

Financial Services Compensation Scheme Levy Calculation Notes 2011/12 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 2011/12 was consulted on in the FSA's [Consultation Paper CP11/02](#) (February 2011).

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 2011/12 and the total FSA Regulatory Costs of the FSCS participants for each contribution group. The table below lists the information used for the 2011/12 rates.

Contribution Group	Total FSA Regulatory Cost	FSCS Base Costs to be Levied
A000	15,027,850	1,350,000
A001	129,374,295	10,300,000
A002	12,786,559	800,000
A003	26,941,320	2,600,000
A004	44,391,664	3,850,000
A006	1,419,112	140,000
A007***	28,435,856	2,390,000
A009	9,333,150	500,000
A010***	30,588,615	2,490,000
A012***	49,119,738	2,300,000
A013	30,709,690	3,100,000
A014***	18,033,489	690,000
A018	13,851,748	1,150,000
A019	24,735,207	2,340,000
Total		34,000,000

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 2011/12.

Sub-Class – Tariff Base	Tariff Base	FSCS Specific Costs	FSCS Sub-class Compensation Costs
SA01-PD	881,744,287,683	6,010,814 **2,892,742	*4,378,067
SB01-RNPI***	40,761,232,616	961,983	36,913,017
SB01-EGTL***	66,412,747,889	320,661	12,304,339
SB02-AEI	8,817,468,002	11,816,434	57,683,566
SC01-RNPI	69,891,030,445	304,435	70,565
SC01-EMR	720,054,243,106	101,478	23,522
SC02-AEI	2,839,230,562	4,658,604	16,841,396
SD01-AEI	4,729,531,148	714,375	-714,375
SD02-AEI	3,739,609,092	3,206,674	30,793,326
SE01-A2FSAFEE	0	0	0
SE02-AEI	1,126,325,595	498,171	501,829
Total		31,486,371	158,795,252

* This amount is after taking into account an additional amount of £7.3m in respect of Southsea Mortgage & Investment Co Ltd.

** This amount is in respect of the estimated management expenses for 2011/12 in relation to the specified deposit defaults (SDD)

*** Subsequent to finalising the FSCS levy rates for 2011/12 at the end of May 2011 and issuing the periodic fee invoices we have identified that due to an administrative error the levy rates were calculated using incorrect FSA Regulatory Costs. The rates have now been reset and firms impacted by the error have been contacted. The figures shown above are the corrected figures (updated on 21 September 2011).

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 2010 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 the A013 FSA regulatory cost (the FSA charge after discounts but before deductions) for 2011/12 will be £9,033.78.

The FSA regulatory cost for the minimum fee (fee-block A000) for 2011/12 will be £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	<u>Firm's A000 FSCS Reg.Cost x A000 Base Costs to be raised</u> Total FSA A000 FSA Regulatory Costs	<u>1,000 x 1,350,000</u> 15,027,850	£89.83
Total A013 FSCS Base Costs Levy			£89.83

A013 Contribution Group			
Base Costs Levy	<u>Firm's A013 FSCS Reg.Cost x A013 Base Costs to be raised</u> Total FSA A013 FSA Regulatory Costs	<u>9,033.78 x 3,100,000</u> 30,709,690	£911.92
Total A013 FSCS Base Costs Levy			£911.92

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	<u>Firm's SC02 tariff data x Total FSCS SC02 Specific Cost</u> Total SC02 fee tariff base	<u>288,000 x 4,658.604</u> 2,839,230,562	£472.55
Compensation Costs Levy	<u>Firm's SC02 tariff data x Total FSCS SC02 Compensation Cost</u> Total SC02 fee tariff base	<u>288,000 x 16,841,396</u> 2,839,230,562	£1,780.32
Total SC02 FSCS Levy			£2,180.87

SD02 Sub-class : Investment mediation			
Specific Costs Levy	<u>Firm's SD02 tariff data x Total FSCS SD02 Specific Cost</u> Total SD02 fee tariff base	<u>192,000 x 3,206,674</u> 3,739,609,092	£164.64
Compensation Costs Levy	<u>Firm's SD02 tariff data x Total FSCS SD02 Compensation Cost</u> Total SD02 fee tariff base	<u>192,000 x 30,793,326</u> 3,739,609,092	£1,581.00
Total SD02 FSCS Levy			£1,745.64

Therefore the FSCS Levy total for Firm X during 2011/12 will be:

FSCS Levy Type	Value
A000 Levy (Base Costs)	£89.93
A013 Levy (Base Costs)	£911.92
SC02 Levy (Specific & Compensation Costs)	£2,180.87
SD02 Levy(Specific & Compensation Costs)	£1,745.64
Net Levy Total	£4,928.26