>Best estimate liabilities for fees purposes</u> should take account of all of A's business, including all new business transferred from B.</p>

5 **Financial Ombudsman Service funding**

...

5.3 **The general levy**

...

5.3.8 R A *firm's* general levy under the ~~compulsory~~ Compulsory jurisdiction Jurisdiction is calculated as follows:

- (1) identify each of the tariff bases set out in *FEES 5 Annex 1* which apply to ~~the relevant business of the firm~~ for the relevant year;

- (2) for each of those tariff bases, calculate the sum payable in relation to the *relevant business* of the *firm* for that year (except *industry blocks 2 and 4*, in which case calculate the sum payable for that year);
- (3) add together the amounts calculated under (2).

~~[Note: Transitional provisions apply to *FEES 5.3.8R* in relation to *firms* in *industry blocks 2 and 4*— see *FEES TP 13*]~~

...

5.4 Information requirement

- 5.4.1 R (1) A *firm* must provide the *FCA* by the end of February each year (or, if the *firm* has become subject to the *Financial Ombudsman Service* part way through the *financial year*, by the date requested by the *FCA*) with a statement of :

(a) the total amount of *relevant business* (measured in accordance with the appropriate tariff base(s)) which it conducted; or

(b) in the case of *firms* in *industry blocks 2 and 4*, the *gross written premium* for fees purposes as defined in *FEES 4 Annex 1R*,

as at or in the year to 31 December of the previous year as appropriate, in relation to the tariff base for each of the relevant *industry blocks* set out in *FEES 5 Annex 1*.

~~[Note: Transitional provisions apply to *FEES 5.4.1R(1)* in relation to *firms* in *industry blocks 2 and 4*— see *FEES TP 13*]~~

- 5.4.1-A R (1) In the case of *firms* in *industry blocks 2 and 4* the requirements under *FEES 5.4.1R* apply in relation to the tariff bases(s) and tariff data in *FEES 5 Annex 1R*.
- (2) If a *firm* is a UK Solvency II firm, an *incoming EEA firm* or an *incoming Treaty firm* in *industry blocks 2 and 4* in *FEES 5 Annex 1R*, the *FCA* may use tariff data from the previous reporting period for the periodic fees calculation if the *PRA* or the *FCA* has either:
- (a) not received the necessary tariff data in a timely basis in line with Part 3 and 5 of *FEES 4 Annex 1R*; or
- (b) deemed the tariff data received to be incomplete or insufficiently reliable, by reference to a specific *firm* or across all or part of the *industry block*.

5.4.1A D ...

...

5 Annex Annual General Levy Payable in Relation to the Compulsory Jurisdiction for

1R ~~2017/18~~ 2018/19

...

Compulsory jurisdiction - general levy

Industry block	Tariff base	General levy payable by firm
...		
2- Insurers - general (excluding <i>firms</i> in blocks 13 & 15)	Relevant annual gross premium income <u>Gross written premium for fees purposes (GWP) as defined in FEES 4 Annex 1AR</u>	£0.1268 [tbc] per £1,000 of relevant annual gross premium income <u>GWP</u> , subject to a minimum levy of £100 <u>[tbc]</u>
...		
4- Insurers - life (excluding <i>firms</i> in block 15)	Relevant adjusted annual gross premium income <u>Gross written premium for fees purposes (GWP) as defined in FEES 4 Annex 1AR</u>	£0.01730 [tbc] per £1,000 of relevant adjusted annual gross premium income <u>GWP</u> , subject to a minimum levy of £130 <u>[tbc]</u>
...		
Notes		
...		
6	Where the tariff base in the table is defined in similar terms as that for the equivalent activity group in Part 3 of FEES 4 Annex 1A or Part 3 of FEES 4 Annex 11, it must be calculated in the same way as that tariff base - taking into account only the <i>firm's relevant business</i> (except for <i>firms in industry blocks 2 and 4</i>).	
...		

5 Annex **Annual Levy Payable in Relation to the Voluntary Jurisdiction** ~~2017/18~~
2R 2018/19

Voluntary jurisdiction - annual levy for VJ participants				
Industry block and business activity		Tariff basis	Tariff rate	Minimum levy
...				
2V	<p><i>VJ participants undertaking general insurance activities</i></p> <p>[Note: Transitional provisions apply—see FEES TP 13]</p>	<p>per £1,000 of relevant annual gross premium income <u>gross written premium</u></p>	£0.103 [tbc]	£100 [tbc]
3V	<p><i>VJ participants undertaking life insurance activities</i></p> <p>[Note: Transitional provisions apply—see FEES TP 13]</p>	<p>per £1,000 of relevant adjusted annual gross premium income <u>gross written premium</u></p>	£0.025 [tbc]	£100 [tbc]
...				
Note				
<p>(1) For the purposes of <i>FEES 5 Annex 2R</i> and for <i>VJ participants</i> undertaking general insurance activities (<i>industry block 2V</i>) ‘gross written premium’ means:</p> <p>(a) if subject to reporting requirements under <i>Solvency II Directive</i>, the total of items entered under row codes R0110, R0120 and R0130, as expressed in column code C0200 where this column is completed for those row codes, of the annual quantitative reporting template S.05.01.01 but only in relation to the <i>relevant business</i> of the <i>VJ participant</i> (as per <i>DISP 4.2.6(5)R</i> and <i>FEES 5.3.8R</i>); and</p> <p>(b) if not subject to reporting requirements under <i>Solvency II Directive</i>, the gross premiums written but only in relation to the <i>relevant business</i> of the <i>VJ participant</i> (as per <i>DISP 4.2.6(5)R</i> and <i>FEES 5.3.8R</i>).</p> <p>(2) For the purposes of <i>FEES 5 Annex 2R</i> and for <i>VJ participants</i> undertaking life insurance activities (<i>industry block 3V</i>) ‘gross written premium’ means:</p>				

(a) if subject to reporting requirements under *Solvency II Directive*, the item entered under row code R1410, column code C0300 of the annual quantitative reporting template S05.01.01 minus corporate pension business under the annual quantitative reporting template S14.01.01 but only in relation to the *relevant business* of the *VJ participant* (as per *DISP 4.2.6(5)R* and *FEES 5.3.8R*); and

(b) if not subject to reporting requirements under *Solvency II Directive*, the *minimum levy* would apply.

Annual quantitative reporting template has the meaning given in Fees Chapter 1 Application and Definitions of the *PRA Rulebook*.

Corporate pension business has the meaning given in Fees Chapter 1 Application and Definitions of the *PRA Rulebook*.

...

TP 13 Transitional provisions relating to the calculation of tariff bases for insurers [deleted]

13.1.1	R	(1)	<i>FEES</i> TP 13 applies to:	
			(a)	a <i>firm</i> in activity groups A.3 and/or A.4 in <i>FEES 4 Annex 1AR</i> (FCA activity groups, tariff bases and valuation dates); or
			(b)	a <i>firm</i> in industry blocks 2 and 4 in <i>FEES 5 Annex 1R</i> (Annual General Levy Payable in Relation to the Compulsory Jurisdiction); or
			(c)	a <i>VJ participant</i> in industry blocks 2V and/or 3V in <i>FEES 5 Annex 2R</i> (Annual Levy Payable in Relation to the Voluntary Jurisdiction).
		(2)	<i>FEES</i> TP 13 modifies:	
			(a)	<i>FEES 4.2.7R</i> and <i>FEES 4.2.7BR</i> ;
			(b)	<i>FEES 4.3.3R</i> ;
			(c)	<i>FEES 4.4.1R</i> and <i>FEES 4.4.2R</i> ;
			(d)	<i>FEES 4 Annex 1AR, Part 5</i> ;
			(e)	<i>FEES 5.3.8R</i> ;
			(f)	<i>FEES 5.4.1R</i> ;

		(g)	FEES 5.8.1R, FEES 5.8.2R and FEES 5.8.3G; and
		(h)	FEES 5 Annex 2R.
13.1.2	G	FEES TP 13 deals with transitional arrangements relating to the calculation of tariff data for insurers for the fee year 2017/18 as a result of the implementation of the Solvency II Directive from 1 January 2016.	
13.2	Calculation of tariff bases for fee year 2017/18		
13.2.1	R	Subject to FEES TP 13.2.2R the following will apply to the calculation of tariff bases for firms and VJ participants caught by FEES TP 13.1.1R(1) for the fee year 2017/18:	
		(1)	Subject to FEES TP 13.2.1R(2) and FEES TP 13.2.1R(3) fees (including the general levy and the levy for the Voluntary Jurisdiction specified in FEES 5 Annex 2R) will be calculated using the tariff base data reported for the financial year ended in the calendar year ending 2015.
		(2)	If a firm or a VJ participant has acquired or disposed of insurance business by way of an insurance business transfer scheme under Part VII of the Act or Part VIII of the Friendly Societies Act 1992, during the period specified in FEES TP 13.2.3R, it must on or before 28 February 2017:
		(a)	notify the FCA (or the Financial Ombudsman Service in the case of a VJ participant) that such a transfer has taken place; and
		(b)	provide such information as the FCA (or the Financial Ombudsman Service in the case of a VJ participant) may require to establish the extent to which the tariff base data, referred to in FEES TP 13.2.1R(1), has increased or decreased as a result of the transfer and the amended data provided will form the basis of the fees calculation (including the general levy and the levy for the Voluntary Jurisdiction specified in FEES 5 Annex 2R) for the fee year commencing on 1 April 2017.
		(3)	A firm in run-off (or a VJ participant in equivalent circumstances) which commenced during the period specified in FEES TP 13.2.3R may on or before 28 February 2017 resubmit adjusted 2015 tariff base data.
		[Note: Under FEES TP 13.2.1R(2) and (3) firms within activity groups A.3 and/or A.4 make resubmissions to the FCA in its capacity as collection agent for the PRA]	
13.2.2	R	This rule deals with the use of projected valuations in the calculation of fees for firms subject to FEES TP 13 where FEES 4.2.7R, FEES 4.2.7BR, FEES	

		5.8.1R, <i>FEES</i> 5.8.2R or <i>FEES</i> 5.8.3G apply in the fee year 2017/18.	
		(1)	For periodic fees calculations under <i>FEES</i> 4.2.7R or <i>FEES</i> 4.27BR, projected valuations for a <i>firm's</i> first year, as provided in the course of the <i>firm's</i> application will be applied whether in its first <i>fee year</i> , second <i>fee year</i> or subsequent <i>fee year</i> .
		(2)	The <i>general levy</i> calculation based on projected valuations for a <i>firm's</i> first year of business will be applied whether it is in its first or second <i>financial year</i> .
		(3)	The levy calculation for the <i>Voluntary Jurisdiction</i> specified in <i>FEES</i> 5 Annex 2R based on projected valuations for <i>VJ participant's</i> first year of business will be applied whether it is in its first or second <i>financial year</i> .
13.2.3	R	The period referred to <i>FEES</i> TP 13.2.1R(2) and <i>FEES</i> TP 13.2.1R(3) is the period:	
		(1)	from the <i>firm's financial year</i> ended in the calendar year ending 2015; to
		(2)	the end of the calendar year ending 2016.
13.2.4	R	To assist with the formulation of fees and <i>general levy</i> policy for the <i>fee year</i> and <i>financial year</i> commencing on 1 April 2018 and subsequent <i>fee years</i> and <i>financial years</i> , <i>firms</i> are required to comply with the requests of the <i>FCA</i> for tariff data in respect of the <i>firm's financial years</i> :	
		(1)	ended in the calendar year ending 31 December 2016; and
		(2)	ended in the calendar year ending 31 December 2017.

Appendix 2

Fees (Consumer Financial Education Body Levy) Instrument 2018 (draft rules)

FEES (CONSUMER FINANCIAL EDUCATION BODY LEVY) INSTRUMENT 2018

Powers exercised

- A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137A (The FCA’s general rules);
 - (2) section 137T (General supplementary powers);
 - (3) section 139A (Power of the FCA to give guidance);
 - (4) paragraph 23 (Fees) in Part 3 (Penalties and Fees) of Schedule 1ZA (The Financial Conduct Authority); and
 - (5) paragraph 12 in Part 2 (Funding) of Schedule 1A (Further provision about the Consumer Financial Education Body).
- B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on [*date*] 2018.

Amendments to the Handbook

- D. The Fees manual (FEES) is amended in accordance with the Annex to this instrument.

Citation

- E. This instrument may be cited as the Fees (Consumer Financial Education Body Levy) Instrument 2018.

By order of the Board
[*date*]

[*Editor's note:* The text in this Annex takes account of the changes suggested by the draft instrument included in PS17/5 'FCA regulated fees and levies 2017/18' (July 2017) as if they were made.]

Annex

Amendments to the Fees manual (FEES)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

7 CFEB levies

...

7.2 The CFEB levy

...

Calculation of the CFEB levy

7.2.2 R The *CFEB levy* is calculated as follows:

- (1) identify each of the activity groups set out in Part 1 of *FEES 7 Annex 1* and Part 1 of *FEES 7 Annex 2R* that apply to the business of the *firm* for the relevant period (for this purpose, the activity groups under *FEES 7 Annex 1R* are defined in accordance with Part 1 of *FEES 4 Annex 1A* and the activity groups under *FEES 7 Annex 2R* are defined in accordance with Part 1 of that Annex);
- ...
- (6) modify the result as indicated by ~~the table in *FEES 4.2.6R* and *FEES 4.2.7R*~~ *FEES 4.2.7ER*, *FEES 4.2.7FR*, *FEES 4.2.7GR*, *FEES 4.2.7HR*, *FEES 4.2.7IR*, *FEES 4.2.7JG* and *FEES 4.2.7KR* (if applicable);
- (7) apply any applicable payment charge specified in *FEES 4.2.4R* to the amount in (6), provided that:
 - (a) for payment by direct debit, successful collection of the amount due is made at the first attempt by the *FCA*; or
 - (b) for payment by credit transfer, the amount due is received by the *FCA* on or before the due date;
- (8) make the calculations using information obtained in accordance with *FEES 4.4* in the case of *FEES 7 Annex 1R* and Part 3 of *FEES 7 Annex 2R* in the case of Part 2 of that Annex.

- 7.2.3 R The amount payable by a *firm* with respect to a particular activity group is calculated as follows:
- (1) calculate the size of the *firm*'s tariff base for that activity group using:
 - (a) the tariff base calculations in Part 3 of *FEES 4* Annex 1A, Part 3 of *FEES 4* Annex 11 and ~~Part 3 of *FEES 7* Annex 1~~ Part 2 of *FEES 7* Annex 2R; and
 - (b) the valuation date requirements in Part 5 of *FEES 4* Annex 1A, Part 3 of *FEES 4* Annex 11 and Part 3 of *FEES 7* Annex 1 ~~2R~~;
 - (2) use the figure in (1) to calculate which of the bands set out in ~~column 1 and 2~~ of the table in Part 1 of *FEES 7* Annex 1 ~~and Part 4 of *FEES 7* Annex 2R~~ the *firm* falls into;
 - (3) add together the fixed sums, as set out in ~~column 1 and 2~~ of the table in Part 1 of *FEES 7* Annex 1 ~~and Part 4 of *FEES 7* Annex 2R~~, applicable to each band identified under (2);
 - (4) the amount in (3) is the amount payable by the *firm* with respect to that activity group.

...

- 7.2.9 R Table of rules in *FEES 4* that also apply to *FEES 7* to the extent that in *FEES 4* they apply to fees payable to the *FCA*

<i>FEES 4</i> rules incorporated into <i>FEES 7</i>	Description
<i>FEES 4.2.4R</i>	Method of payment
<i>FEES 4.2.7BR</i>	Calculation of periodic fee and tariff base for a <i>firm</i>'s second financial year
<u><i>FEES 4.2.7ER</i></u>	<u>Modifications for persons becoming subject to periodic fees during the course of a fee year</u>
<u><i>FEES 4.2.7FR</i></u>	<u>Calculating the <i>fee</i> in the <i>firm</i>'s first year of <i>authorisation</i></u>
<u><i>FEES 4.2.7GR</i></u>	<u>Calculating <i>fees</i> in the second fee-year where the <i>firm</i> received <i>permission</i> between 1 January and 31 March in its first fee year</u>
<u><i>FEES 4.2.7HR</i> to <i>FEES 4.2.7KR</i></u>	<u>Calculating all other <i>fees</i> in the second and subsequent years of <i>authorisation</i> where a full year of tariff data is not available</u>

<i>FEES 4.2.8R</i>	How <i>FEES 4.2.7R</i> applies in relation to an <i>incoming EEA firm</i> or an <i>incoming Treaty firm</i>
<i>FEES 4.2.10R</i>	Extension of time
<i>FEES 4.2.11R</i> (first entry only)	Due date and changes in <i>permission</i> for periodic fees
<i>FEES 4.3.7R</i>	Groups of <i>firms</i>
<i>FEES 4.3.13R</i>	<i>Firms</i> applying to cancel or vary permission before start of period
<i>FEES 4.3.15R</i> <u><i>4.3.17R</i></u>	<i>Firms</i> acquiring businesses from other <i>firms</i>
<i>FEES 4.4.1R</i> to <i>FEES 4.4.6R</i>	Information on which fees are calculated

...

7 Money advice CFEB levies levy for the period from 1 April ~~2017~~ 2018 to 31
Annex March 2018 2019
1R Part 1

This table shows the money advice CFEB levies levy applicable to each activity group (fee-block)

Activity Group	<u>The money advice CFEB levy payable</u>			
	Column 1		Column 2	
A.1	Money advice levy		Debt advice levy (see Part 3A and B)	
	Band Width (£ million of Modified Eligible Liabilities (MELs))	Fee (£/£m or part m of MELs)	Bandwidth (£ million of unsecured debt)	Fee (£/£m or part £m of unsecured debt)

	>10	1.172 [tbc]	≥0	174.98
			If the size of the tariff base for a <i>credit union</i> calculated in accordance with Part 3 A and B of this Annex is less than £250,000 no fee is payable.	
A.2	Money Advice levy		Debt advice levy (see Part 3C and D)	
	Band Width (no. of mortgages and/or <i>home finance transactions</i>)	Fee (£/mortgage)	Band width (£million of secured debt)	Fee (£/£m or part £m of secured debt)
	>50	0.406 [tbc]	≥0	16.50
...				
Notes				
(1) The definitions of fee-blocks G5 and G10 under Part 2 and Part 2A of <i>FEES 4</i> Annex 11 are modified, for the purposes of <i>FEES 7</i> , so that they exclude the Bank of England, government departments, local authorities, municipal banks and the National Savings Bank.				
(2) The definitions of those fee-blocks are further amended to exclude EEA <i>firms</i> and those which hold a <i>Part 4A permission</i> .				
Part 2				
(1)	This Part sets out the minimum <u>money advice</u> <i>CFEB</i> levy applicable to the <i>firms</i> specified in (3) below.			
(2)	The minimum <u>money advice</u> <i>CFEB</i> levy payable by any <i>firm</i> referred to in (3) is £10.			

(3)	A <i>firm</i> is referred to in this paragraph if it falls within the following activity groups: A.1; A.2; A.3 (excluding <i>UK ISPVs</i>); A.4; A.5; A.7; A.9; A.10; A.12; A.13; A.14; A.18; A.19; G.3 and G.10.
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Part 3	
(A)	<p>The tariff base for column 2 in activity group A.1:</p> <p><i>for credit unions:</i></p> <p>the total sterling value of all loans LESS total sterling value of any residential loans.</p> <p><i>for banks and building societies:</i></p> <p>the sterling value of all outstanding loans to <i>individuals</i> in the <i>UK</i>, excluding <i>bridging loans</i> and loans secured on dwellings and land.</p> <p>The <i>firm</i> must include:</p> <p>(a) any credit card lending;</p> <p>(b) any charge card lending, even if the outstanding balance has to be paid off in full at the end of each charging period; and</p> <p>(c) any other loans and advances to <i>individuals</i> that are not <i>bridging loans</i> or secured on dwellings or land;</p> <p>provided that the <i>firm</i> only includes data that it is required to include in entries 29DB3A3 and 29DB3A4 of Form BE (that is, the Additional Sectoral Details Return that is completed to provide information by banks and building societies to the Bank of England).</p>
(B)	<p>The valuation date for column 2 in activity group A.1 is the 31 December before the start of the period to which the fee applies or, if earlier, the date of the valuation as disclosed by the Form BE or other annual return made in the calendar year prior to the 31 December.</p>
(C)	<p>The tariff base for column 2 in activity group A.2 is the sterling value of any residential loans to <i>individuals</i> being the sum of gross unsecuritised and securitised balances (applying the definitions of unsecuritised balances and securitised balances set out in SECTION A: BALANCE SHEET of SUP 16 Annex 19B).</p>
(D)	<p>The valuation date for column 2 in activity group A.2 is the 31 December before the start of the period to which the fee applies or, if earlier, the date of the valuation as disclosed by the annual return made in the calendar year prior to the 31 December.</p>

After FEES 7 Annex 1R (Money advice CFEB levy for the period from 1 April 2018 to 31 March 2019) insert the following new Annex FEES 7 Annex 2R. The text is not underlined.

7 Annex 2R Debt advice CFEB levy for the period from 1 April 2018 to 31 March 2019
Part 1

This table shows how the *FCA* links the *regulated activities* for which a *firm* has permission to activity groups (fee-blocks). A *firm* can use the table to identify which fee-blocks it falls into based on its *permission* for the purposes of the debt advice *CFEB levy* applicable to each activity group (fee-block).

Activity group	Debt advice <i>CFEB levy</i> payer falls in the activity group if:
A.2 Home finance providers and administrators	It falls under activity group A.2 as defined in Part 1 of <i>FEES 4 Annex 1AR</i> .
CC.3 Consumer credit lending	<p>Its <i>permission</i> is in relation to the following regulated activities:</p> <ul style="list-style-type: none"> - <i>entering into a regulated credit agreement as lender</i> (article 60B(1) of the <i>Regulated Activities Order</i>); - <i>exercising, or having the right to exercise, the lender's rights and duties under a regulated credit agreement</i> (article 60B(2) of the <i>Regulated Activities Order</i>); <p>which is carried on by way of business and relates to the following <i>specified investments</i>:</p> <ul style="list-style-type: none"> (a) a regulated credit agreement (excluding <i>high-cost short-term credit</i>, a <i>home credit loan agreement</i> and a <i>bill of sale loan agreement</i>); (b) <i>high-cost short-term credit</i>; (c) a <i>home credit loan agreement</i>; (d) a <i>bill of sale loan agreement</i>.

Part 2

This table indicates the tariff base for each fee-block set out in Part 1. The tariff base in this Part is the means by which the *FCA* measures the amount of business conducted by a *firm* for the purposes of calculating the debt advice *CFEB levy* payable to the *FCA* by that *firm*.

Activity group	Tariff base
A.2 Home finance providers and administrators	The sterling value of any residential loans to individuals being the sum of gross unsecuritised and securitised balances (applying the definitions of Unsecuritised balances and Securitised balances set out in Section A: Balance Sheet of SUP 16 Annex 19BG.)
CC.3 Consumer credit lending	<p>Value of lending in column A of <i>data item</i> CCR003 reported by <i>firms</i> under SUP 16 Annex 38AR, being the sum of <i>data elements</i> entered in rows:</p> <ul style="list-style-type: none"> - 1 Debt purchasing; - 2 Hire purchase/conditional sale agreements; - 3 Home credit loan agreements; - 4 Bill of sale loan agreements; - 5 Pawnbroking; - 6 High-cost short-term credit; - 11 Overdrafts; - 12 Other running-account credit; and - 8 Other lending.
	Notes
	<p>(1) The tariff base for <i>authorised professional firms</i> that do not submit <i>data item</i> CCR003 under SUP 16 Annex 38AR is the same as set out above and should be reported to the FCA as required by FEES 4.4.1R and FEES 4.4.2R. The valuation date is in accordance with the CC.3 valuation date in Part 3.</p> <p>(2) The tariff base for an <i>incoming EEA firm</i> or an <i>incoming Treaty firm</i> is the same as set out above but limited to the <i>regulated activities</i> of the <i>firm</i> which are carried out in the <i>United Kingdom</i>, except those provided on a <i>cross border services</i> basis and should be reported to the FCA as required by FEES 4.4.1R and FEES 4.4.2R. The valuation date is in accordance with the CC.3 valuation date in Part 3.</p>

Part 3

This table indicates the valuation date for each fee-block. A *firm* can calculate its tariff data in respect of the debt advice *CFEB* levy payable to the FCA by that *firm*.

Activity group	Valuation date
A.2 Home finance providers and administrators	The 31 December before the start of the period to which the fee applies or, if earlier, the date of the valuation as disclosed by the annual return made in the calendar year prior to the 31 December.
CC.3 Consumer credit lending	Value of lending under Part 2 valued at the <i>firm's accounting reference date</i> in the calendar year ending 31 December occurring before the start of the period to which the debt advice <i>CFEB</i> levy applies.

Part 4

This table shows the tariff rates applicable to each of the fee-blocks set out in Part 1

Activity group	Debt advice <i>CFEB</i> levy payable	
A.2 Home finance providers and administrators	Band width (£million of secured debt) >0	Fee (£/£m or part £m of secured debt) [tbc]
CC.3 Consumer credit lending	Band width (£million of value of lending) >0 (Note 1)	Fee (£/£m or part £m of value of lending) [tbc]
Notes		
(1) <i>Credit unions</i> and <i>community finance organisations</i> do not pay any debt advice <i>CFEB</i> levy on the first £2,000,000 of value of lending.		

