Financial Services Compensation Scheme levies for specified deposit-taker defaults – July 2012

We have received several enquiries about updating the estimates concerning the 2008/09 banking defaults. This note sets out in one place information relevant to these costs, including an explanation on how the levy is calculated and an overview of the levies for each year.

In 2008, the FSCS borrowed £20.4bn to fund the costs of compensating or transferring the accounts of consumers in the failure of five banks, referred to as the Specified Deposit-taker Defaults (SDDs).[1] The SDD loans were financed under facilities originally provided by the Bank of England, and subsequently refinanced by HM Treasury.

Since then, the FSCS has been repaying the interest of the loan at a rate of 12 months LIBOR plus 30 basis points. The FSCS allocates these costs to firms based on their respective share of the tariff measure and uses the following formula:

$$\text{Firm's SDD levy} = \frac{\text{Firm's protected deposits}}{\text{Industry protected deposits}} \times \text{SDD interest}$$

The interest amount is determined on an annual basis. Firms are also required to report their protected deposits on an annual basis. Once a firm has established the protected deposits it holds, it can estimate its SDD levy by completing the above formula with the information stated in the table below.

			SDD levy on industry			Basis of allocation to firms	
Invoicing date	**Payable by**	**Year for which levy is raised**	**LIBOR rate used for SDD interest**	**SDD interest payment (a) (e)**	**SDD loan principal repayment (a)**	**Tariff measure (Industry Protected Deposits , IPD)(a)**	**Cut off date for determining IPD (as at ...)**
July 2009	1 Sep 2009	2008/09	+30bp	£390m	--	£941,066m	31 Dec 2007
July 2010	1 Sep 2010	2009/10	+30bp	(b)£377m	--	£991,707m	31 Dec 2008
July 2011	1 Sep 2011	2010/11	+30bp	£338m	--	£1,034,808m	31 Dec 2009
July 2012	1 Sep 2012	2011/12	+30bp	£362m	--	(d)£890,707m	31 Dec 2010
July 2013	1 Sep 2013	2012/13	+100bp	(c)£510m	--	(c)£927,834m	31 Dec 2011
		2013/14	--	--	(c)£270m	tbc	31 Dec 2012

(a) Rounded to nearest million
(b) Includes £34m relating to 2008/09
(c) Figure may change
(d) The level of protected deposits has substantially decreased from the previous 2010/11 levy year given the changed definition of *protected deposits* (see FEES 6 Annex 3) which came into force on 31 December 2010. This change meant that deposit takers could report amounts under the covered deposit limit (£85,000) per depositor per authorised deposit taker if the information on each depositor was part of the Single Customer View. Deposit takers had to report the total amount of deposits within accounts excluded from the SCV, i.e. beneficiary/trust accounts, dormant accounts, accounts under sanction or accounts subject to legal dispute.
(e) SDD interest payments are raised for the previous year ending 31 March.

[1] Bradford & Bingley plc (B&B), Heritable Bank plc (Heritable), Kaupthing Singer & Friedlander Limited (KS&F), Landsbanki 'Icesave' (Icesave) and London Scottish Bank plc (London Scottish). It will also need to contribute to the action taken in respect of the Dunfermline Building Society in 2009, but this cost is not yet known.

Levy period 2008/09

The 2008/09 SDD interest was £390.2m and was levied in July 2009 with a payment due date of 1 September 2009, with a further £34m (for this period) levied in July 2010. Other SDD costs relating to 2008/09 of £15.7m were levied in July 2009. These additional costs included expenses concerning processing claims, verifying compensation paid, eligibility etc.

Levy period 2009/10

The FSCS announced £377.4m interest costs to 31 March 2010 (this included £34m in respect of 2008/09 SDD interest not levied). The amount of SDD interest and associated management costs levied in June 2010 was £374.4m. The adjustment of £3m represents £5.6m due back to firms for amounts levied in 2009 but not spent, less management costs of £2.6m for 2010/11. The total amount of all industry protected deposits (IPDs) for the period ending 31 December 2008 is included in the table above. This was the amount to calculate firm specific SDD levies for 2009/10.

Levy period 2010/11

The amount of levy to be raised for 2010/11 was £338.8m, payable by 1 September 2011. This amount was made up of £334.4m for the loan interest to 31 March 2011 and £4.4m to cover costs of interest on B&B validation adjustments. Other management expenses in relation to this were £2.6m, which was included in the SDD amount levied to firms in July 2010 as explained above.

Levy period 2011/12

The SDD interest costs for 2011/12 are £362m. Invoices were issued in July 2012, with a payment due date by 1 September 2012. The estimated management expenses in relation to SDD is £2.9m, which is included in the 2011/12 fees and levies invoices. The total IPD as at 31 December 2010 is stated in the table above

Levy period 2012/13 onwards (indicative)

When the loans were agreed in 2008, FSCS and HM Treasury committed to reviewing the potential repayment schedule after three years in the light of prevailing market conditions. In March 2012, FSCS reached an agreement with HMT, the details of which are available on the FSCS website. They are useful to provide some early indications as to the likely changes that firms can expect.

The FSCS expects to receive full re-payment of the debt of £15.6bn owed to it by Bradford and Bingley (B&B) as the residual assets of the bank are wound up. It expects not to recover approximately £802m of the non-B&B loans. The agreement provides for the balance to be repaid by levying three roughly equal instalments beginning in 2013/14. The agreement also provides for the interest rate to increase to 12 month LIBOR plus 100 basis points from 1 April 2012 onwards. This rate will be subject to a floor equal to the Treasury's own cost of borrowing as represented by gilt rate for borrowing of an equivalent duration.

As a result, the SDD interest levy for 2012/13 will increase to approximately £510m p.a., although the final costs could change in the light of prevailing rates and the amount of recoveries the FSCS receives. In addition, the first of three annual instalments of approximately £270m will be levied to repay the balance of the loan principal that is not expected to be recovered. Unlike the SDD interest levies, which are levied in July each year for the previous levy year, the repayments of the principal constitute compensation costs and are levied in the levy year in which they apply.

The aggregate SDD levy will therefore be expected to increase, and will be allocated to firms using the same formula stated above. Under current plans, firms will be invoiced for both levy components in July 2013. More detailed information will be provided nearer the time.