

Financial Services Compensation Scheme Levy Calculation Notes 2010/11 Rates

HOW IS THE FSCS LEVY CALCULATED?

A. Overview

The FSCS levy is made up of two elements:

- Management expenses; and
- Compensation costs.

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

The management expenses levy limit for 2010/11 was consulted on in the FSA's [Consultation Paper CP10/5](#) (February 2010).

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

Changes to the way in which the FSCS Levy is calculated: Following concerns expressed about the fairness, proportionality and sustainability of the FSCS's funding arrangements a review of the FSCS Funding was instigated. It began in March 2006 and looked at the way in which the FSCS compensation and specific costs were funded – the Base cost element was not under review.

The outcome of the review was that from 2008/09 the way in which the FSCS is funded, and as a consequence the way in which the FSCS levies are calculated, fundamentally altered. For further information on the FSCS Funding Review, please refer to our [Policy Statement PS07/19](#).

B. Exemptions

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

C. FSCS Levy - calculation

To calculate the FSCS Base Costs levy we need to know the Total Base Costs the FSCS require to raise in 2010/11 and the total FSA Regulatory Costs of the FSCS participants for each contribution group. The table below lists the information used for the 2010/11 rates.

Contribution Group	Total FSA Regulatory Cost	FSCS Base Costs to be Levied
A000	18,218,270	996,507
A001	127,335,620	6,472,133
A002	9,825,470	472,843
A003	31,026,287	1,760,529
A004	48,755,905	2,335,249
A006	1,500,514	85,480
A007	31,461,334	1,546,535
A009	6,021,099	356,298
A010	26,987,995	1,352,292
A012	25,944,165	1,280,012
A013	39,993,835	2,097,886
A014	7,711,343	418,524
A018	12,672,886	963,717
A019	31,229,240	1,408,912
Total		21,546,917

To calculate the specific costs levy and compensation costs levy we also need to know the total FSCS tariff data for each sub-class and the amounts FSCS are to raise for each sub-class. The table below details these figures for 2010/11.

Sub-Class – Tariff Base	Tariff Base	FSCS Specific Costs	FSCS Sub-class Compensation Costs
SA01-PD	1,020,659,777,146	2,424,447	-2,082,817
SB01-RNPI	38,397,122,242	1,267,376	28,425,167
SB01-EGTL	65,720,726,765	422,459	9,475,056
SB02-AEI	9,449,152,225	7,028,791	52,550,565
SC01-RNPI	68,121,384,776	-88,029	-210,790
SC01-EMR	750,513,430,491	-29,343	-70,263
SC02-AEI	2,273,999,026	937,347	8,626,231
SD01-AEI	6,216,333,042	-846,192	1,866,999
SD02-AEI	4,032,194,645	6,363,791	13,931,541
SE01-A2FSAFEE	0	0	0
SE02-AEI	1,300,097,649	340,481	-901,584
Total		17,821,128	111,610,105

NB: The tables in this note do not include the additional FSCS levy for 2009/10 for SD02 of approximately £70m announced by the FSCS in their [2010/11 Plan & Budget](#). This additional levy follows revised assumptions about claims against Pacific Continental Securities Ltd, Square Mile Securities Ltd and other investment broking firms.

Nor do the tables include any additional levy for sub-class SA01 to cover the estimated expenses to 31 March 2010 arising from the defaults in relation to a number of deposit takers, Bradford & Bingley, Heritable Bank, Kaupthing Singer & Friedlander, Landsbanki Islands 'Icesave' and London Scottish Bank, in 2008. This levy is to enable the FSCS to pay the loan interest to the Treasury by 1 October 2010.

Sample calculation

Firm X is allocated to the A013 contribution group and in FSCS sub-classes SC02 and SD02.

At the valuation date of 31 December 2009 it had 8 approved persons (CF30s), £288,000 of eligible annual income in respect of sub-class SC02 (Life & Pensions intermediation) and £192,000 of eligible annual income in respect of SD02 (Investment intermediation).

Based on the 8 approved persons its A013 FSA regulatory cost (the FSA charge after discounts but before deductions) for 2010/11 will be £9,033.78.

It is also required to pay the new minimum fee (fee-block A000) of £1,000.

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

A000 Contribution Group			
Base Costs Levy	$\frac{\text{Firm's A000 FSCS Reg.Cost} \times \text{A000 Base Costs to be raised}}{\text{Total FSA A000 FSA Regulatory Costs}}$	$\frac{1,000 \times 996,507}{18,218,270}$	£54.70
Total A013 FSCS Base Costs Levy			£54.70

A013 Contribution Group			
Base Costs Levy	$\frac{\text{Firm's A013 FSCS Reg.Cost} \times \text{A013 Base Costs to be raised}}{\text{Total FSA A013 FSA Regulatory Costs}}$	$\frac{9,033.78 \times 2,097,886}{39,993,835}$	£473.87
Total A013 FSCS Base Costs Levy			£473.87

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

SC02 Sub-class : Life & Pensions intermediation			
Specific Costs Levy	$\frac{\text{Firm's SC02 tariff data} \times \text{Total FSCS SC02 Specific Cost}}{\text{Total SC02 fee tariff base}}$	$\frac{288,000 \times 934,347}{2,273,999,026}$	£118.71
Compensation Costs Levy	$\frac{\text{Firm's SC02 tariff data} \times \text{Total FSCS SC02 Compensation Cost}}{\text{Total SC02 fee tariff base}}$	$\frac{288,000 \times 8,626,231}{2,273,999,026}$	£1,092.50
Total SC02 FSCS Levy			£1,211.21

SD02 Sub-class : Investment mediation			
Specific Costs Levy	$\frac{\text{Firm's SD02 tariff data} \times \text{Total FSCS SD02 Specific Cost}}{\text{Total SD02 fee tariff base}}$	$\frac{192,000 \times 6,363,791}{4,032,194,645}$	£303.02
Compensation Costs Levy	$\frac{\text{Firm's SD02 tariff data} \times \text{Total FSCS SD02 Compensation Cost}}{\text{Total SD02 fee tariff base}}$	$\frac{192,000 \times 13,931,541}{4,032,194,645}$	£663.37
Total SD02 FSCS Levy			£966.39

Therefore the FSCS Levy total for Firm X during 2010/11 will be:

FSCS Levy Type	Value
A000 Levy (Base Costs)	£54.70
A013 Levy (Base Costs)	£473.87
SC02 Levy (Specific & Compensation Costs)	£1,211.21
SD02 Levy(Specific & Compensation Costs)	£996.39
Net Levy Total	£2,736.17