Consultation Paper

CP13/4**

Financial Services Authority

Financial Services Compensation Scheme – management expenses levy limit 2013/14

Financial Services Authority

January 2013

Contents

The Financial Services Authority invites comments on this Consultation Paper. Comments should reach us by 21 February 2013. The consultation period is for four weeks only.

Comments may be sent by electronic submission using the form on the FSA's website at: www.fsa.gov.uk/Pages/Library/Policy/CP/2013/cp13-04-response.shtml.

Alternatively, please send comments in writing to:
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It is the FSA's policy to make all responses to formal consultation available for public inspection unless the respondent requests otherwise. A standard confidentiality statement in an email message will not be regarded 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.

Copies of this Consultation Paper are available to download from our website – www.fsa.gov.uk. Alternatively, paper copies can be obtained by calling the FSA order line: 0845 608 2372.

Abbreviations used in this paper

CP	Consultation Paper
FCA	Financial Conduct Authority
FEES	Fees manual
FOS	Financial Ombudsman Service
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
MELL	Management expenses levy limit
PPI	Payment protection insurance
PRA	Prudential Regulation Authority
SCV	Single Customer View
SDD	Specific deposit-taking default
The 2012 Act	The Financial Services Act 2012

1

Overview

Introduction

1.1 The Financial Services Act 2012 (the 2012 Act) provides a new framework for financial regulation in the UK. The 2102 Act (and the necessary secondary legislation that will support it) provides for the creation of the new UK regulatory architecture. The new Prudential Regulation Authority (PRA), a subsidiary of the Bank of England, will prudentially supervise deposit takers, insurers and a small number of significant investment firms. The Financial Conduct Authority (FCA) will be responsible for regulating conduct in retail and wholesale markets; supervising the trading infrastructure that supports these markets; and for prudential regulation of firms not prudentially regulated by the PRA.

1.2 In this Consultation Paper (CP) we consult on behalf of the PRA and the FCA on the Financial Services Compensation Scheme (FSCS) management expenses levy limit (MELL). Management expenses are the non-compensation costs that the FSCS expects to incur to deliver its functions.

1.3 Unlike previous years, we are consulting on FSA fees and Financial Ombudsman Service (FOS) levies separately in March. We need to consult on the MELL earlier than this so it is made by 1 April 2013.

1.4 This CP sets out our consultation proposal on the FSCS MELL for 2013/14 of £94.4m. The MELL consists of:

- FSCS management expenses of £74.4m: this is the minimum amount that will actually be levied for 2013-14; and
- a contingency reserve of £20m that allows the FSCS to levy additional funds without formal consultation by the FSA or its successor regulatory authorities (the PRA and the FCA) to meet contingencies that were not foreseen when the annual levy was raised.

1.5 The MELL represents the maximum amount of management expenses that can be incurred in the year under the FEES rules, although it is not necessarily the amount the FSCS will actually levy in the coming year.

Background

1.6 The compensation costs levy, the amount levied to pay claims, is determined by the FSCS without consultation. Shortly after publication of this CP, the FSCS will publish its *Plan and Budget* for 2013/14.[1] For further detail on compensation costs please see that document.

1.7 The PRA and the FCA will both have responsibility for writing the levy-raising rules for the FSCS and for approving the MELL.

1.8 We consulted in CP12/16[2] on changes to the funding of the FSCS to reflect the split of responsibilities between the two regulators. In CP13/1[3], we confirmed some changes to the funding model, including to the MELL. This CP takes account of these changes.

Next steps

1.9 In light of consultation responses, and subject to approval in March 2013 by the relevant Boards, we will finalise the proposal in this CP to take effect on 1 April 2013.

1.10 We will send out invoices from July.

CONSUMERS

This CP contains no material of direct relevance to retail financial services consumers or consumer groups. As costs may be passed on to consumers in the form of higher prices consumers may indirectly meet a part of the FSCS levies. However, an efficient and adequately funded compensation scheme is beneficial to consumers.

1 www.fscs.org.uk/industry/publications/
2 CP12/16 *FSCS Funding Model Review*, July 2012 (www.fsa.gov.uk/static/pubs/cp/cp12-16.pdf)
3 CP13/1*FSCS Funding Model Review – feedback on CP12/16 and further consultation*, January 2013. www.fsa.gov.uk/static/pubs/cp/cp13-01.pdf

2

Management expenses levy limit 2013/14

Introduction

2.1 In this chapter we consult on the FSCS management expenses levy limit (MELL) for 2013/14. Management expenses are the non-compensation costs that the FSCS incurs – or expects to incur – in connection with delivering its functions.

What is the MELL?

2.2 Under the Financial Services Markets Act 2000 (FSMA), we must set a limit on the total management expenses to be levied which will allow the FSCS adequate resources to perform its functions efficiently and economically and provide a responsive and well-understood compensation service for consumers of financial services. This represents the maximum amount of management expenses that can be incurred in the year under the FEES rules, although it is not necessarily the amount the FSCS will actually levy in the coming year. The levy limit applies from 1 April 2013, the start of the FSCS's financial year, to 31 March 2014. The draft rules, for the PRA and the FCA, are in Appendix 1.

2.3 The level of the compensation costs levy, the amount levied to pay claims, is determined by the FSCS and is not consulted on. There are limits under the FEES rules on how much can be levied on firms annually.

2.4 For further information on the compensation cost levy and a breakdown of total FSCS levies by class, please see the FSCS *Plan and Budget* 2013/14. This will be available on the FSCS's website shortly after we publish this CP.

Our proposals for 2013/14

2.5 For 2013/14, we propose to set the MELL at £94.4m. This will consist of the FSCS management expenses costs (£74.4m) and a contingency reserve (£20m).

2.6 Management expenses are made up of:

- a specific costs element – which, from 1 April 2013, comprises costs attributable to a class[4] and are paid for by the class to which the claims are allocated; and
- a base costs element – which relates to the general costs of the FSCS (and is not dependent on the level of claims received or attributable to a specific class).

2.7 Since 2008/09, the MELL has been set at £1bn to reflect costs resulting from the defaults of a number of deposit takers. To fund the compensation relating to these defaults, the FSCS borrowed from the Bank of England and subsequently refinanced the loans with the Treasury. Interest costs on these borrowings and on any other borrowings have previously been classed as a specific cost element of the management expenses and so are currently part of the MELL.

2.8 In CP13/1, we confirmed changes to our rules so that from 1 April 2013 interest costs will be considered as compensation costs. This means that these costs will no longer be part of the MELL and that the MELL can be significantly lower than the £1bn set in preceding years. This change takes effect from 1 April 2013.

2.9 The MELL comprises:

- existing operating expenses of £35.5m;
- funding of £16m for a portfolio of strategic changes to increase efficiency and improve all aspects of the FSCS's operations;
- exceptional or new activities of £14.8m;
- legal and other professional expenses to pursue recoveries, including in respect of Keydata Investment Services Limited, of £7.2m;
- management expenses related to the legacy banking failures of £1.0m; and
- contingency reserve of £20m that allows the FSCS to levy additional funds without a formal consultation by the FSA or its successor regulatory authorities, for example when needed at short notice.

2.10 Table 1 shows how the MELL we are consulting on breaks down. Outsourcing and certain other operational costs are specific costs and, from 2013/14, will only be levied on the class to which they are attributable.

4 In CP13/1 we confirmed that specific costs must only be attributable to a particular class, rather than a default. This means that costs incurred, for example, in relation to systems improvements for faster payment of compensation for deposits will, following the change, be met only by the deposit class. At present, specific costs comprise costs only related to a default.

Table 1: Overview of FSCS budget information

FSCS management expenses	2013/14 Budget £m	2012/13 Budget £m	Against 2012/13 Budget Inc/(dec) £m	2012/13 Forecast[1] £m	Against 2012/13 Forecast Inc/(dec) £m
Continuing operating expenses – excludes outsourcing costs	24.3	24.0	0.3	24.3	–
Outsourcing costs	11.2	13.6	(2.4)	14.3	(3.1)
Total continuing operations costs	**35.5**	**37.6**	**(2.1)**	**38.6**	**(3.1)**
Change investments	16.0	14.6	1.4	14.4	1.6
Total operations and change investments	**51.4**	**52.2**	**(0.8)**	**53.0**	**(1.6)**
Exceptional/ new activities	14.8	9.1	5.7	5.7	9.1
Major recoveries	7.2	3.9	3.3	7.7	(0.5)
Total expenses excluding legacy banking failures expenses	**73.4**	**65.2**	**8.2**	**66.4**	**7.0**
Legacy banking failures expenses:					
– Interest	n/a[2]	374.9	(374.9)	–	–
– Other expense	1.0	1.2	(0.2)	1.0	–
Total FSCS management expenses	**74.4**	**441.3**	**(366.9)**	**67.4**	**7.0**
Reserve contingency within MELL	20.0	558.7[3]	(538.7)	–	–
MELL	**94.4**	**1,000.0**	**(905.6)**	**67.4**	**n/a**

1 The 2012/13 forecast is based on six months of actual expenses to September 2012 and forecast expenses for the six months to March 2013.

2 For 2013/14, new rules (in CP13/1) have removed the legacy bank failure interest costs from the MELL.

3 The 2012/13 contingency included an allowance for the significant uncertainty associated with the legacy banking failures interest expenses. For 2013/14 such contingency is no longer required within the MELL as interest costs have been removed from the MELL.

Continuing operations – running the FSCS

2.11 Continuing operating expenses are day-to-day costs of running the FSCS. These expenses, in addition to outsourcing costs, make up the total continuing operations costs.

2.12 Table 2 provides a breakdown of the continuing operations budget for 2013/14.

Table 2: Synopsis of FSCS budget information for continuing operations 2013/14

FSCS management expenses for continuing operations	2013/14 Budget £m	2012/13 Budget £m	Against 2012/13 Budget Inc/(dec) £m	2012/13 Forecast[1] £m	Against 2012/13 Forecast Inc/(dec) £m
Staff costs	15.3	14.7	0.6	15.4	(0.1)
Outsourcing	11.2	13.6	(2.4)	14.3	(3.1)
External providers[2]	1.3	1.1	0.2	1.1	0.2
Facilities	2.8	3.0	(0.2)	3.1	(0.3)
Information technology	2.4	2.7	(0.3)	2.4	-
Legal costs	1.3	1.2	0.1	1.2	0.1
Communications	0.5	0.5	0.0	0.4	0.1
Other[3]	0.7	0.7	0.0	0.7	-
Total continuing operations costs	**35.5**	**37.6**	**(2.1)**	**38.6**	**3.1**

1 The 2012/13 forecast is based on six months of actual expenses to September 2012 and forecast expenses for the six months to March 2013.

2 External provider costs comprise mainly audit firm costs and external data provider costs.

3 Other comprises agency fees paid to FSA for billing levy payers on behalf of FSCS, and premiums paid on liability insurances held by FSCS.

2.13 The figures in Tables 1 and 2 show that the like-for-like costs of running the scheme's continuing operations for 2012/13, excluding outsourcing costs (which are largely dependent on claims volumes), are budgeted to increase by £0.3m compared with the 2012/13 budget. Increases in staff costs are partially offset by savings on facilities and information technology.

Outsourcing – handling fluctuating claims volumes

2.14 Approximately 95% of claims the FSCS receives are outsourced. This gives it flexibility to handle fluctuating numbers of claims. The FSCS believes this is the most responsive, cost effective and efficient means of coping with the significant and unpredictable peaks and troughs in its workflow.

2.15 It also means that the FSCS's outsourcing costs can fluctuate considerably, depending on the number and type of claims. Outsourcing costs for 2012/13 have been reforecast at £14.3m, compared with the outsourcing budget for the year of £13.6m; this reflects higher than expected volumes in home finance and payment protection insurance (PPI) claims.

2.16 As in previous years, there is considerable uncertainty about the quantity, timing and type of claims which may arise in the coming year. The FSCS must take account of this uncertainty in its planning. It assesses the likely upper and lower ranges of projected claims volumes. The planning assumptions represent the FSCS's view of a 'most likely' outcome within this range and are used to estimate the management expenses. For information on projected claims volumes please see the FSCS *Plan and Budget*.[5]

2.17 The FSCS broadly assumes that the overall volume of new claims received next year will be maintained, but the mix is likely to change. The budget for outsourcing costs of £11.2m for 2013/14 reflects the different expected mix of claims. The FSCS expects claims in connection with WorldSpreads Limited, MF Global UK Limited, Pritchard Stockbrokers Ltd, Picture Financial Services Plc, and Wilmslow Financial Services PLC will largely run-off through the remainder of 2012/13, with little residual volume expected in 2013/14. PPI-related claims volumes are expected to remain at current high levels.

Change investments – improving the FSCS

2.18 In addition to continuing operations of running the Scheme and handling claims, the FSCS will continue to invest in strengthening the scheme's processes, operations and systems. The investments in change will improve both the FSCS's service to consumers and its efficiency, so ensuring that the FSCS can provide protection to consumers if a firm fails while minimising costs to levy payers. The FSCS will also be able to deal with greater complexity and volatility of claims.

2.19 In 2013/14 the FSCS proposes to invest £16m under this programme. Where expenditure is a specific cost, rather than a base cost, the FSCS will allocate it to the class for which the expenditure is expected to be incurred. The key projects next year are:

- re-engineering the FSCS's claims process so all services are delivered to a consistent, efficient model – £6.3m;
- the next stage of the FSCS strategy to raise consumer awareness, of deposit protection in particular – £3.6m;
- provision for costs associated with re-procuring outsource partners when current contracts expire – £2.0m;
- transformation of its finance function to ensure a high standard of financial controls – £0.7m; and
- some other smaller projects and contingencies – £3.4m.

Exceptional/new activities for the FSCS

2.20 The FSCS expects to continue, or take on, a number of exceptional/new activities in 2013/14. These activities are forecast to add £5.7m to FSCS expenses in 2012/13 and are budgeted to

5 The FSCS will publish this shortly: www.fscs.org.uk/industry/publications

add £14.8m in 2013/14. As previously noted, where expenditure is a specific cost, the FSCS will allocate it to the class for which the expenditure is expected to be incurred.

2.21 For 2013/14, these activities and costs comprise:

- initial costs of investigating new streams of work, together with estimated claims handling costs and payment costs, including potential changes to systems/processes;
- standby charges for the syndicated commercial loan facility;
- the initial review of banks' readiness to produce the Single Customer View (SCV) file required by FSCS to enable fast payout; and
- contributions to continue reducing the FSCS pension scheme deficit, which it has committed to do by 31 March 2016.

Recoveries – reducing the costs of compensation

2.22 The FSCS actively pursues opportunities to recover the costs of compensation. Following the significant compensation paid to investors with Keydata Investment Services Limited (Keydata), FSCS is taking action to recover costs from both the assets of Keydata and the underlying investments, and from firms who were responsible for the sales of Keydata bonds to investors. The FSCS believes the ultimate level of recoveries could be very significant.

2.23 The FSCS is also taking action to recover compensation from firms responsible for the sales of other structured products and PPI policies. Legal and professional expenses for major recoveries are estimated at £7.7m for 2012/13 and £7.2m is budgeted for 2013/14. The FSCS will allocate expenditure to the class in which it is expected to be incurred.

Contingency reserve

2.24 The contingency reserve allows the FSCS to levy additional funds without further formal consultation by the FSA or its successor regulatory authorities. The contingency reserve proposed for 2013/14 is £20.0m. The contingency reserve gives the FSCS access to sufficient funding to handle unexpected increases in claims volumes and other unforeseen circumstances.

2.25 The contingency reserve level proposed is not intended to reflect the costs of any particular future failures, but would provide a reasonable sum available without further consultation to meet needs that may arise within tight timeframes and given the uncertainties of the financial climate.

2.26 In practice, the FSCS is unlikely to raise more than its budgeted expenses, unless there is a specific event or events that require it to do so.

2.27 In line with its usual practice, the FSCS will liaise with relevant parties, such as the FSA (or after 1 April 2013, the PRA and FCA) and trade associations, before raising a levy for its contingency reserve. The FSCS will publish an explanation.

Q1: Do you have any comments on the proposed 2013/14 FSCS management expenses levy limit figure?

2.28 Fee payers should note that estimates referred to in this paper are budgeted and forecast costs for the FSCS, which are expected to be incurred in the respective financial years. The estimates are based on assumptions of claims volumes and amounts. While these are forecast according to the best available information at the time, the actual numbers of claims can be volatile and unforeseeable. The actual amount the FSCS raises in levies also depends on any amounts carried forward from the previous financial year and the value of recoveries it makes.

Compensation cost estimates for 2013/14

2.29 The FSCS indicates its current estimated compensation figures and its related funding and levies in its 2013/14 *Plan and Budget*. The FSCS will confirm its actual levy requirements in early April 2013.

Annex 1

Cost benefit analysis

1. It is our expectation that the proposals set out in this CP will be made by the Boards of the new regulators, the FCA and PRA, rather than by the FSA. As a result, the relevant cost benefit analysis (CBA) requirements are those set out in sections 138I and 138J of FSMA as amended by the Financial Services Act 2012. The FCA and PRA are required to carry out and publish a CBA when proposing draft rules. In particular, they will be required to publish 'an analysis of the costs together with an analysis of the benefits…and an estimate of those costs and of those benefits '. However, if, in a regulator's opinion, the costs or benefits cannot reasonably be estimated or it is not reasonably practicable to produce an estimate, an estimate need not be provided; but in this case, the regulator must explain why it is of that opinion. Finally, no CBA is required if a regulator considers that there will be no increase in costs or there will be a cost increase of minimal significance.

2. We consider that the CBA set out below meets the FSMA CBA requirements.

3. Setting the MELL at the specified level of £94.4m allows the FSCS to raise funds to cover its expenses so it can continue operating and meeting its objective of providing a high-quality compensation scheme that is efficient, fair, approachable and responsive. It enables the FSCS to continue to deliver compensation to the tens of thousands of claimants (over 30,000 were estimated in the FSCS's *Plan and Budget* for 2012/13) that would otherwise face detriment.

4. There is expected to be sufficient contingency reserves to meet any unexpected costs to the FSCS. The FSCS would use the reserve only to meet expenses above budgeted operating costs that need to be funded at short notice.

5. The lower MELL this year mainly reflects the change in CP13/1 that confirmed that interest rate costs were to be considered as compensation costs from 1 April 2013, rather than a specific cost under the management expense levy. We have set the MELL at a level that we expect to be enough for the FSCS to invest in more efficient systems, improving cost effectiveness with which the organisation can deliver compensation in the long-run.

6. The management expense levy will fall on firms and may be passed on to consumers in the form of higher prices.

Annex 2

Compatibility statement

1. It is envisaged that the final rules will be made by the Boards of the new regulators, the FCA and PRA, rather than by the FSA. We are therefore commenting on the compatibility of our proposals with the duties and objectives of the PRA and FCA as set out in FSMA as amended by the Financial Services Act 2012.

PRA general duties and regulatory principles

2. Section 138J(2)(d) of FSMA, as amended by the 2012 Act, states that the consultation undertaken by the PRA must include an explanation of the PRA's reasons for believing that making the proposed rules is compatible with its duties as follows.

3. The PRA must, when discharging its general functions, so far as is reasonably possible, act in a way that advances its general objective – i.e. promoting the safety and soundness of PRA authorised persons (sections 2B(1) and 2B(2) FSMA as amended by the 2012 Act).

4. The PRA must carry out that objective primarily by:

    a) seeking to ensure that the business of PRA-authorised persons is carried on in a way which avoids any adverse effect on the stability of the UK financial system; and

    b) seeking to minimise the adverse effect that the failure of a PRA-authorised person could be expected to have on the stability of the UK financial system.

5. We believe the proposed rule on setting the MELL is compatible with this general duty because the continued operation of the FSCS with a MELL set at an appropriate level assists in minimising the adverse effect of the failure of a PRA-authorised person on consumers and so helps promote stability of the UK financial system as well as confidence in the UK financial system.

6. The PRA's insurance objective, in discharging its general functions so far as relating to a PRA-regulated activity relating to the effecting or carrying out of contracts of insurance, or PRA-authorised persons carrying on that activity, is to act, so far as is reasonably possible, in a way which is compatible with its general objective and its insurance objective to contribute to the securing of an appropriate degree of protection for those who are or may

become policyholders (sections 2C(1) and 2C(2) of FSMA as amended by the 2012 Act). The PRA must do so in a way it considers most appropriate for the purpose of advancing those objectives (section 2C(1)(b) of FSMA as amended by the 2012 Act). We believe the proposed rule to set the MELL is compatible with this duty because the continued operation of the FSCS with a MELL set at an appropriate rate assists in securing an appropriate degree of protection for policyholders of a PRA authorised person that has failed.

7. The PRA must also have regard to the regulatory principles in discharging its general functions and to the need to minimise any adverse effect on competition in the relevant markets that may result from the manner in which the PRA discharges those functions (sections 2H(1) and 3B of FSMA as amended by the 2012 Act). We believe the proposed MELL is compatible with these principles and does not have any adverse effect on competition in the relevant markets. We believe that an appropriate balance has been struck between the need to ensure the PRA's regulatory objectives are fulfilled and the need to keep regulatory burdens to a minimum.

FCA general duties and regulatory principles

8. Section 138I(2)(d) of FSMA requires that a consultation undertaken by the FCA includes an explanation of the FCA's reasons for believing that making the proposed rules is compatible with its duties under section 1B(1) and (5)(a). We comment on these below.

9. In discharging its general functions the FCA must, so far as is reasonably possible, act in a way which (a) is compatible with its strategic objective, (b) advances one or more of its operational objectives (section 1B(1) of FSMA) and (c) has regard to the regulatory principles set out in FSMA (section 1B(5)(a) and section 3B). In addition, the FCA must discharge its general functions in a way which promotes effective competition in the interests of consumers (s.1B(4)).

10. We believe that the proposed MELL is compatible with the regulatory principles. In particular, we believe that an appropriate balance has been struck between the need to ensure the FCA's regulatory objectives are fulfilled and the need to keep regulatory burdens to a minimum. We comment on this in more detail later in this Annex.

11. The proposal is compatible with the duty to promote effective competition in the interests of consumers. Any levy on firms, as a result of this proposal, will take into account the business volume of the firm levied and as such is not likely to disadvantage specific groups of firms (in particular smaller firms).

12. The proposal set out in this consultation is primarily intended to advance the FCAs operational objective of consumer protection. The role of the FSCS is, in general, to provide compensation to consumers of financial products when authorised firms are unable, or likely to be unable, to meet their obligations. A compensation scheme provides a safety net, offering protection to consumers, which in turn leads to greater confidence in their dealings with financial firms, benefiting all firms and leading to a stronger financial system. If the

FSCS was unable to process claims because of financial constraints due to an inappropriate MELL this would undermine the protection offered to consumers.

13. In light of this, we believe that the proposed FSCS MELL is appropriate. The limit proposed ensures the FSCS has adequate resources to perform its functions for the coming year. In addition, in setting the MELL for 2013/14, we have allowed for sufficient reserve contingency to prevent disruption to the FSCS's work if they need to exceed their operating budget for unexpected reasons.

Compatibility with the regulatory principles – PRA and FCA

14. In this section we comment in more detail on how our proposal to set the MELL meets the requirement that both the PRA and the FCA must have regard to the regulatory principles in discharging their respective general functions.

15. We have outlined in previous fees consultations how our general policy framework has been influenced by the 'have regard' factors in Section 2(3) of FSMA (ie the factors we must have regard to when carrying out our general functions, also known as the principles of good regulation). In this annex we consider how the proposal in this CP takes account of these principles.

The need to use the resources of each regulator in the most efficient and economic way

16. The FSCS is operationally independent, but accountable to us, which means that our resources are not directly involved in carrying out the proposed activities.

17. Our rules for the FSCS include a similar requirement on it to use its resources in the most efficient and economic way when carrying out its functions. Setting the MELL, after public consultation, encourages good internal management and effective operating procedures.

The principle that a burden or restriction should be proportionate to the benefits

18. For more information please see the CBA section (Annex 1).

19. We do not consider that the change we are consulting on will have any significant effect on the other principles.

Equality and diversity

20. 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. As part of this, we conduct an equality impact assessment to ensure that the equality and diversity implications of any new policy proposals are considered.

21. However our proposal concerns a rule change that applies to the FSCS, not to authorised persons, and the subject-matter of the rule change is outside the ambit of the Equality Act 2010. We have therefore not conducted an equality impact assessment.

Annex 3

List of questions

Q1: Do you have any comments on the proposed 2013/14 FSCS management expenses levy limit figure?

Appendix 1

Draft Handbook text

Appendix xx

FINANCIAL SERVICES COMPENSATION SCHEME (MANAGEMENT EXPENSES LEVY LIMIT) INSTRUMENT 2013

Powers exercised

A. The Financial Conduct Authority makes this instrument in the exercise of the powers and related provisions in:

(1) the following sections of the Financial Services and Markets Act 2000 ("the Act"):

(a) section 137T (General supplementary powers);
(b) section 213 (The compensation scheme);
(c) section 214 (General); and
(d) section 223 (Management expenses)

(2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the Handbook.

B. The rule-making powers referred to above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on 1 April 2013.

Amendments to the Handbook

D. The Fees manual (FEES) of the FCA's Handbook of rules and guidance listed is amended in accordance with Annex A to this instrument.

Citation

E. This instrument may be cited as the Financial Services Compensation Scheme (Management Expenses Levy Limit) Instrument 2013.

By order of the Board
[*date*]

Annex A

Amendments to the Fees manual (FEES)

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

6 Annex 1R Financial Services Compensation Scheme – Management Expenses Levy Limit

This table belongs to FEES 6.4.2R	
Period	Limit on total of all management expenses levies attributable to that period (£)
…	
1 April 2012 to 31 March 2013	£1,000,000,000
<u>1 April 2013 to 31 March 2014</u>	<u>£94,400,000</u>

Appendix xx

FINANCIAL SERVICES COMPENSATION SCHEME (MANAGEMENT EXPENSES LEVY LIMIT) INSTRUMENT 2013

Powers exercised

A. The Prudential Regulation Authority makes this instrument in the exercise of the powers and related provisions in:

(1) the following sections of the Financial Services and Markets Act 2000 ("the Act"):

(a) section 137T (General supplementary powers);
(b) section 213 (The compensation scheme);
(c) section 214 (General); and
(d) section 223 (Management expenses)

(2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the Handbook.

B. The rule-making powers referred to above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on 1 April 2013.

Amendments to the Handbook

D. The Fees manual (FEES) of the PRA's Handbook of rules and guidance listed is amended in accordance with Annex A to this instrument.

Citation

E. This instrument may be cited as the Financial Services Compensation Scheme (Management Expenses Levy Limit) Instrument 2013.

By order of the Board
[*date*]

Annex A

Amendments to the Fees manual (FEES)

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

6 Annex 1R Financial Services Compensation Scheme – Management Expenses Levy Limit

This table belongs to FEES 6.4.2R	
Period	Limit on total of all management expenses levies attributable to that period (£)
…	
1 April 2012 to 31 March 2013	£1,000,000,000
1 April 2013 to 31 March 2014	£94,400,000

Appendix 2

Designation of Handbook provisions

1. FSA Handbook provisions will be 'designated' to create an FCA Handbook and a PRA Handbook on the date that the regulators exercise their legal powers to do so. Please visit our website[1] for further details about this process.

2. We plan to designate the Handbook Provisions which we are proposing to create and/or amend within this Consultation Paper as follows: The amendments to the Handbook provisions will be made by both the PRA and the FCA.

1 One-minute guide http://media.fsahandbook.info/latestNews/One-minute%20guide.pdf

PUB REF: 003150

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