FINANCIAL CONDUCT AUTHORITY

Handbook Notice No 117

March 2024

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1 Overview

Legislative changes

1.1 On 4 March 2024, the Executive Regulation and Policy Committee of the Financial Conduct Authority (FCA) made the relevant changes to the Handbook as set out in the instrument listed below.

CP	Title of instrument	Instrument No	Changes effective
n/a	Handbook Administration (Supervision Manual) Instrument 2024	FCA 2024/5	19/03/2024

1.2 On 28 March 2024, the Board of the FCA made the relevant changes to the Handbook as set out in the instruments listed below.

CP	Title of instrument	Instrument No	Changes effective
CP23/33	Data Reporting Services Forms (Amendment) Instrument 2024	FCA 2024/6	05/04/2024
CP23/22	Periodic Fees (2024/2025) and Other Fees Instrument 2024	FCA 2024/8	01/04/2024
CP24/3	Fees (Special Project Fee for Restructuring) (Amendment) Instrument 2024	FCA 2024/9	01/04/2024
CP23/25	Collective Investment Schemes Sourcebook (Miscellaneous Amendments) Instrument 2024	FCA 2024/10	02/04/2024
CP23/25	Credit Unions Sourcebook Instrument 2024	FCA 2024/11	02/04/2024
CP23/25	Conduct of Business Sourcebook (Amendment) Instrument 2024	FCA 2024/12	02/04/2024
CP24/1	Financial Services Compensation Scheme (Management Expenses Levy Limit 2024/2025) Instrument 2024	FCA 2024/13	01/04/2024
CP23/14	Financial Promotions and High-Risk Investments (Incentives) Instrument 2024	FCA 2024/14	02/04/2024
CP23/25	Investment Firms Prudential Regime (Amendment) Instrument 2024	FCA 2024/15	02/04/2024

CP	Title of instrument	Instrument No	Changes effective
n/a	Handbook Administration (No 69) Instrument 2023	FCA 2024/16	29/03/2024; 02/04/2024; 04/04/2024; 05/04/2024; 11/04/2024

Summary of changes

1.3 The legislative changes referred to above are listed and briefly described in Chapter 2 of this notice.

Feedback on responses to consultations

1.4 Consultation feedback is published in Chapter 3 of this notice.

FCA Board dates for 2024

1.5 The table below lists forthcoming FCA Board meetings. These dates are subject to change without prior notice.

FCA board meetings		
April	25	2024
May	23	2024
June	27	2024
July	25	2024
October	3	2024
October	31	2024
November	28	2024
December	19	2024

2 Summary of changes

2.1 This Handbook Notice describes the changes to the FCA Handbook and other material made by the FCA's Executive Regulation and Policy Committee and the FCA Board under their legislative and other statutory powers on 4 March 2024 and 28 March 2024, respectively. Where relevant, it also refers to the development stages of that material, enabling readers to look back at developmental documents if they wish. For information on changes made by the Prudential Regulation Authority (PRA) please see www.bankofengland.co.uk/news/publications.

Handbook Administration (Supervision Manual) Instrument 2024

2.2 In summary, the instrument removes SUP 1A, relating to the FCA's approach to supervision. This removal was made on 19 March 2024, in alignment with our publication of a refreshed 'Approach to Supervision' document. The 'Approach to Supervision' document was refreshed as part of our work to retire the Mission that the FCA launched in 2016, which has since been superseded by the FCA's 3-year strategy launched in 2022. The refreshed 'Approach to Supervision' document was updated to make reference to the FCA's current strategic priorities and objectives, our intended changes to the supervision model and more recent changes to our regulatory context (eg, Consumer Duty and our secondary international competitiveness and growth objective).

2.3 SUP 1A committed the FCA to activities which the organisation no longer undertakes as access to new data and regulatory responsibilities has evolved. The removal of SUP 1A gives the FCA the ability to update its regulatory approach documents in a flexible manner moving forwards and allows us to progress towards more integrated ways of working. This, in turn, will help the FCA to reach impactful outcomes as quickly and efficiently as possible by proactively identifying harm and choosing the appropriate action to take across the range of tools at our disposal.

2.4 SUP 1A explained the FCA's approach to supervision, rather than providing specific guidance on FCA rules for firms, and therefore its removal has not required formal consultation.

Data Reporting Services Forms (Amendment) Instrument 2024

2.5 Following consultation in CP23/33, the FCA Board has made changes to the following Handbook sections:

Glossary of definitions
MAR 9.2B, 9 Annex 1, 9 Annex 2, 9 Annex 3, 9 Annex 4, 9 Annex 5, 9 Annex 6, 9 Annex 7, 9 Annex 8 and 9 Annex 9
DEPP 2 Annex 1
REC 2.16B
EG 19.35

2.6 In summary, this instrument makes changes to the FCA Handbook to:

- amend MAR 9.2 in relation to cost recovery for connecting to the consolidated tape provider for bonds; and
- amend MAR 9 Annexes 1 to 9 to update Data Reporting Services Provider authorisation and supervisory forms.

2.7 This instrument comes into force on 5 April 2024. Feedback is published in Chapter 3 of this notice.

Periodic Fees (2024/2025) and Other Fees Instrument 2024

Fees (Special Project Fee for Restructuring) (Amendment) Instrument 2024

2.8 Following consultation in CP23/22 and CP24/3, the FCA Board has made changes to the Handbook sections listed below:

Glossary of definitions
FEES 2.1, 2.4, 3.2, 3 Annex 9R, 3 Annex 12R, 4.2, 4 Annex 1AR, 4 Annex 2AR, 4 Annex 11R, 4 Annex 11BR, 4 Annex 13G, 4A.2, 5.3, 5.4, 5.6, 5.7, 5.8, 5 Annex 1R, 6.1, 6.3, 6.5, 6.5A, 6.7, 6 Annex 3AR, 7A.3, 7A.4, 7B.2, 7C.5, 7D.3, 13.2, 13A.2, App 1.3, App 1 Annex 1AR, App 4.2, App 4.3, TP 3, TP 8, TP 10 and TP 13

2.9 The Periodic Fees (2024/2025) and Other Fees Instrument 2024 also deletes the following chapter:

FEES 8

2.10 In summary, these instruments make changes to the FCA Handbook to:

- streamline processing of fees;
- ensure a contribution to the cost of processing primary information provider applications;
- update how funeral plan providers are allocated to fee-blocks to reflect our original policy intent;
- ensure that consumer credit firms using the proxy measure of income pay a more proportionate fee;

- update the A.10 and A.13 fee-blocks to account for changes introduced by the Investment Firms Prudential Regime;

- update the Special Project Fee for restructuring regime to reflect our original policy intention of being able to charge firms in the B fee-block for any additional restructuring work they are generating;

- more fairly balance firms' contributions to the Financial Ombudsman Service's (Ombudsman Service's) Compulsory Jurisdiction levy by ensuring that all eligible complainants are accounted for in the Ombudsman Service levy calculation, provide the FCA's Finance team with more time to validate the Ombudsman Service data they receive from firms in blocks 2 and 4, align closer to the PRA's 8 April reporting deadline and simplify the reporting processes for firms in these 2 fee-blocks, and ensure more consistency and greater clarity overall in the rules and guidance in FEES 5 and 6; and

- improve Handbook drafting and provide technical clarifications.

2.11 These instruments came into force on 1 April 2024. Feedback is published in Chapter 3 of this notice.

Collective Investment Schemes Sourcebook (Miscellaneous Amendments) Instrument 2024

2.12 Following consultation in CP23/25, the FCA Board has made changes to the Handbook sections listed below:

Glossary of definitions
COLL 4.2, 4.4, 4.5, 6.7, 6.8, 8.3, 8.4, 8.5, 15.4, 15.5, 15.6, 15.8 and TP 1

2.13 In summary, this instrument makes changes to the FCA Handbook to provide additional options and make clarifications or corrections to existing rules for authorised collective investment schemes.

2.14 This instrument came into force on 2 April 2024. Feedback is published in Chapter 3 of this notice.

Credit Unions Sourcebook Instrument 2024

2.15 Following consultation in CP23/25, the FCA Board has made changes to the Handbook sections listed below:

Glossary of definitions
CREDS 1.1, 2.2, 7.1, 7.2, 8.2, 10.1 and Sch 2

2.16 In summary, this instrument makes changes to the FCA Handbook to clarify when and how our rules apply to credit unions as a result of recent legislative changes to the Credit Unions Act 1979. The amendments take into account the newly permitted activities of entering into conditional sale agreements, hire

purchase agreements and insurance distribution activities, and support credit unions in identifying and applying our regulatory requirements where relevant.

2.17 This instrument came into force on 2 April 2024. Feedback is published in Chapter 3 of this notice.

Conduct of Business Sourcebook (Amendment) Instrument 2024

2.18 Following consultation in CP23/25, the FCA Board has made changes to the Handbook sections listed below:

COBS 19.7, 19.9, 19 Annex 3 and TP 2

2.19 In summary, this instrument makes minor amendments to 2 unrelated sections of the Pensions supplementary provisions chapter of the Conduct of Business sourcebook. The changes clarify our policy position, update references to a new organisation and remove any ambiguities in the rules.

2.20 This instrument came into force on 2 April 2024. Feedback is published in Chapter 3 of this notice.

Financial Services Compensation Scheme (Management Expenses Levy Limit 2024/2025) Instrument 2024

2.21 Following consultation in CP24/1, the FCA Board has made changes to the Handbook section listed below:

FEES 6 Annex 1R

2.22 In summary, this instrument makes changes to the FCA Handbook to update the FEES manual with the total amount (in pounds sterling) of the Financial Services Compensation Scheme Management Expenses Levy Limit for financial year 2024/25 (1 April 2024 to 31 March 2025). This amount has been approved by the FCA and the PRA following consultation and may not be exceeded.

2.23 This instrument came into force on 1 April 2024. Feedback is published in Chapter 3 of this notice.

Financial Promotions and High-Risk Investments (Incentives) Instrument 2024

2.24 Following consultation in CP23/14, the FCA Board has made changes to the Handbook sections listed below:

COBS 4.12A and 4.12B

2.25 In summary, this instrument makes changes to the FCA Handbook to provide additional clarity on the scope of the ban on offering incentives to invest in high-risk investments, and to ensure the rules give effect to the final policy position we outlined in PS22/10.

2.26 This instrument came into force on 2 April 2024. Feedback is published in Chapter 3 of this notice.

Investment Firms Prudential Regime (Amendment) Instrument 2024

2.27 Following consultation in CP23/25, the FCA Board has made changes to the Handbook sections listed below:

MIFIDPRU 1.2, 4.14, 7.9 and 8 Annex 1R
IPRU-INV 1.2

2.28 In summary, this instrument makes changes to the FCA Handbook to clarify the requirements of the MIFIDPRU sourcebook and remove some references in IPRU-INV 1.2 that are no longer relevant.

2.29 This instrument came into force on 2 April 2024. Feedback is published in Chapter 3 of this notice.

Handbook Administration (No 69) Instrument 2023

2.30 The FCA Board has made minor changes to various modules of the FCA Handbook, as listed below.

2.31 These changes were not consulted on separately because they are minor amendments which correct or clarify existing provisions that have previously been consulted on. None of these changes represent any change in FCA policy.

2.32 In summary, the amendments this month:

- clarify the application of, and correct minor errors in, the Glossary definition of 'group';
- clarify the application of the Glossary definition of 'working day';
- correct cross-reference errors in SYSC 19G and SUP 16.29;
- delete a guidance provision that no longer applies in MCOB 4.1;
- correct a typographical error, and amend a statement of compliance in respect of existing obligations, in SUP 12 Annex 3R;
- correct an error and make a small amendment to forms FPR0003a and FPR0003b for consistency with the forms, associated guidance and the relevant rule in FPCOB 15.8.1R;
- amend PERG 8.14 to reflect changes made by legislation to the relevant exemptions in the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and the Financial Services and Markets Act 2000

(Promotion of Collective Investment Schemes) (Exemptions) Order 2001; and

- correct a cross-referencing error at PERG 16.5.

2.33 This instrument comes into force as follows:

- The changes to PERG 8.14 came into force on 29 March 2024.
- The changes to forms FPR0003a and FPR0003b come into force on 4 April 2024.
- The changes to the definition of 'working day' come into force on 5 April 2024.
- The changes to SUP 12 Annex 3R come into force on 11 April 2024.
- The rest of the instrument came into force on 2 April 2024.

3 Consultation feedback

3.1 This chapter provides feedback on consultations that will not have a separate policy statement published by the FCA.

CP23/33: Data Reporting Services Forms (Amendment) Instrument 2024

Background

3.2 In CP23/33, we set out our policy statement establishing the framework for a UK bond consolidated tape (CT). CP23/33 also included 2 consultation chapters:

- Chapter 10 consulted on whether and how a bond CT provider (CTP) ought to provide payments to data providers (trading venues and Approved Publication Arrangements (APAs)) to recognise and give incentive for the provision of high-quality input data to the CT.

- Chapter 11 consulted on updates to authorisation and supervisory forms for Data Reporting Services Providers (DRSPs, of which a CTP is one type, alongside Approved Reporting Mechanisms (ARMs) and APAs).

Summary of proposals

Payments to data providers connecting to the bond CTP

3.3 We proposed 3 options for determining the level of payments to be provided by a bond CTP to data providers, while also retaining the option of no payments being made. We indicated that, of the options presented, Options 1 or 2 seemed the better approaches as they are more directly linked to the costs of connectivity:

- Option 1: the CTP would pay each data provider a fixed and equal sum based on our estimates (in the cost-benefit analysis of CP23/15) of one-off connectivity costs.

- Option 2: data providers would submit independently audited one-off connectivity costs to the CTP. The CTP would pay 50% of these costs.

- Option 3: the CTP must ringfence X% of its revenues to be shared with data providers after the first year of the CT's operation. We suggested in CP23/33 that this option should not represent costs for the CTP that are outside the bounds of what was proposed under Options 1 and 2.

3.4 We intend for data providers to supply high-quality data to the CTP and for the CT to facilitate wide access (and at a reasonable cost to end users) to

consolidated data. For each of the options, we proposed that the payments should only be made to data providers where they meet criteria linked to the accuracy and timeliness of their data contributions. The CTP would define these criteria and determine whether they have been met.

3.5 We acknowledged in CP23/33 that any of the options could result in the CTP submitting larger price bids during the tender process to recover from its users the increased cost of providing the tape.

3.6 In CP23/33 we asked whether respondents preferred any of the 3 options to what was originally proposed in CP23/15 (not having payments) and, if so, whether the level of payments had been appropriately set. We also asked whether payments should be conditioned on data quality.

DRSP forms

3.7 The Data Reporting Services Regulations (DRSRs) 2024 (SI 2024/107) have powers of direction that relate to the forms in the first 4 annexes of MAR 9 but not to the others. We are making those forms, with the necessary changes to legal references, using our rule making powers.

3.8 There are 2 other issues that arise relating to the forms:

- First, the forms currently refer to provisions in the DRSRs 2017 and MiFID Regulatory Technical Standard (RTS) 13. Those references need to be updated so that they refer to provisions in the DRSRs 2024, FSMA and MAR 9 in the Handbook.

- Second, the authorisation form requires DRSPs to give information about their plans to comply with various obligations. Currently these do not include reference in respect of CTPs to the new obligations we are introducing.

3.9 Where appropriate we have also used our rule making powers to streamline some of the language that was used in MiFID RTS 13.

3.10 In CP23/33 we asked whether respondents had any comments on our proposed DRSP forms.

How this links to our objectives

Consumer protection

3.11 Designing a framework that encourages bond CTPs to come forward to provide the CT, and for data providers to input high-quality data to the CTP, should help promote greater participation in financial markets through a clearer understanding of liquidity, thereby protecting those consumers' interests.

Market integrity

3.12 Creating a framework for a UK CT will aid price formation through a clear, consistent picture of liquidity in markets. It may also help with the resiliency of

markets by allowing the market to adapt more easily in circumstances in which a significant trading venue suffers an outage.

Competition

3.13 The changes will encourage competition for the provision of market data through 2 channels:

- Competition between the chosen CTP and existing data vendors for provision of aggregated trade data. End data users may choose to get their data directly from the CTP, through a data vendor (which may itself receive the CT and on-sell it to users), directly from trading venues/APAs, or some combination of the 3 approaches.

- Competition for the market during the CTP tender process. We have designed the framework to seek to ensure that, as far as possible, competition for the market during tendering achieves the outcomes that might be expected through competition in the market, were multiple consolidators to emerge.

Secondary international competitiveness and growth

3.14 A CT will allow access to high-quality trade data at fair and reasonable prices, in turn making UK markets more transparent and potentially more liquid, reinforcing their competitive position in the global market.

Feedback

Payments to data providers connecting to the bond CTP

3.15 The responses to CP23/15 led us to consider whether our original proposals struck an appropriate balance between the role of data providers, on which the regime will rely to provide high quality data, and the role of the CTP, which will be expected to offer cost effective and widely accessible CT data. We therefore decided to explore the issue further in CP23/33.

3.16 Responses to CP23/33 reflected the same differences in view that we saw in response to CP23/15 but provided useful detail on the perspectives for and against payments.

3.17 Those in favour of payments to data providers generally advocated for revenue sharing instead of a one-off connectivity cost recovery payment, arguing that any payment mechanism should account for ongoing costs. They stated that the revenue sharing scheme should compensate data providers for the costs of establishing and maintaining a connection with the CTP, and for any loss of revenues because of the introduction of a bond CT. The latter point was argued as being more pertinent given that forthcoming changes to the bond transparency regime (see CP23/32) would increase the value of bond market data.

3.18 Those against payments to data providers argued that:

- it would set an undesirable precedent regarding compensation for regulatory compliance. Data providers should input high-quality data in line with their current regulatory obligations, irrespective of payments. The FCA has supervisory and enforcement tools at its disposal to handle recurrent or systemic data quality issues;

- payments would reduce the CT's commercial viability and the cost of connection could be more easily borne by individual data providers than by the CTP, which would bear the cumulative cost of all data providers' connections. Compounding this point, the CTP would not be able to predict whether new trading venues or APAs which would incur greater compensatory payment costs for the CTP will enter the market. The CTP would likely pass these costs on to data users in the form of higher prices, calling into question whether our framework had achieved its stated objectives in line with findings of the Wholesale Trade Data Review;

- lack of economic viability of the CTP could negatively impact the UK's international competitiveness;

- the use of a standardised data ingestion application programming interface, developed in line with industry standards by the CTP, should minimise connectivity costs for data providers; and

- the level of payments proposed by the FCA in CP23/33 are not significant enough to materially affect data providers' input data quality. Nevertheless, costs to be incurred or revenues to be lost by data providers are immaterial, and the anticipated profits from increased trading activity and market growth resulting from the introduction of the CT will offset any connectivity costs for data providers.

3.19 Some respondents said that if payments to data providers were to become a requirement, they should be based on the CTP's excess revenues or profits to preserve its commercial incentive.

3.20 One respondent suggested that, like the approach being taken in the EU, we could allow for optional revenue sharing as part of our tender process to appoint the bond CTP.

3.21 Most respondents did not offer specific estimates for the cost to data providers of connecting to the CTP. Those that did suggested those costs were substantially less than what was reflected in our proposed options.

3.22 Some responses to CP23/33 expressed concern that we would adopt the same economic model for a CT for equities as for bonds. It was suggested that would be significantly out of line with approach in the US and to be taken in the EU and would not take account of the specificities of the equities market.

DRSP forms

3.23 Responses to CP23/33 made no substantive comments on our proposals for DRSP forms.

Our response

Payments to data providers connecting to the bond CTP

3.24 On balance, we believe it is appropriate to implement our original proposals from CP23/15 and not require that the bond CTP contribute to data providers' connectivity cost recovery. No respondent thought that the payment options we proposed to deal with connectivity costs were the best way of proceeding; uncertainty was raised over what the costs of connection would be, and the payments proposed seemed unlikely to incentivise data providers to work collaboratively with the CTP to ensure a high-quality tape.

3.25 Regarding the additional option of revenue sharing based on excess revenues or profits, we consider that there is too much uncertainty regarding the cost and revenue impacts of a CTP to design a viable approach at launch.

3.26 However, as part of our post-implementation review of the bond CTP framework, we will consider whether payments to data providers should be revisited for subsequent bond CTP appointments after the first 5-year contract. Our analysis of the costs to the CTP of making payments relative to its revenues may change throughout the first tender period, particularly in light of changes to the bond transparency regime which, it has been argued, may translate into greater profitability for the CTP. We will endeavour to ensure that any future allocation of profits between the CTP, investors who use the tape (in the form of lower prices or reinvestment in the quality and robustness of the tape) and, potentially, data providers is equitable and in line with our objectives.

3.27 Regarding the option of optional voluntary revenue sharing (that is, enabling CT bidders to propose such arrangements during the first tender), we believe that it would be difficult to make a qualitative assessment of any revenue sharing proposals as part of our proposed tender design, and that this would create uncertainty which would discourage bidders from coming forward. However, we plan to explore that view with consultants assisting us on the tender.

3.28 We said in CP23/33 that we will give an update during this year on a CT for equities. That will come later this year, but we can be clear now that, in work on an equities CT, we would not just assume that the economic model we have adopted for bonds is right for equities.

DRSP forms

3.29 Given that we did not receive any comments on our proposals in CP23/33, we intend to proceed, subject to some minor technical changes, with the changes to DRSP forms and related changes to MAR 9.

3.30 We are using the Data Reporting Services Forms (Amendment) Instrument 2024 to make certain minor changes to the rules annexed to the Data Reporting Services (Amendment) Instrument 2023. These changes reflect the fact that the DRSRs 2024 have now been made.

Cost benefit analysis

3.31 Section 138I(2)(a) of FSMA requires us to publish a cost benefit analysis (CBA) when proposing draft rules unless, in accordance with section 138L(3) of FSMA, we believe that there will be no increase in costs or that the increase will be of minimal significance. We consulted on the costs and benefits of our proposals in respect of the authorisation and supervision forms for DRSPs in CP23/33, and received no objections to the CBA itself. As we are proceeding with the proposals we consulted on and no-one raised any points in respect of that aspect of our proposals, the CBA in CP23/33 on DRSP forms remains unchanged.

3.32 Section 138(5)(a) of FSMA requires that, if our rules differ significantly from the draft version consulted upon, we must provide details of that difference and a CBA of the updated rules. In CP23/33, we provided a CBA of the proposed rules for each of the 3 options put forward for payments to data providers. As above, however, we are proceeding with our original proposals in CP23/15 to not require payments to data providers. Responses to CP23/15 did not indicate that its CBA needed to be amended or updated.

Equality and diversity statement

3.33 We continue to believe that the rules we have made will not have a negative impact on any of the groups with protected characteristics under the Equality Act 2010 and no concerns were raised during consultation.

3.34 Increased transparency through the introduction of a bond CT would potentially benefit people with protected characteristics under the Equality Act as well as consumers more broadly.

Environmental, social and governance considerations

3.35 We have considered the environmental, social and governance implications of our proposals and our duty under sections 1B(5) and 3B(c) of FSMA to have regard to contributing towards the Secretary of State achieving compliance with the net zero emissions target under section 1 of the Climate Change Act 2008. Overall, we do not consider that the proposals are relevant to contributing to those targets.

Rule Review Framework

3.36 We have taken into account our duties under the Rule Review Framework and consider that these changes do not require ongoing monitoring.

CP23/22: Periodic Fees (2024/2025) and Other Fees Instrument 2024 and CP24/2: Fees (Special Project Fee for Restructuring) (Amendment) Instrument 2024

Background

3.37 We have an annual fees consultation cycle:

- In the autumn (October or November), we consult on fees policy proposals. This often includes the structure of our fees, our approach, the introduction of new fees or new groups of fee payers, and updates and clarifications to the Fees manual (FEES).

- In the spring (April), we consult on fee rates for the current year.

3.38 In this chapter, we provide feedback on the outcome of the fees policy consultations we conducted in CP23/22 and Chapter 2 of CP24/3.

Summary of proposals

3.39 In CP23/22, we consulted on 7 sets of proposals, as set out below.

Payment of fees by cheque

3.40 In CP23/22, we proposed to streamline the processing of fees by requiring payments to be made by direct debit, bank transfer, or credit or debit card, removing the ability to pay by cheque except by pre-arrangement.

3.41 Firms will still be able to pay by cheque or other means in exceptional circumstances. This will enable us to make appropriate arrangements where different methods are unavailable to the fee payer, or where requiring electronic payment would be unfair or inappropriate in the circumstances.

Application charge for primary information providers (PIPs)

3.42 PIPs provide information services to UK issuers by disseminating details of regulatory requirements under the Listing Rules, the Disclosure, Guidance and Transparency Rules and the Market Abuse Regulations. Our predecessor body, the Financial Services Authority, approved the establishment of PIPs as part of changes to the Listing Rules in 2002, without setting any application fee. We received no new applications for PIPs until 2023. We found that the cost of processing this application was around £50,000.

3.43 We proposed to introduce a Category 7 application fee of £25,0000 for PIPs. We considered that this would represent a reasonable contribution towards the cost of processing PIP applications, without creating a barrier to entry.

Removal of pre-paid funeral plan (FP) providers from fee-block A.4

3.44 We proposed to remove the reference in fee-block A.4 to FP providers, so that FP providers will only fall into fee-block A.23 as originally intended.

3.45 Before FP providers were brought into the scope of the Regulated Activities Order, the activity of entering as provider into FP contracts fell into fee-block A.4. When we developed rules for FP providers in 2021/22, we created a new fee-block (A.23) but the reference to FP providers in A.4 was not removed. This resulted in FP providers being allocated to both A.4 and A.23 (although no FP providers have in practice been charged under A.4 for their FP business). We proposed to remove the reference to FP providers in fee-block A.4 to reflect our original policy intent.

Calculation of consumer credit proxy measure

3.46 Some firms, such as high street retailers arranging for their goods to be sold on credit, arrange loans for their customers but receive no commission or fee for acting as a credit broker. With no income to report, they would not contribute towards our costs in supervising this regulated activity, instead passing their share to other consumer credit fee-payers. As such, in 2015, we developed a proxy measure of annual income for them, to ensure they made a fair contribution towards our supervision.

3.47 The proxy measure is calculated by applying the Bank of England (BoE) base rate to the total loan amount (or gross value of all goods in the case of consumer hire), plus 5%. When we first introduced the proxy measure, the BoE base rate was at 0.5%; therefore, the multiplier was 5.5%. Since then, interest rates have risen and the BoE base rate now stands at 5.25%, resulting in a multiplier of 10.25%, far higher than we envisaged.

3.48 We proposed to remove the BoE base rate and leave a factor of 5% to calculate the proxy measure of income so that firms pay a more proportionate fee, as originally intended.

Firms trading as principal

3.49 We proposed to revise some of the definitions of fee-blocks A.10 and A.13 to take account of the changes introduced by the Investment Firms Prudential Regime (IFPR).

3.50 The IFPR is a prudential regime for UK firms authorised under the UK Markets in Financial Instruments Directive (MiFID) regime. Most MiFID and non-MiFID trading firms fall into fee-block A.10 as firms dealing as principal. However, certain MiFID trading firms were put into fee-block A.13 because of exemptions that allowed them to benefit from concessionary treatment for prudential purposes. These exemptions were removed when the IFPR came into effect, and so there is no reason to keep them in a separate fee-block.

3.51 From 1 April 2025, we proposed to move all relevant MiFID trading firms from fee-block A.13 into fee-block A.10. Some exemptions would remain so certain firms would stay in fee-block A.13. In total, we estimated that our rule change would affect approximately 350 firms. Once the firms have moved into A.10, the annual funding requirement allocation between the A.10 and A.13 fee-blocks would also shift to reflect the redistribution of firms between them.

Changes to FEES 5 and FEES 6

3.52 For the Financial Ombudsman Service (Ombudsman Service) compulsory jurisdiction (CJ) levy, a firm will fall into 1 or more industry blocks set out in FEES 5 Annex 1, depending on the business activities it conducts. For 5 industry blocks, a firm's contribution is calculated according to its 'relevant business'. 'Relevant business' is currently defined as business conducted with consumers which is subject to the jurisdiction of the Ombudsman Service, measured by reference to the appropriate tariff base for each industry block. However, consumers are not the only category of 'eligible complainant', which is a term used in the Handbook to describe persons eligible to complain to the Ombudsman Service (see DISP 2.7.3R). This means that firms' income from business conducted with other persons eligible to complain to the Ombudsman Service is not currently reflected in their contributions to the CJ levy. The definition of 'eligible complainant' was expanded in 2019 and now covers roughly 99% of private sector businesses in the UK, as well as consumers and certain charities and trusts.

3.53 To ensure firms' contributions to the CJ levy more fairly reflect income from business conducted with eligible complainants, we proposed to expand the definition to include all eligible complainants to the Ombudsman Service, not just consumers. The total amount collected for this levy would remain unaffected by the definition change, while the contributions payable by each firm would adjust depending on how much business they conduct with different types of eligible complainant.

3.54 For reporting purposes, our proposals would require firms to consider whether business with customers falls under any of the 'eligible complainant' categories. The revised definition would come into force on 1 April 2025 for reporting purposes and the reported data would be used to calculate the levy for the 2026/27 fee year onwards. This aims to give firms sufficient time to adjust their systems so they can record and report data efficiently under the revised definition.

3.55 We proposed to bring forward the deadline for general insurers and life insurers to report on gross written premium relating to relevant business, from 30 May to 8 April. This would align more closely with the Prudential Regulation Authority's (PRA's) reporting deadline for these firms and simplify the reporting processes for firms in these blocks.

3.56 We also proposed to make a series of other minor changes to the existing rules and guidance in FEES 5 and FEES 6, to ensure more consistency and greater clarity for firms in these FEES chapters.

Amendments to FEES 3 Annex 9R

3.57 A Special Project Fee for restructuring (SPFR) enables the FCA to recover exceptional supervisory costs directly from a firm where it undertakes certain activities, as defined in FEES 3 Annex 9R, which put additional demands on our

regulatory resources. The aim is to charge the firm directly for the additional work it is generating, so that other fee-payers are not paying our costs.

3.58 Payment for the restructuring activities specified in FEES 3 Annex 9R(2) was previously limited to firms that fell within the A, G.3 or G.10, consumer credit and claims management fee-blocks. Firms in the B fee-blocks were excluded because, when we introduced the SPFR model in 2009, they paid their annual fees on the basis of our assessment of the cost of regulating each firm. There was no need to charge a separate SPFR for B-block firms because the costs would be added to their fees the following year. Their eligibility for SPFRs was restricted to insolvency-related matters as they might no longer be fee-payers by the time we set their fees the following year.

3.59 When we changed the way we charge firms in the B fee-blocks in 2017, basing their fees on their revenue, we should have amended FEES 3 Annex 9R to account for this, but this was not done. This meant that the SPFR rules no longer reflected our original policy intention because firms in the B fee-block cannot be charged directly for any additional restructuring work.

3.60 In CP24/3 we proposed to amend FEES 3 Annex 9R to ensure that firms in the B fee-blocks are eligible to pay SPFRs on the same basis as firms in the A, G.3, G.10, consumer credit and claims management fee-blocks. Following this amendment, the SPFR regime will then reflect our original policy intention of being able to charge firms in the B fee-block for any additional restructuring work they are generating, and avoid the costs generated by a single firm being spread across other fee-payers.

How this links to our objectives

3.61 Our rules are not intended to directly advance our objectives, but the fees we collect fund the work we do to further them.

3.62 The amendments to the Handbook contained in these instruments will therefore indirectly advance our strategic objective of ensuring that the relevant markets function well, and our operational objectives of:

- securing an appropriate degree of protection for consumers;
- protecting and enhancing the integrity of the UK financial system; and
- promoting effective competition in the interests of consumers.

3.63 The amendments will also indirectly advance our secondary international competitiveness and growth objective.

Feedback and our response

Payments of fees by cheque, application charge for PIPs, and removing pre-paid FP providers from fee-block A.4

3.64 Two responses supported moving away from payment of fees by cheque or bankers' draft. We received no responses in relation to the application charge for PIPs or the removal of pre-paid funeral plan providers from fee-block A.4. We are therefore proceeding to make the final rules in these areas as consulted on.

Calculation of consumer credit proxy measure

3.65 We received 4 comments on the proposals to change the method of calculating the consumer credit proxy measure, all supporting our proposal to remove the BoE base rate.

3.66 Two respondents suggested alternatives to the 5% multiplier. One proposed 5.5% and the other proposed 3%, but neither provided any new evidence for making this change.

3.67 Having considered this feedback, we believe the 5% multiplier is an appropriate proxy measure, so we have made the rules as consulted on.

3.68 We also intend to update the guidance in FEES 4 Annex 13G for consistency to remove reference to the BoE base rate. This amendment did not appear in the draft instrument included in CP23/22.

Firms trading as principal

3.69 One respondent supported the amendments to fee-blocks A.10 and A.13 but did not provide further feedback. We are proceeding to make the rules as consulted on.

Changes to FEES 5 and FEES 6

3.70 We received 9 responses on the 'relevant business' definition change. Most supported our proposal to widen the definition to include all Ombudsman Service eligible complainants. Among those who disagreed, there were 2 distinct areas of concern, raised by different respondents.

Definition of 'relevant business': difficulties for some firms to identify and report on all eligible complainants within some industry blocks

3.71 The first area was a concern that amending the definition could create difficulties and costs for some firms that would be required to classify customers as eligible complainants for reporting purposes. These respondents felt this could potentially lead to inconsistencies in reporting approaches, for a relatively small impact on fee amounts collected. One example provided was a collective investment scheme (CIS) manager attempting to classify eligible complainants from a large group of investors in a CIS.

3.72 The fee block for CIS managers (I06) is one of several with a flat fee tariff base. This means that firms' contributions to the general levy are not based on their relevant business. More broadly, the extra burden for some firms to identify, record and report on income from business conducted with all

eligible complainants needs to be considered against the benefits of this data being used to calculate and apportion the CJ levy more fairly and accurately. Expanding the definition of 'relevant business' will more fairly balance firms' contributions to the CJ levy, ensuring that all eligible complainants are accounted for in the levy calculation and that all firms contribute their fair share towards the Ombudsman Service's total costs.

3.73 We want to minimise additional reporting burdens created by the definition change, where possible. As noted above, by proposing an effective date of 1 April 2025 for reporting purposes, we aimed to give firms more time to adjust their systems so they can record and report data efficiently under the revised definition. We also received no feedback from firms in industry blocks with relevant business-based tariff bases which specifically indicated that these blocks might struggle to adjust their systems in time for April 2025. Furthermore, FEES 5.4.1R(3) currently allows firms to provide a 'best estimate' of the relevant business they conduct, where not able to provide a complete statement. We will continue to discuss the levy reporting requirements with stakeholders. The annual fees policy consultation provides a regular mechanism if further guidance or rule changes are necessary.

Definition of 'relevant business': whether certain firms or groups of firms could pay higher fees

3.74 The second distinct area of concern raised was that the proposal could result in certain firms or groups of firms being required to pay disproportionately high fees. One respondent believed that bringing commercial insurance business into scope would disproportionately affect managing agents, significantly increasing the amount of 'relevant business' they would need to report. These firms come under industry block IO17 ('general insurance distribution, excluding firms in blocks 13, 14 & 15'). The respondent was concerned that this could result in these firms paying fees that would be disproportionate to the relatively small burden these firms place on the Ombudsman Service. In turn, they were concerned about commercial business cross-subsidising consumer business among these firms and across the wider block, which they argued goes against the 'polluter pays' concept.

3.75 For some firms, we note that the definition change could result in them reporting significantly higher relevant business. This will have a greater impact on firms carrying out higher proportions of commercial rather than consumer business, such as managing agents and insurance brokers. Although we received no further feedback to indicate this, we are mindful that firms in this block and other industry blocks could be affected in a similar way. The Ombudsman Service receives fewer complaints from eligible complainants who are not consumers (nearly 1,200 new complaints were received in total from small and medium-sized enterprises in 2022/23, a very small proportion of the roughly 165,000 new complaints the Ombudsman Service received during that year), although this could vary in the future.

3.76 We have considered whether the definition change would create unfairness in how the CJ levy is distributed among firms. While it is expected that the total amount of relevant business reported will go up under the expanded definition across industry blocks, the total CJ levy collected from blocks would be unaffected by it (with levy rates adjusted accordingly), unless the Ombudsman Service needs to collect larger amounts from certain blocks because it expects a higher volume of cases from them. Under the new definition, some rebalancing will occur within blocks with a tariff base that uses relevant business to reflect a fairer apportioning of fees that accounts for the Ombudsman Service's expanded jurisdiction since 2019.

3.77 The Ombudsman Service's case fee model is designed so that those firms generating more cases pay more in fees overall. Its recent plan and budget consultation also aims to increase the proportion of income generated from case fees compared to the CJ levy. This is consistent with the 'polluter pays' approach.

3.78 We recognise that while some firms, or groups of firms, could end up paying more under the widened definition of relevant business than they do currently, the current definition is not as fair on those firms that conduct a greater proportion of business with consumers only. We will, however, monitor firms' reports for the risk of any unintended consequences arising from the widened definition. We will continue to discuss with stakeholders how the data we get under the expanded definition impacts the amounts firms pay and we are open to suggestions on alternative approaches to calculating tariff bases to ensure levies charged to individual firms are proportionate. The annual fees policy consultation provides a regular mechanism to put mitigations in place in the future if necessary.

3.79 Taking account of these factors, and the wider benefit that the Ombudsman Service provides to all firms who pay the CJ levy, including supporting increased confidence in the sector, our position remains that the current 'relevant business' definition should be widened to fully reflect the different types of business firms carry out with customers that are able to refer complaints to it.

3.80 This new definition will also provide more clarity and consistency longer term, as it will fully align with the types of 'eligible complainants' outlined in DISP 2.7.3R, even if the types of complainants covered by that definition change in the future.

3.81 Overall, we consider these points sufficiently mitigate the risks highlighted in CP23/22 and the concerns raised in the feedback received to that consultation paper, so we are proceeding as planned with amending the definition to include all eligible complainants to the Ombudsman Service. This will be effective from 1 April 2025 for reporting purposes, with the reported data then used to calculate the CJ levy amounts payable by firms for the 2026/27 fee year onwards.

Revised deadline for general insurers and life insurers to report on gross written premiums relating to relevant business: potential difficulties for some firms to meet the revised deadline

3.82 We received 4 responses on the proposal to bring forward the reporting date from 30 May to 8 April for industry blocks 2 and 4. A majority were either neutral or agreed with our rationale. The single firm that disagreed thought the new date would significantly compress the time available for these firms to calculate and report on 'relevant business' as well as for their Solvency II returns, leading to greater burden without (in its view) an obvious significant benefit to them or the FCA.

3.83 We recognise that firms in blocks 2 and 4 will have less time to report and will also have to consider the broader reporting required under the expanded 'relevant business' definition. However, firms in these blocks will still have at least 3 months to calculate and report on their relevant business data and Solvency II return data (31 December – 8 April). This compares favourably to other industry blocks, which have 2 months to report (31 December – end of February).

3.84 In terms of benefits, 8 April is more consistent with the date by which these firms must report to PRA, so the change will simplify their reporting schedules. Furthermore, the change also gives the FCA more time to validate data it receives for setting the CJ levy rates. Insurers can choose whether to report on their Ombudsman Service relevant business data (ie, relevant gross written premium) by 30 May or report instead on gross written premiums only (ie, not according to relevant business) by the end of February, in line with other blocks. If they decide not to report according to relevant business, the FCA will use its data to calculate the CJ levy payable.

3.85 Having considered the feedback, we have decided to introduce the reporting date change of 8 April for blocks 2 and 4 from 1 June 2024, as proposed, with a reporting date up until 2 May for the 2025 notification only. While we continue to believe the 8 April date is appropriate, this phased approach will give firms more time to adapt.

3.86 We are amending the change to FEES 5.4.1R(1A) originally proposed in CP23/22, which would have stated that firms in industry blocks 2 and 4 'must notify the FCA of the amount of gross written premium for fees purposes' relating to relevant business. This text would have conflicted with FEES 5 Annex 1R and FEES 5.4.1R(1)(b), which both make clear that firms in these blocks can choose to report either on their gross written premium that relates to relevant business or on all their gross written premium for fees purposes, as defined in FEES 4 Annex 1AR. To avoid this unintentional conflict and allow firms to continue to choose, FEES 5.4.1R(1A) will now refer to the condition that a firm 'elects to notify the FCA of the amount of gross written premium' relating to relevant business. Linked to this, we are also amending the tariff base descriptions for industry blocks 2 and 4 in FEES 5 Annex 1R, and

associated guidance at FEES 5.8.3G, so that these are clearer in their reference to firms being able to report on gross written premium relating to relevant business.

Other minor proposed changes to FEES 5 and FEES 6

3.87 All 4 respondents that gave feedback on the other proposed changes to FEES 5 and FEES 6 were either in agreement or did not raise any objections. We are proceeding as planned with these other minor changes, effective from 1 April 2024.

Amendments to FEES 3 Annex 9R

3.88 We received 3 responses to the proposed change to FEES 3 Annex 9R. These respondents argued that it would be disproportionate to charge SPFRs to recognised overseas investment exchanges (ROIEs), on the basis that ROIEs are primarily supervised by their respective home regulator and subject only to a specific (limited) FCA notification regime. The respondents noted that ROIEs are only required to pay an annual flat fee, in line with this approach.

3.89 We recognise that ROIEs are mostly supervised by their respective home regulators, but we do not consider this should exempt them from eligibility to pay SPFRs on the same basis as other firms in the B fee-block. Further, ROIEs are not the only non-UK established legal entities in the B fee-block (for example, UK branches of international multilateral trading facilities are also in the B fee-block). So, the fact that ROIEs' head offices are based outside the UK is insufficient reason to treat ROIEs differently from other firms in the B fee-block.

3.90 While a ROIE would only become eligible to pay an SPFR in exceptional circumstances, it would not be reasonable to rule out the possibility. In the event that we did decide that a ROIE should pay an SPFR, the charge would be introduced only after the supervisory team had discussed the possibility with them and provided an estimate of the costs to be recovered. In light of the discussion of the likely costs, the ROIE would be able to decide not to proceed with their project and no fee would be charged.

3.91 Additionally, we consider that functionally similar activities should be subject to similar levels of regulation. We maintain that it is equitable for both recognised investment exchanges (RIEs) and ROIEs to be eligible to pay SPFRs, based on the same criteria.

3.92 Therefore, we do not consider that it would be disproportionate for ROIEs to be eligible to pay an SPFR in the rare occurrence that they put additional demands on our regulatory resources.

3.93 Under REC 6.6, ROIEs are required to notify the FCA of significant changes to their internal organisation or structure. We note the respondents' concern that amending FEES 3 Annex 9R so that ROIEs might become eligible to pay

an SPFR could amount to a requirement on ROIEs to apply to the FCA for clearance before restructuring their business. The respondents were concerned that this would go beyond the existing supervisory regime for ROIEs set out in REC 6.6 and REC 6.7, which only require ROIEs to make a notification.

3.94 Amending FEES 3 Annex 9R so that ROIEs can be eligible to pay SPFRs will not change the notification requirement in REC 6.6 and REC 6.7. The only difference is that there will now be a possibility that, if we incur additional costs because of a ROIE notifying us of a significant restructuring under REC 6.6 and REC 6.7, the ROIE may be asked to pay an SPFR.

Cost benefit analysis

3.95 Under FSMA section 138I(6), the FCA is generally exempt from carrying out a cost benefit analysis (CBA) in relation to making fees rules.

3.96 However, the section 138I(6) exemption does not cover the changes to FEES 6. Regarding the proposed changes to FEES 6 (but not regarding the other proposed changes), we explained our view in CP23/22 that no CBA was required because any increases in costs arising from the changes to FEES 6 would be of minimal significance, and therefore the exemption in section 138L(3) of FSMA is engaged.

3.97 We note that some respondents raised concerns about the impact of the proposed changes in FEES 5 (to which the 138I(6) exemption applies). As set out above, our position remains that the current 'relevant business' definition should be widened to fully reflect the different types of business firms carry out with customers that are able to refer complaints to it. However, we will continue to discuss with stakeholders around minimising where possible any additional reporting burdens and how the data we get from these expanded levy reporting requirements impacts the amounts firms pay. We are open to suggestions on alternative approaches to calculating tariff bases to ensure levies charged to individual firms are proportionate.

3.98 We consider that the rules we have made remain compatible with our legal requirements as set out in the compatibility statement in Annex 2 of CP23/22.

Equality and diversity statement

3.99 We continue to believe that the rules we have made will not have a negative impact on any of the groups with protected characteristics under the Equality Act 2010 and no concerns were raised during consultation.

Environmental, social and governance considerations

3.100 We have considered the environmental, social and governance implications of our proposals and our duty under sections 1B(5) and 3B(c) of FSMA to have regard to contributing towards the Secretary of State achieving compliance with the net zero emissions target under section 1 of the Climate Change Act 2008. Overall, we do not consider that the proposals are relevant to contributing to those targets.

Rule Review Framework

3.101 We have taken into account our duties under the Rule Review Framework and consider that these changes do not require ongoing monitoring.

CP23/25: Collective Investment Schemes Sourcebook (Miscellaneous Amendments) Instrument 2024

Background

3.102 We consulted on minor rule amendments for authorised collective investment schemes in CP23/25 to provide additional options or clarifications so that the fund rules evolve and reflect modern practices. The consultation was to take forward responses from DP23/2 on updating and improving the UK regime for asset management. The proposed amendments represent some of the more straightforward areas where we consider that the rules would benefit from being modernised or clarified. We received 5 responses, broadly supporting the proposals set out in CP23/25.

Summary of proposals

3.103 We consulted on the following minor rule amendments for authorised funds:

- enabling virtual or hybrid general meetings of unitholders;
- giving notice to joint unitholders;
- enabling Sharia-complaint funds;
- clarifying the accounting date rule for new funds at sub-fund level;
- clarifying the allocation of payment rules;
- correcting the rules around investment in second schemes;
- broadening the range of investments available under the Qualified Investor Scheme (QIS) regime;
- clarifying comprehensive cover requirements for global exposure in transactions in derivatives and forward transactions in the QIS rules;
- making minor amendments to the Long-Term Asset Fund (LTAF) rules for consistency; and
- changing the term 'IMA SORP' (Investment Management Association Statement of Recommended Practice) to 'SORP' (Statement of Recommended Practice) in the Collective Investment Schemes sourcebook (COLL).

How this links to our objectives

3.104 As set out in CP23/25, we consider that the proposed amendments will make the market for fund management work well. They are compatible with our objectives and regulatory principles. Some of the proposed amendments will advance our operational objective of securing an appropriate degree of consumer protection. We consider that they will do so in a way that promotes effective competition. Other proposed amendments primarily advance our objective of promoting effective competition in the interests of consumers, while also advancing our consumer protection and market integrity objectives. We consider that any burdens or restrictions are proportionate to the expected benefits.

3.105 We are satisfied that the proposed amendments are compatible with the FCA's secondary international competitiveness and growth objective. The proposals will maintain a proportionate regulatory regime (such as by making updates or clarifications, removing inconsistencies or unnecessary restrictions) that helps to modernise the UK fund regime, making it more internationally competitive. This will, in turn, facilitate the international competitiveness and growth of the UK economy.

Feedback

3.106 Respondents supported most of the proposals set out in CP23/25. Some said they would like to see more substantial changes, which would require further consultation.

3.107 On unitholder voting at general meetings, 3 respondents queried whether firms will be required to update the instrument constituting the fund to enable the option of unitholders participating in a virtual or hybrid format, if the instrument does not currently specify what meeting format is permitted. They also suggested it would be sufficient to make meeting minutes available at a unitholder's request instead of making them available on the Authorised Fund Manager's (AFM's) website.

3.108 On giving notice to joint unitholders, 2 respondents queried whether the policy intent was to allow notice to be served to 1 joint unitholder only when 2 or more unitholders are registered at the same address, since the draft rule did not state this as a condition.

3.109 Regarding updating the rules on investment in second schemes, 3 respondents agreed that it would be beneficial to clarify existing rules, but questioned whether it was correct to say that the rule should work in the way that we set out in the consultation.

3.110 On broadening the range of investable assets for the QIS regime to include loans, respondents supported the proposal. One respondent put forward other asset classes that they considered should be made available for the QIS.

3.111 On updating the Glossary term from 'IMA SORP' to 'SORP', 1 respondent pointed out that the 'SORP' issued in May 2014 was updated in June 2017.

Our response

3.112 Having reviewed the feedback, we will proceed with making most of the rules and guidance as consulted on.

3.113 Regarding voting at general meetings, the proposed amendment is to provide additional options for holding general meetings in a virtual or hybrid format, if firms choose to use this. Based on consultation feedback, we decided that it would be clearer to make this an enabling rule and to set out explicitly that there is no requirement to update the instrument if holding a virtual or hybrid meeting is not in conflict with any provision in the instrument.

3.114 We recognise that firms have been relying on our supervisory forbearance concerning virtual general meetings published in April 2020 to organise virtual meetings of unitholders under the existing rules, and some firms may be planning to hold meetings in the near future on that basis. To give firms time to make any necessary adjustments, we will allow a transitional period before the amended rules on unitholder meetings take effect. The new rules will apply only to meetings held on or after 3 June 2024 and the forbearance will be withdrawn and no longer apply from this date.

3.115 We consider it beneficial to make meeting minutes available on the website of the AFM (or a related entity) for greater transparency. We will proceed with finalising the rule as consulted on.

3.116 We have amended the rules to clarify that, if a notice or document is served on one joint unitholder at a registered address, it is considered served on other joint unitholders who are registered at that same address.

3.117 Having reviewed the responses on a fund of fund's ability to invest in second schemes, we are of the opinion that the proposed rules in COLL 5 and COLL 8 need further consideration. We will not proceed with them at this time and will decide whether to consult on revised versions of them in due course.

3.118 We will proceed with rules on broadening available investable assets to include loans for the QIS regime, as consulted on. We are open to considering allowing additional investments in QIS in future, but do not think there is a case for going further based on responses to this consultation.

3.119 We will proceed with updating the Glossary term from 'IMA SORP' to 'SORP', clarifying in the definition that it was amended in June 2017.

Cost benefit analysis

3.120 Section 138I(2)(a) of FSMA requires us to publish a cost benefit analysis (CBA) when proposing draft rules unless, in accordance with section 138L(3) of FSMA, we believe that there will be no increase in costs or that the increase

will be of minimal significance. In CP23/25, we explained our view that no CBA was required for our proposals because the amendments would not lead to an increase in costs or the increase would be of minimal significance. No issues were raised in responses to the consultation and so our position remains unchanged.

Equality and diversity statement

3.121 We continue to believe that the rules we have made will not have a negative impact on any of the groups with protected characteristics under the Equality Act 2010 and no concerns were raised during consultation.

Environmental, social and governance considerations

3.122 We have considered the environmental, social and governance implications of our proposals and our duty under sections 1B(5) and 3B(c) of FSMA to have regard to contributing towards the Secretary of State achieving compliance with the net zero emissions target under section 1 of the Climate Change Act 2008. Overall, we do not consider that the proposals are relevant to contributing to those targets.

Rule Review Framework

3.123 We have taken into account our duties under the Rule Review Framework and consider that these changes do not require ongoing monitoring.

CP23/25: Credit Unions Sourcebook Instrument 2024

Background

3.124 In Great Britain, credit unions are governed under the Credit Unions Act 1979 (CUA79). The scope of CUA79 has meant that credit unions can primarily offer deposit accounts and loans to their members in terms of their financial activities, with additional products and services where they are ancillary to these activities.

3.125 On 29 August 2023, the Financial Services and Markets Act 2023 (FSMA 2023) came into force, setting out changes to CUA79. These changes include an optional legislative object for credit unions in Great Britain that allows them to offer conditional sale agreements, hire purchase agreements, and/or insurance distribution activities. In addition, the legislative changes require credit unions to submit their annual accounts to the FCA within 7 months of the end of their financial year and expressly allow credit unions to temporarily lend and borrow from other credit unions, even when there is no membership link.

3.126 We reviewed our Credit Unions sourcebook (CREDS) to ascertain how the legislative changes would impact our rules. We then proposed some minor amendments in CP23/25 to incorporate the legislative changes and clarify when and how our rules apply to credit unions in light of them.

Summary of proposals

CREDS 1.1 (Application and purpose)

3.127 We proposed to amend and simplify CREDS 1.1 to clarify that the rules and guidance in CREDS applies to credit unions with permissions to carry out activities in addition to their deposit taking activities (including the newly permitted activities introduced by the recent legislative reform).

CREDS 2 (Senior management arrangements, systems and controls)

3.128 We proposed to incorporate conditional sale agreements and hire purchase agreements into CREDS 2.2.31G so that credit unions which choose to offer these products consider important risk management issues – including compliance with relevant lending rules and compliance monitoring around these activities – as part of their compliance function.

3.129 In addition, we proposed to add conditional sale agreements and hire purchase agreements to CREDS 2.2.35G and CREDS 2.2.45G(7) so that credit unions which offer these products include these activities in their management information systems and internal audit programmes.

CREDS 7 (Lending to members)

3.130 We proposed to change our use of the word 'loans' in 7.1 and 7.2 to 'lending', which we define in the chapter as meaning – for Great Britain credit unions – conditional sale agreements and/or hire purchase agreements as well as loans. This is to clarify that our rules regarding lending to members also now apply to conditional sale agreement and hire purchase agreements, where applicable.

3.131 In addition, we proposed to refer to the new section 11E of the CUA79, relating to conditional sale and hire purchase agreements, at CRED 7.1.3G. We also proposed to remove the partial summary of section 11 of the CUA79 at 7.1.3G(1) and (2) so that credit unions refer to the full legislation for all relevant provisions, rather than relying on a partial summary in CREDS.

CREDS 8.2 (Reporting requirements)

3.132 Since the legislation now requires credit unions to submit their annual returns to the FCA within 7 months of the end of their financial year instead of 6 months, as previously set out in CREDS, we proposed to delete CREDS 8.2.6R and CREDS 8.2.6AR to remove the conflicting requirement and subsequent confusion.

CREDS 10 (Application of other parts of the Handbook to credit unions)

3.133 We proposed to add the newly permitted activities and their relevant parts of the Handbook to the table in CREDS 10.1 to help credit unions identify and refer to those sections of the Handbook when conducting these activities.

How this links to our objectives

3.134 As set out in CP23/25, the changes advance our statutory objective of securing an appropriate degree of consumer protection and promote effective competition in the interests of consumers. They intend to provide clarity for

credit unions so that they can identify and apply our regulatory requirements, which aim to mitigate risks of harm to consumers.

3.135 These changes also support our secondary international competitiveness and growth objective. Providing clarity around our rules means that credit unions can confidently offer these products, which results in greater consumer choice and diversified income streams for credit unions.

Feedback

3.136 We received 2 responses to our consultation, both of which supported all the changes we proposed. Respondents expressed support for our proposals and noted that they will help provide greater clarity for Handbook users and clear direction in CREDS 10 to other parts of the Handbook that may be relevant, depending on the activities credit unions choose to offer.

Our response

3.137 Since all feedback we received was supportive of our proposals, we will implement the proposals as consulted on. It has been noted that CREDS 8.2.7R also requires amending in light of the proposed removal of CREDS 8.2.6R. Instead of referring to the rule that is going to be deleted, we intend to refer to the primary legislation, for clarificatory purposes and to avoid confusion.

Cost benefit analysis

3.138 Section 138I(2)(a) of FSMA requires us to publish a cost benefit analysis (CBA) when proposing draft rules unless, in accordance with section 138L(3) of FSMA, we believe that there will be no increase in costs or that the increase will be of minimal significance. In CP23/25, we explained our view that no CBA was required for our proposals because the amendments are clarificatory, as a result of legislative changes, and of minimal significance. We therefore expect credit unions that choose to offer these new products to incur minimal or no additional costs because of our changes. Moreover, neither of the 2 respondents who provided feedback to our consultation raised concerns nor requested that we conduct a CBA before finalising our rules. Our position, therefore, remains unchanged.

Equality and diversity statement

3.139 We continue to believe that the rules we have made will not have a negative impact on any of the groups with protected characteristics under the Equality Act 2010 and no concerns were raised during consultation.

Environmental, social and governance considerations

3.140 We have considered the environmental, social and governance implications of our proposals and our duty under sections 1B(5) and 3B(c) of FSMA to have regard to contributing towards the Secretary of State achieving compliance with the net zero emissions target under section 1 of the Climate Change Act 2008. Overall, we do not consider that the proposals are relevant to contributing to those targets.

Rule Review Framework

3.141 We have taken into account our duties under the Rule Review Framework and consider that these changes do not require ongoing monitoring.

CP23/25: Conduct of Business Sourcebook (Amendment) Instrument 2024

Background

3.142 Following separate queries from firms, we consulted on minor changes in 2 unrelated sections of the Pensions supplementary provisions chapter of the Conduct of Business sourcebook (COBS):

- COBS 19.7 (Pensions nudge and retirement risk warnings); and
- COBS 19.9 (Pension annuity comparison information).

Stronger nudge

3.143 In December 2021, we published rules on when firms must give consumers a stronger nudge to Pension Wise guidance, which came into force on 1 June 2022. The rules are designed to give consumers a final opportunity to take Pension Wise guidance at the point when they wish to:

- access their pensions savings; or
- transfer their rights under one pension scheme to another for the purpose of accessing their pension savings using a decumulation product.

3.144 Prompted initially by a firm query, and after further consideration of the Handbook rules, in CP23/25 we proposed to make changes to clarify:

- that the pensions savings in scope of the stronger nudge rules are not limited to pension schemes which contain only insurance and regulated fund elements; and
- the extent to which the rules in COBS 19.7 apply to benefits which are not flexible benefits.

Pension annuity comparison information

3.145 Following firm queries, we have identified certain issues that require clarification in relation to our pension annuity comparison information requirements, set out in COBS 19.9, and the corresponding templates in COBS 19 Annex 3.

Summary of proposals

Stronger nudge

3.146 In our original consultation on our stronger nudge rules (CP21/11), we did not propose to limit the type of pension provider or scheme to which the stronger nudge rules apply. We confirmed this approach in PS21/21. At the time, we aligned the trigger for the stronger nudge rules to the scope of COBS 19.7 – namely, decisions to access 'pension savings', which are defined as 'the proceeds of the client's personal pension scheme, stakeholder pension scheme, or occupational pension scheme' in COBS 19.7.1R(3). This brought transfers between pension schemes (for the purpose of the consumer subsequently accessing their pension savings) within the scope of the stronger nudge rules.

3.147 In CP23/25, we explained that, in the context of transfers in COBS 19.7.2R(2), COBS 19.7.7R(6), COBS 19.7.7AG and COBS 19.7.7BR, the Handbook definition of 'pension scheme' could be interpreted as more limited than intended. This is because the definition contains references to contributions being made to a long-term insurer or a regulated collective investment scheme only. However, the application provision in COBS 19.7.2R(2) seeks to capture transfers between pension schemes for the purpose of accessing pension savings using a decumulation product (and not just transfers involving schemes which contain insurance or regulated fund elements).

3.148 In CP23/25, we proposed to amend our rules to clarify the circumstances in which the stronger nudge triggers in COBS 19.7.7R(5) and COBS 19.7.7R(6), and the steps set out in COBS 19.7, should be followed. Examples of those circumstances include:

- withdrawals of rights derived from 'flexible benefits' in circumstances where all of the rights in any particular product or scheme in the client's pension savings are reduced to zero; and

- transfers of rights of 'flexible benefits' – either accrued under their existing personal pension scheme, or accrued under their existing arrangement, and transferred to a personal pension scheme – for the purposes of taking one of the actions set out in COBS 19.7.7R(1) to (5). (For the purposes of COBS 19.7, 'personal pension scheme' is to be read as including a stakeholder pension scheme and, for the avoidance of doubt, includes a free-standing additional voluntary contribution, a retirement annuity contract and a pension buy-out contract.)

3.149 In CP23/25, we also proposed changes to clarify the extent to which the rules in COBS 19.7 apply in respect of benefits which are not flexible benefits. The definition of 'flexible benefits' is set in legislation (section 74 of the Pensions Schemes Act 2015). In broad terms, it includes all those benefit categories which fall within the scope of the pension freedoms – namely, the flexibilities in respect of which Pension Wise was established to offer guidance.

3.150 The changes we proposed in CP23/25 are designed to clarify that a firm's communications with a retail client are in scope of COBS 19.7 where they concern a decision in principle to:

- transfer safeguarded benefits rights which are also flexible benefits; or
- transfer rights in respect of both flexible benefits and benefits which are not flexible benefits (for example, additional voluntary contributions which are attached to a deferred annuity contract), but only in relation to the transfer of the flexible benefits rights.

3.151 Additionally, where the consumer's decision in principle is to vary a pension of or including non-flexible benefits (in order to access pensions savings using a drawdown or make an uncrystallised funds pensions lump sum payment), a firm's communications with that client are in scope of COBS 19.7. This is because the variation and the access decision (of the subsequent flexible benefits) is more likely than with a transfer to form part of the same communication, and Pension Wise can offer guidance on these access options.

3.152 A transfer of rights which are safeguarded but are not also flexible benefits is outside the scope of COBS 19.7. The stronger nudge requirements continue to apply only to transferring rights of flexible benefits. This reflects that the guidance which Pension Wise offers concerns only the consumer's options in relation to their flexible benefits.

Pension annuity comparison information

3.153 Prompted by firm queries, we identified that the templates in Parts 4 to 6 of COBS 19 Annex 3 still include the web address of the old Money Advice Service webpage for annuity comparisons. In CP23/25, we proposed to update these references with the MoneyHelper webpage address, in line with the changes introduced following CP21/27 (Chapter 4). Given that the Money Advice Service webpage address currently redirects to the MoneyHelper webpage, we proposed to give firms up to 12 months to implement this change, which should enable them to do so as part of their business-as-usual cycles.

3.154 We also identified that the headings to the templates in Parts 3 and 6 of COBS 19 Annex 3 could be misread as suggesting that they should be used where a retail client refuses to answer questions to determine whether they are eligible for an enhanced annuity but consents to a market leading pension annuity quote being generated. We therefore proposed to remove the references to enhanced annuities in the headings to the templates in Parts 3 and 6 of COBS 19 Annex 3 so that they only refer to these templates being used where a retail client does not consent to a market leading annuity quote being generated at all.

3.155 We also proposed to clarify that the template in Part 6 of COBS 19 Annex 3 is to be used where the client is asking for an income-driven annuity quote but

refuses to consent to a market leading quote being generated, so as to better distinguish it from the template in Part 3.

How this links to our objectives

Stronger nudge

3.156 As set out in CP23/25, the amendments in relation to COBS 19.7 are primarily intended to advance our operational objective of securing an appropriate degree of consumer protection.

3.157 As set out in CP23/25, the amendments in relation to COBS 19.9 make minor clarificatory changes that support the aim of our existing rules in COBS 19.9 to prompt consumers to shop around and, where appropriate, switch provider before they purchase an annuity. As a result, they advance our operational objectives of securing an appropriate degree of consumer protection, promoting market integrity and helping to promote effective competition in the interests of consumers.

Pension annuity comparison information

3.158 As set out in CP23/25, we are also satisfied that the amendments in relation to COBS 19.7 and 19.9 are compatible with the FCA's secondary international competitiveness and growth objective. The amendments remove ambiguities which, with no material cost to firms, should consequently help to increase their operational efficiency in meeting our requirements. In turn, this helps to promote better outcomes for consumers through more choice and increasing trust and confidence in this market.

Feedback

3.159 We received 1 response regarding the proposed changes to the stronger nudge rules in COBS 19.7.

3.160 The respondent agreed with the proposed intention and effect of the changes to the stronger nudge rules. However, the respondent recommended minor amendments to the draft instrument which they felt would achieve greater consistency across the Handbook.

3.161 We received no feedback on the proposed changes regarding the pension annuity comparison rules in COBS 19.9 and its annexes.

Our response

3.162 We note the points raised by respondent; however, we are proceeding with the changes as consulted on. We consider that the rule changes set out in CP23/25 meet our policy objective of clarifying our existing position with regard to the stronger nudge rules. Specifically, the changes clarify the circumstances in which the stronger nudge triggers should be followed, and the extent to which the rules in COBS 19.7 apply in respect of benefits which are not flexible benefits.

Cost benefit analysis

Stronger nudge

3.163 In relation to the stronger nudge amendments, section 18 of the Financial Guidance and Claims Act 2018 amended the Financial Services and Markets Act 2000 (FSMA) so that the requirement to carry out a cost benefit analysis (CBA) (under section 138I) does not apply in relation to amendments made under section 137B of FSMA. Given that we proposed to clarify rather than change the policy intention of the stronger nudge rules, we did not conduct a CBA. The respondent did not provide any feedback on this.

Pension annuity comparison information

3.164 Section 138I(2)(a) of FSMA requires us to publish a CBA when proposing draft rules unless, in accordance with section 138L(3) of FSMA, we believe that there will be no increase in costs or that the increase will be of minimal significance. In CP23/25, we explained that, in relation to the pension annuity comparison rule changes, our view was that no CBA was required because the changes would not lead to an increase in costs or the increase would be of minimal significance. Our position remains unchanged.

Equality and diversity statement

3.165 We continue to believe that the rules we have made will not have a negative impact on any of the groups with protected characteristics under the Equality Act 2010 and no concerns were raised during consultation.

Environmental, social and governance considerations

3.166 We have considered the environmental, social and governance implications of our proposals and our duty under sections 1B(5) and 3B(c) of FSMA to have regard to contributing towards the Secretary of State achieving compliance with the net zero emissions target under section 1 of the Climate Change Act 2008. Overall, we do not consider that the proposals are relevant to contributing to those targets.

Rule Review Framework

3.167 We have taken into account our duties under the Rule Review Framework and consider that these changes do not require ongoing monitoring.

CP2024/1: Financial Services Compensation Scheme (Management Expenses Levy Limit 2024/2025) Instrument 2024

Background

3.168 Under the Financial Services and Markets Act 2000 (FSMA), the FCA has certain oversight functions in relation to the Financial Services Compensation Scheme (FSCS). The FCA and the Prudential Regulation Authority (PRA) together must ensure that the FSCS can, at all times, exercise its statutory functions. The FSCS's statutory role is to provide compensation to eligible claimants with a

valid civil claim against authorised firms that are unable, or unlikely to be able, to satisfy such claims. FSMA sets out a framework to support this role.

3.169 The FCA and the PRA annually review and approve the FSCS's management expenses levy limit (MELL) following a joint consultation. The MELL is the maximum amount of management expenses the FSCS can levy on industry across the FCA and PRA funding classes to carry out its statutory role. The MELL is distinct from the compensation costs levy, which covers compensation paid to consumers and which is determined separately by the FSCS and not consulted on.

Summary of proposals

3.170 In CP24/1, the PRA and the FCA consulted on a proposed total MELL of £108.1 million for 2024/25. This includes a proposed operating (management expenses) budget of £103.1 million and an unlevied (contingency) reserve of £5 million, which is lower than the £10 million unlevied reserve in 2023/24. The proposed MELL will apply from 1 April 2024 to 31 March 2025. The proposed operating budget represents a 3% increase on 2023/24 (£99.8 million).

3.171 The FSCS's operating budget consists of 2 elements, namely:

- a specific costs element; and
- a base cost element.

3.172 Specific costs are costs that are directly attributable to funding classes, such as the Deposit-taking class, and include the costs of assessing and processing claims, achieving recoveries and making payments relating to each funding class, with allocations based on the level of costs attributable to that funding class. Base costs are the FSCS's general running costs and are split 50:50 between the FCA and PRA funding classes.

3.173 The FSCS's specific costs are budgeted to increase by 7% on 2023/24. Notable budget cost increases include in the Life Distribution and Investment Intermediation funding class where costs are budgeted to rise by 17%, from £30.3 million to £35.6 million.

3.174 The FSCS operating budget is also split across 3 categories, namely:

- controllable costs (or fixed running costs);
- volume and complexity costs (which are variable and directly impacted by firm failures, claims volumes, types of firm failures and mix of products); and
- investments (costs the FSCS seeks to incur to deliver its strategic ambition).

3.175 While the FSCS proposed to reduce its budgeted controllable and investment costs in 2024/25, the volume and complexity costs are proposed to increase by £8.7 million (or 26%) on the 2023/24 budget. The increase in the FSCS's costs in this area is driven by its 'Service Operating Environment' transition, moving away from its existing outsourcing operational model to a new model it refers to as 'hybrid by design'. The hybrid by design model will increase in-house delivery of claims processing as existing claims outsourcing contracts expire in 2024/25. The cost increase will cover recruitment and training of new in-house staff and contractor resources to deal with complex claims. Additional contractor costs would be incurred on a new outsource partner to deal with simpler claims.

3.176 The FSCS expects the hybrid by design model to result in long-term increased efficiencies, improved productivity and lower volume- and complexity-driven costs. The transition, however, will result in higher short-term costs and may affect productivity. The FSCS estimated that the transition will provide some cost efficiencies, such as reduced operational costs of around £5 million in 2025/26, as there will be no fixed costs payable to the new outsource partner.

How this links to our objectives

3.177 We consider that approving the MELL is compatible with our statutory objectives. The primary intention of placing a management expenses levy on authorised firms is to enable the FSCS to operate, which advances the FCA's objective of securing an appropriate degree of protection for consumers. Enabling the FSCS to operate also advances the FCA's objective to promote effective competition in the interests of consumers.

3.178 The FSCS's role to provide compensation to consumers of financial products when authorised firms are unable, or likely to be unable, to meet their obligations offers a safety net, protecting consumers. This leads to greater confidence in their dealings with financial services firms, benefitting all firms and leading to a stronger financial system. If the FSCS could not process claims because of financial constraints, consumer protection would be undermined.

3.179 We also consider the MELL to be compatible with the secondary international competitiveness and growth objective. Setting the MELL assists the FSCS with paying timely compensation in the event of firm failures, meeting its objective to provide a compensation scheme that is efficient, fair, approachable and responsive. This will help increase consumer confidence in authorised financial services where the FSCS applies, supporting international competitiveness and growth.

Feedback

3.180 The joint PRA and FCA consultation, led by the PRA this year, opened on 11 January 2024 and closed on 12 February 2024. Only 1 response was received to the consultation. The Building Societies Association was broadly supportive of the proposed MELL.

3.181 The respondent recognised that the proposed MELL is an increase on the 2023/24 budget but accepted that the cost increase will facilitate the transition to the FSCS's new operating model and felt that this would improve confidence in the FSCS's operational abilities. The respondent also welcomed the reduction in the unlevied reserve.

Our response

3.182 The response to the MELL consultation has not given us any reason to reconsider the proposed MELL for 2024/25. The response highlighted a separate issue about the way that levies are calculated but this did not affect the respondent's support for the MELL proposals themselves.

Cost benefit analysis

3.183 Section 138I(2)(a) of FSMA requires us to publish a cost benefit analysis (CBA) when proposing draft rules unless, in accordance with section 138L(3) of FSMA, we believe that there will be no increase in costs or that the increase will be of minimal significance. We consulted on the costs and benefits of our proposals in CP24/1. We do not believe that our proposed changes and clarifications will alter the costs and benefits for firms. The CBA in CP24/1 remains unchanged.

Equality and diversity statement

3.184 We continue to believe that the rules we have made will not have a negative impact on any of the groups with protected characteristics under the Equality Act 2010 and no concerns were raised during consultation.

Environmental, social and governance considerations

3.185 We have considered the environmental, social and governance implications of our proposals and our duty under sections 1B(5) and 3B(c) of FSMA to have regard to contributing towards the Secretary of State achieving compliance with the net zero emissions target under section 1 of the Climate Change Act 2008. Overall, we do not consider that the proposals are relevant to contributing to those targets.

Rule Review Framework

3.186 We have taken into account our duties under the Rule Review Framework and consider that these changes do not require ongoing monitoring.

CP23/14: Financial Promotions and High-Risk Investments (Incentives) Instrument 2024

Background

3.187 In PS22/10, we outlined a package of measures to strengthen our financial promotion rules for high-risk investments (HRIs) and firms approving financial promotions. As part of this package, we banned financial promotions for HRIs from offering any monetary or non-monetary benefits that aim to incentivise investment activity. This rule came into effect on 1 February 2023. It reflected

a similar ban that applies to the marketing and distribution of contracts for differences, which was introduced in 2019.

3.188 We introduced the ban on incentives as we were concerned that incentives can unduly influence consumers' investment decisions, causing them to invest without fully considering the risks involved. Schemes such as refer-a-friend bonuses often exploit powerful social and emotional drivers. Our consumer research has shown that these drivers can have a significant impact on investment decisions and lead to consumers investing without fully considering the risks involved.

3.189 Based on this rationale, we maintain the view that offering incentives to retail investors is inappropriate in the context of HRIs. However, feedback from firms suggested that the rules and accompanying Handbook guidance required additional clarification to prevent misunderstanding of the policy intention, and more clearly communicate the benefits to which the ban on incentives applies. In CP23/14, we consulted on changes to address these issues.

Summary of proposals

3.190 The proposals in Chapter 4 of CP23/14 amended the rules and guidance in COBS 4.12A and COBS 4.12B that relate to the ban on incentives to invest in HRIs. The amendments aimed to better reflect the intended scope of the policy.

3.191 Our proposed amendments clarified that the ban applies to any incentives offered to retail clients as part of a financial promotion relating to HRIs, even when there is no requirement to invest to gain the benefit. This would be the case regardless of the rationale for offering the incentive. We also stated that lower fees which are available to all retail clients and are not linked to the volume of trades would not constitute a banned incentive, but rebates on fees, including those based on volume, would be within scope.

3.192 We proposed to exempt from the ban incentives that are offered solely for the purpose of encouraging clients to switch platforms. This was to reflect that such offers are a typical and legitimate practice that could promote competition in the interests of consumers.

3.193 The amended wording of our Handbook guidance set out some of the factors that characterise an incentive falling within the scope of the ban. This was intended to help firms to better understand the application of the rule.

3.194 We consulted on the following relevant characteristics:

- A benefit that was completely separable from the investment offering was likely to be within scope of the ban.
- A benefit that was only available for a fixed time period was likely to be within scope of the ban.

- A benefit that was only available through certain channels was likely to be within scope of the ban.

3.195 We set out that the above factors could be used to indicate whether a benefit was an additional bonus being used to encourage an investment that may otherwise not be made, rather than a core part of the investment offering.

How this links to our objectives

3.196 The amendments advance our operational objectives of securing an appropriate degree of consumer protection and promoting effective competition in the interests of consumers. The proposed changes clarify the application of previously introduced rules, making it easier for firms to understand how to comply with their regulatory obligations and ensure consistent and proportionate levels of consumer protection. The proposals also clarify how firms can promote their services and compete to build a customer base while remaining compliant with their regulatory obligations.

3.197 The rule amendments reflect our obligations under our secondary international growth and competitiveness objective. Ensuring that consumers have access to high-quality financial promotions that support their decision making will give them greater confidence and trust in financial services providers. This will encourage investment in a way that supports sustainable economic growth.

Feedback

3.198 We received 6 responses to the proposals we outlined in Chapter 4 of CP23/14.

3.199 Most respondents did not give an opinion on our proposals for restructuring the formulation of the Handbook wording but generally sought additional clarity on the application of the rule in different scenarios.

3.200 Some respondents reiterated their disagreement with the ban on incentives in its entirety. They argued that because these restrictions apply only to promotions made under our rules, it would make unregulated firms and firms making promotions under an exemption from the Financial Promotions Order (FPO) appear comparatively more attractive. This would then lead to more consumers investing with firms operating outside our perimeter.

3.201 Respondents were positive about the carve out for switching offers and agreed with our assessment that it could promote competition in the interests of consumers.

3.202 Most respondents asked for clarification over the application of the rules to discounts on fees, prices or charging structures. Some respondents argued that price discounts should not fall within the scope of the rules.

3.203 Some respondents requested clarification on the terminology we used, including what was considered a benefit available ‘for a fixed period of time’.

3.204 One respondent queried the application of the rules to business-to-business (B2B) arrangements.

3.205 Some respondents queried the application of the rules to a firm when a promotion is not explicitly promoting investment in an HRI – for example, in the context of firms that offer:

- both HRIs and readily realisable securities;
- an incentive to sign up for a newsletter; or
- investments as a reward for non-investment activity.

Our response

3.206 We remain committed to the rules that ban financial promotions from offering incentives to invest in HRIs for the reasons outlined in CP22/2, PS22/10 and CP23/14. Incentives typically unduly influence consumers' investment decisions and can cause them to invest without fully considering the risks involved. We want to prevent the exploitation of emotional and social drivers to invest, which our consumer research has shown can have a significant impact on decision making. We do not believe that a firm's justification for offering an incentive is relevant to the impact it can have on consumers' decision making.

3.207 We also do not believe that consumers are likely to be attracted outside the perimeter by our financial promotion rules for HRIs. These rules, including the ban on incentives, are designed to ensure that consumers fully understand and appreciate the risks of the decisions they are making, not to discourage them from investing where that is right for their circumstances. This ensures that consumers can make well-informed decisions that are in line with their risk appetite. We do not think that firms will be encouraged to promote under an FPO exemption because of our proposals, as persons relying on an FPO exemption for their financial promotions must continue to comply with the relevant requirements set out under the legislation to do so.

3.208 We are moving forward with the general approach and the exemption for platform switching offers in line with the feedback received. This exemption applies only where the exclusive purpose of the financial promotion is to incite consumers to transfer their custody of an existing holding of a restricted mass market investment. Firms cannot also incite consumers to engage in further investment activity as part of these promotions.

3.209 We agree with respondents' concerns over how the rules could apply to price and fee discounts, and how this could apply inconsistently to different product types. We do not want to stop firms competing on price or disproportionately limit competition based on different fee models. We have therefore amended the rules to clarify that all fee and charge discounts or rebates are out of scope, where these discounts are made available to all retail clients and are

not based on the volume of trades made. We still believe that it is inappropriate to incentivise consumers to trade excessively; therefore, benefits based on the volume of trades made remain within scope of the incentives ban.

3.210 We want to clarify that a benefit which is offered ahead of a fund's first closing, or another comparable milestone for an investment product, would not be considered available 'for a fixed period of time'. It may still be considered an incentive, depending on the exact circumstances of the offering.

3.211 The rules in COBS 4.12A and COBS 4.12B do not apply to B2B arrangements. We have amended the wording of COBS 4.12A.9A and COBS 4.12B.19A to clarify that we are not preventing intermediaries or distributors from negotiating a more favourable rate for their clients.

3.212 The rules in COBS 4.12A and COBS 4.12B apply only when a financial promotion relates to a restricted mass market investment or non-mass market investment, respectively. Firms should individually consider whether their offerings or marketing are captured by these rules.

Cost benefit analysis

3.213 Section 138I(2)(a) of FSMA requires us to publish a cost benefit analysis (CBA) when proposing draft rules unless, in accordance with section 138L(3) of FSMA, we believe that there will be no increase in costs or that the increase will be of minimal significance. In CP23/14, we explained our view that no CBA was required for our proposals because the amendments would not lead to an increase in costs or the increase would be of minimal significance. We also stated that the findings of the CBA outlined in CP22/2 and PS22/10 remain unchanged and continue to be applicable. Our position remains unchanged.

Equality and diversity statement

3.214 We continue to believe that the rules we have made will not have a negative impact on any of the groups with protected characteristics under the Equality Act 2010 and no concerns were raised during consultation.

Environmental, social and governance considerations

3.215 We have considered the environmental, social and governance implications of our proposals and our duty under sections 1B(5) and 3B(c) of FSMA to have regard to contributing towards the Secretary of State achieving compliance with the net zero emissions target under section 1 of the Climate Change Act 2008. Overall, we do not consider that the proposals are relevant to contributing to those targets.

Rule Review Framework

3.216 We have taken into account our duties under the Rule Review Framework and consider that these changes do not require ongoing monitoring, as they are minor changes to existing Handbook requirements.

CP23/25: Investment Firms Prudential Regime (Amendment) Instrument 2024

Background

3.217 The Investment Firms Prudential Regime (IFPR) came into force on 1 January 2022. This created the Prudential sourcebook for MiFID investment Firms (MIFIDPRU), which applies to all FCA investment firms.

3.218 In CP23/25, we proposed some amendments to MIFIDPRU 1 (Application), MIFIDPRU 4 (Own funds requirements), MIFIDPRU 7 (Governance and risk management) and MIFIDPRU 8 (Disclosure) to further clarify the relevant requirements.

3.219 The Interim Prudential sourcebook for Investment Businesses (IPRU-INV) covers the prudential requirements for various types of non-MiFID investment firms. IPRU-INV 1 (Application and General Provisions) sets out the scope of application of, and defines the firms subject to, the IPRU-INV regime.

3.220 We proposed minor amendments to IPRU-INV 1.2 to remove some references that we have identified as no longer relevant.

Summary of proposals

Changes to MIFIDPRU

3.221 In CP23/25, we proposed to amend MIFIDPRU 1.2.1R(5), which defines the conditions of MIFIDPRU categorisation, to explicitly state that a small and non-interconnected (SNI) firm is one which does not have permission to deal on own account and cannot undertake the underwriting of financial instruments or place them on a firm commitment basis. This was to align the text with the original policy intent.

3.222 We then proposed to amend MIFIDPRU 4.14.20R(2)(b), regarding K-TCD, and the calculation of the effective notational amount for equity and commodity derivatives contracts and emissions allowances, and derivatives. The calculation should use the market price of 1 unit of the underlying instrument. Therefore, we are proposing to add the word 'underlying' before the word 'instrument' in the text to provide greater clarity for firms with regard to how to perform this calculation.

3.223 We proposed to amend MIFIDPRU 7.9.9G, regarding the group internal capital and risk assessment (ICARA) process, to clarify that the effect of any intra-group offsets should be removed when allocating requirements to individual MIFIDPRU firms under a group ICARA process. We also proposed to move existing wording in MIFIDPRU 7.9.9G(3) to the proposed new paragraphs MIFIDPRU 7.9.9G(3B) and (3C) in the same provision. This will make the text clearer.

3.224 Finally, we proposed to add a note to the template in MIFIDPRU 8 Annex 1R (Disclosure template for information required under MIFIDPRU 8.4.1R in

respect of own funds). This will explain that MIFIDPRU investment firms which are partnerships or limited liability partnerships should adjust the template's content as relevant to the type of legal entity and its corresponding accounts.

Changes to IPRU-INV

3.225 We proposed to amend IPRU-INV 1.2.2R(1)(i) to remove the reference to a credit union which is a child trust fund (CTF) provider from the list of firms to which the regime applies. This is to ensure that the Handbook text correctly reflects the application of that sourcebook as these entities have been prudentially regulated by the Prudential Regulation Authority since 1 April 2013. We also proposed to remove the bottom row from the table at IPRU-INV 1.2.5R, which refers to a credit union that is a CTF provider.

How this links to our objectives

3.226 We are satisfied that the proposed amendments are compatible with our objectives and regulatory principles. As set out in CP23/25, the amendments advance our operational objectives of securing an appropriate degree of consumer protection and promoting effective competition in the interests of consumers. They are also compatible with the FCA's secondary international competitiveness and growth objective. The proposed changes provide clarity as to the intention of our rules and will help firms to understand the requirements that apply to them. As a consequence, we expect that firms would be able to implement the relevant requirements adequately. We are satisfied that any burdens or restrictions are proportionate to the expected benefits.

Feedback

3.227 We received no feedback regarding our proposed amendments.

Our response

3.228 As we received no feedback regarding our proposed amendments, we are making the changes as consulted.

Materiality

3.229 This section applies in relation to the changes to our rules and guidance made under Part 9C of the Financial Services and Markets Act 2000 (FSMA) which were consulted on in CP23/25. It does not apply to those rules and guidance that have been made under our general FSMA rule making power, which include the amendments to IPRU-INV 1.2.2R and IPRU-INV 1.2.5R.

3.230 In our opinion, the proposed changes to our existing rules and guidance listed under the heading 'Summary of our proposals' are not material under sections:

- 143G(1) of FSMA – because we consider that they do not affect standards set by an international body or the relative standing of the UK as a place for internationally active investment firms to be based or to carry on activities, and are not relevant to the carbon target in section 1 of the Climate Change Act 2008; and

- 143I(3) and (5) of FSMA – because they do not affect relevant equivalence decisions.

3.231 More generally, we do not consider that they materially change any risks to consumers, the market or the UK financial system arising from FCA investment firms. We also consider that the rationale set out in paragraphs 6.20 to 6.24 of CP23/25 as to why these changes are not material continues to apply to the finalised amendments.

Cost benefit analysis

3.232 Section 138I(2)(a) of FSMA requires us to publish a cost benefit analysis (CBA) when proposing draft rules. However, section 138L of FSMA states that we do not need to provide a CBA where we consider that there will be no increase in costs, or the increases will be of minimal significance.

3.233 We consulted on the costs and benefits of the IFPR in CP21/26. We do not believe that our proposed changes and clarifications will alter the costs and benefits of the IFPR for firms. The cost benefit analysis in CP21/26 remains unchanged and applies to these amendments.

Equality and diversity statement

3.234 We continue to believe that the rules we have made will not have a negative impact on any of the groups with protected characteristics under the Equality Act 2010 and no concerns were raised during consultation.

Environmental, social and governance considerations

3.235 We have considered the environmental, social and governance implications of our proposals and our duty under sections 1B(5) and 3B(c) of FSMA to have regard to contributing towards the Secretary of State achieving compliance with the net zero emissions target under section 1 of the Climate Change Act 2008. Overall, we do not consider that the proposals are relevant to contributing to those targets.

Rule Review Framework

3.236 We have taken into account our duties under the Rule Review Framework and consider that these changes do not require ongoing monitoring.

4 Additional information

Making corrections

4.1 The FCA reserves the right to make correctional or clarificatory amendments to the instruments made at the Board meeting without further consultation should this prove necessary or desirable.

Publication of Handbook material

4.2 This notice is published on the FCA website and is available in hardcopy.

4.3 The formal legal instruments (which contain details of the changes) can be found on the FCA's website listed by date, reference number or module at www.handbook.fca.org.uk/instrument. The definitive version of the Handbook at any time is the version contained in the legal instruments.

4.4 The changes to the Handbook are incorporated in the consolidated Handbook text on the website as soon as practicable after the legal instruments are published.

4.5 The consolidated text of the Handbook can be found on the FCA's website at www.handbook.fca.org.uk/. A print version of the Handbook is available from The Stationery Office's shop at www.tsoshop.co.uk/Financial-Conduct-Authority-FCA/.

4.6 Copies of the FCA's consultation papers referred to in this notice are available on the FCA's website.

Obligation to publish feedback

4.7 This notice, and the feedback to which paragraph 1.4 refers, fulfil for the relevant text made by the Board the obligations in sections 138I(4) and (5) and similar sections of the Financial Services and Markets Act 2000 ('the Act'). These obligations are: to publish an account of representations received in response to consultation and the FCA's response to them; and to publish (where applicable) details of any significant differences between the provisions consulted on and the provisions made by the Board, with a cost benefit analysis and a statement under section 138K(4) of the Act if a proposed altered rule applies to authorised persons which include mutual societies.

Comments

4.8 We always welcome feedback on the way we present information in the Handbook Notice. If you have any suggestions, they should be sent to handbook.feedback@fca.org.uk (or see contact details at the end of this notice).

Annex

List of non-confidential respondents

We are required by section 138I(4A) of the Act to include a list of the names of respondents to rules consultations where the respondent has consented to the publication of their name. This annex lists the names of consenting respondents for consultations where those names are not otherwise listed in a separate consultation response document.

CP23/33: Data Reporting Services Forms (Amendment) Instrument 2024

Association for Financial Markets in Europe (AFME)*

The APA and ARM Association (APARMA)

Data Boiler

Ediphy

Electronic Debt Markets Association (EDMA)

eTrading Software

Euronext Group

European Venues & Intermediaries Association (EVIA)

Finbourne

The Investment Association (IA)*

International Capital Markets Association (ICMA)

Information Providers User Group (IPUG)

London Stock Exchange Group (LSEG)

MFA

NBIM

Oktris

UK Finance*

*AFME, the IA and UK Finance made a joint submission to CP23/33, as well as each making individual submissions.

CP23/22: Periodic Fees (2024/2025) and Other Fees Instrument 2024

Association of Mortgage Intermediaries (AMI)

Aster Group

Aviva

Consumer Credit Trade Association (CCTA)

Credit Services Association (CSA)

Holiday Extras

Lloyd's Market Association (LMA)

CP23/25: Credit Unions Sourcebook Instrument 2024

Association of British Credit Unions

Capital Credit Union

CP24/1: Financial Services Compensation Scheme (Management Expenses Levy Limit 2024/2025) Instrument 2024

The Building Societies Association (BSA)

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This Handbook Notice describes the changes to the Handbook and other material made by the FCA's Executive Regulation and Policy Committee and the FCA Board under their legislative and other statutory powers on 4 March 2024 and 28 March 2024, respectively.

It also may contain information about other publications relating to the Handbook and, if appropriate, lists minor corrections made to previous instruments made by the Board.

Contact names for the individual modules are listed in the relevant consultation papers and policy statements referred to in this notice.

General comments and queries on the Handbook can be addressed to:

Mary McGowan
Tel: 02070661321
Email: Mary.McGowan@fca.org.uk

However, queries on specific requirements in the Handbook should be addressed first to your normal supervisory contact in the FCA. For most firms this will be the FCA's Contact Centre:

Tel: 0300 500 0597
Fax: 0207 066 0991
Email: firm.queries@fca.org.uk
Post: Contact Centre
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

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