

# PS13/4

Financial Services Authority

## FSCS funding model review

feedback on CP13/1

March 2013



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This Policy Statement reports on the main issues arising from Consultation Paper 13/1 (*FSCS Funding Model Review – feedback on CP12/16 and further consultation*) and publishes final rules.

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# Abbreviations used in this paper

<b>CBA</b>	Cost benefit analysis
<b>FCA</b>	Financial Conduct Authority
<b>FSCS</b>	Financial Services Compensation Scheme
<b>MELL</b>	Management expenses levy limit
<b>PRA</b>	Prudential Regulation Authority



# 1

## Overview

- 1.1** The Financial Services Compensation Scheme (FSCS) is the UK's statutory compensation fund for customers of authorised financial services firms. This means that it will pay compensation to eligible customers of a financial services firm that is unable, or likely to be unable, to pay claims against it. The FSCS is funded by two types of industry levy: a compensation costs levy and a management expenses levy.<sup>1</sup> The compensation costs levy raises money to pay consumer claims.
- 1.2** Compensation costs are allocated to groups of firms (referred to as 'FSCS funding classes' or 'classes') that have permission to undertake similar regulated activities. In July 2012 we published the conclusions of our review of the funding arrangements of the FSCS (CP12/16<sup>2</sup>). These included proposals for when compensation costs exceed a class' maximum affordable level ('annual threshold').
- 1.3** We proposed:
- Two separate approaches for funding compensation costs in excess of FSCS annual class thresholds: one for the Prudential Regulation Authority (PRA) FSCS funding classes and one for the Financial Conduct Authority (FCA) FSCS funding classes, with no funding support between the two.<sup>3</sup>
  - A retail pool in which FCA classes would participate. Pay-outs from this pool would be triggered only if one or more FCA classes reached their annual threshold.
- 1.4** In January 2013, we confirmed most of the rules proposed in CP 12/16 but in response to feedback from industry, we re-consulted on one element (CP13/1<sup>4</sup>). We proposed that, in addition to the five FCA FSCS funding classes already included in the FCA pool by

1 The FSCS management expenses levy is made up of a base costs element (which relates to the general costs of the FSCS) and a specific costs element (which, from 1 April 2013, will comprise costs attributable to a class).

2 CP12/16 FSCS Funding Model Review (July 2012): [www.fsa.gov.uk/static/pubs/cp/cp12-16.pdf](http://www.fsa.gov.uk/static/pubs/cp/cp12-16.pdf)

3 From 1 April 2013, the two regulators will decide how the FSCS will be funded, but the PRA and FCA will each have distinct rule-making responsibilities: the PRA for claims for deposits and under insurance contracts (i.e. insurance claims following the failure of an insurer), and the FCA for all other claims (including claims in the investment sector and those related to regulated mediation activities including insurance).

4 CP13/1: FSCS Funding Model Review – feedback on CP12/16 and further consultation: [www.fsa.gov.uk/static/pubs/cp/cp13-01.pdf](http://www.fsa.gov.uk/static/pubs/cp/cp13-01.pdf)

CP12/16, all FCA-regulated deposit takers, general insurers, life insurers and home finance providers should also contribute to the pool when it is triggered by costs<sup>5</sup> arising from the intermediation classes.

## What do we cover in this paper?

- 1.5** We received 24 responses to CP13/1 and are grateful for the industry's input to this latest element of the FSCS Funding Model Review consultation process.
- 1.6** In this paper we summarise the feedback to the consultation question in CP13/1 and our response to the key themes that emerged. We do not respond to comments received in relation to rules confirmed and made in CP13/1.
- 1.7** This paper confirms:
- we will proceed as outlined in CP13/1; and
  - the final rules for the FCA Retail Pool.
- 1.8** The made Handbook text (Appendix 1) does not differ significantly from that consulted on in CP13/1, other than a small number of drafting amendments to ensure the rules adequately and unambiguously reflect the intended policy aim and purpose. The rules on the FCA pool apply to firms that are FCA-regulated (which may include firms that are dual-regulated by the FCA and PRA). The rules are therefore set out in FCA rules only. This means that the FSCS funding rules will be different for the FCA and PRA from 1 April 2013, as explained in Appendix 2.<sup>6</sup> The PRA may make some minor amendments to its rules after legal cutover, but these will be to ensure consistency and not reflect any FCA policy changes.
- 1.9** We continue to consider that the made Handbook text does not influence behaviour or create barriers to equality of opportunity because FSCS fees are based on objective measures that aim to ensure proportionate levies. Furthermore, consumers are not directly affected by the changes because, in improving the funding arrangements for the FSCS, we intend that consumers' access to, and experience of, the FSCS should not be reduced.

## Who should read this document?

- 1.10** This document will interest all firms regulated by the FSA, and the FCA after 1 April 2013, whether current or potential contributors to FSCS compensation costs levies and/or annual

<sup>5</sup> These can be compensation and/or specific costs.

<sup>6</sup> The rules were made by the persons appointed under Article 5 of the Financial Services Act 2012 (Transitional Provisions) (Rules and Miscellaneous Provisions) Order 2013 (SI 2013/161) to discharge specified functions of the Financial Conduct Authority as if they were its governing body.



management expenses levies (i.e. this may include some firms that are currently exempt from these levies).

## CONSUMERS

This document may interest consumers or consumer groups as it confirms rules that relate to the funding of the FSCS. The FSCS is a key source of protection for consumers as it can provide compensation to customers of authorised financial services firms that are unable to meet claims.

For further information see [www.fscs.org.uk](http://www.fscs.org.uk).

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# 2

## Spreading costs

- 2.1** In CP12/16 we considered how costs in excess of funding class thresholds should be spread. We explained the differences between the nature of funding needs in the PRA FSCS funding classes<sup>7</sup> and the FCA FSCS funding classes.<sup>8</sup> In light of these differences, we proposed:
- Two separate approaches for funding compensation costs in excess of FSCS annual class thresholds: one for the PRA FSCS funding classes and one for the FCA FSCS funding classes with no funding support between the two.<sup>9</sup>
  - A retail pool in which the future FCA FSCS funding classes<sup>10</sup> would participate. Pay-outs from this pool would be triggered only if one or more FCA classes reached their annual threshold.
- 2.2** After considering the feedback from industry, CP13/1 confirmed our commitment to the CP12/16 proposal, subject to a revision in the operation of the FCA retail pool if it is triggered by claims arising in the intermediation classes.
- 2.3** On the basis that all firms subject to FCA regulation will have a mutual financial interest in maintaining the confidence of consumers who use the markets in which they operate, we proposed that, in addition to the five FCA FSCS funding classes already included in the FCA pool by CP12/16, all FCA-regulated deposit takers, general insurers, life insurers and home finance providers should also contribute to the pool if any of the thresholds of the FCA intermediation classes are reached.

<sup>7</sup> In the PRA classes, claims arise directly as a consequence of the financial failure of a firm and, owing to the nature and profile of claims that arise, can typically be funded within the threshold limits. Though the funding need could be significant, the frequency of such large scale requirements is likely to be low. CP12/16, Chapter 4, paragraphs 4.9-4.10

<sup>8</sup> Funding needs are more volatile in the FCA classes. Not only are firm failures more frequent (though generally less material), claims values and volumes are unpredictable because they do not automatically arise from the firm's financial failure, but from their actions towards claimants. Frequent threshold breaches are not expected but remain a possibility. CP12/16 Chapter 4, paragraphs 4.17-4.20.

<sup>9</sup> From 1 April 2013, the two regulators will decide how the FSCS will be funded, but the PRA and FCA will each have distinct rule-making responsibilities: the PRA for claims for deposits and under insurance contracts (i.e. insurance claims following the failure of an insurer) and the FCA for all other claims (including claims in the investment sector and those related to regulated mediation activities including insurance).

<sup>10</sup> The FCA FSCS funding classes are: General Insurance Intermediation, Life & Pensions Intermediation, Investment Intermediation Home Finance Intermediation and Investment Provision (formerly Investment Fund Management).

- 2.4** We explained that contributions would not be made from the PRA FSCS funding classes, rather from four FCA provider contribution classes, established under FCA rules specifically for the purposes of providing support to the pool. The classes would be based on the composition of the corresponding FCA regulatory fee-blocks (so including the firms that participate in the PRA funding classes).
- 2.5** Such a contribution would be appropriate recognition for the benefits that providers get from the intermediary sector and the role that providers' activities can sometimes play in the conduct-related claims that arise in the intermediation classes. But we were also mindful to ensure that the costs would not be disproportionate or unaffordable.
- 2.6** We proposed that FCA regulatory fees<sup>11</sup> should be the basis for determining the contributions and thresholds levels. We recognised that it was possible for deposit takers and insurance providers to hit the annual threshold in their corresponding PRA FSCS funding class in the same year as they are being asked to contribute to the retail pool and explained that we would try to prevent this in most circumstances.<sup>12</sup>
- 2.7** While this change to the CP12/16 model fell within the scope of the early consultation, we gave stakeholders one month to comment on the detail, in order for the new funding model to be in place from 1 April 2013.

- 2.8** We asked:

**Q1:** Do you have any comments on our proposal?

- 2.9** Responses were mixed and reflected the different ways in which the CP12/16 model (as revised by CP13/1) affects different sectors.
- 2.10** The most significant pushback was from respondents who would be required to participate in the FCA provider contribution classes who were disappointed by our departure from the model proposed in CP12/16. They consider it unreasonable that they should be required to contribute to costs generated by firms with which they believe they have no affinity. Furthermore, because they are unable to influence the behaviour of intermediaries that do not operate in their sector, they argue that the CP13/1 revision distorts providers' risk management incentives and responsibilities regarding those intermediaries that they use to distribute their products.
- 2.11** Some suggested it would be fairer to restrict funding support requirements to classes of closer affinity. But, the preferred option amongst these respondents was that costs above the intermediation class thresholds should be spread over time rather than amongst firms.

11 As FCA regulation is the basis on which firms are included in the classes, FCA fees are more appropriate than the tariff measure for the corresponding PRA FSCS funding class as the level of contribution does not depend on the level of claims in the PRA FSCS funding class.

12 The CP set out one possible scenario where this could happen (CP13/1, Chapter 3, paragraph 3.23).

- 2.12** Two main suggestions were proposed by respondents:
- replacing the presumption of levying in the FSCS funding hierarchy with a presumption in favour of commercial borrowing; and
  - allowing for pool contributions to be ‘clawed back’ from the receiving classes in ‘non-distressed’ years.
- 2.13** These respondents expressed concerns about the financial impact of the potential liabilities introduced under CP13/1, in terms of possible quantum, frequency and difficulties provisioning for contingent liabilities.
- 2.14** The level of contribution was thought too high by some of these respondents but some other respondents thought the opposite. Although broadly supportive of the CP13/1 revisions, some asserted that the contribution levels were too low to:
- benefit the pool; and/or
  - adequately recognise providers’ responsibilities regarding the products they manufacture and the means by which they are distributed.
- 2.15** A small number of respondents continued to query the asymmetrical approaches for spreading costs in the PRA FSCS funding classes and the FCA FSCS funding classes. One respondent from the investment provision community commented that it is exposed to a greater share of any pool contribution than the FCA provider contributor classes (because its contribution to the pool is determined by the tariff base and threshold for the FCA FSCS Investment Provision funding class, rather than FCA regulatory fees). Other responses called for all classes to be standalone, not just the PRA classes.
- 2.16** Three respondents raised concerns that the consultation period of one month was inadequate for a revision of this nature.

### Our response

Ensuring compensation costs are met by the class in which they arise, to the extent that it is affordable, is central to the design of the funding model. The FSCS must, however, be able to pay compensation to consumers even when the costs exceed the affordability thresholds.

Throughout the review, we have acknowledged the potential downsides inherent in requiring firms to provide mutual support. But CP12/16 and CP13/1 make clear why, in respect of the FCA FSCS funding classes, ensuring the FSCS’ ability to fund eligible compensation claims takes precedence over restricting potentially unsustainable costs to a single class.

During the lifecycle of the review, we have considered several options for funding these costs. Making adequate funding arrangements for the FSCS ultimately leads to balancing potentially competing demands and there is no one or perfect solution.

We acknowledge the strength of feeling in the responses we received, but we were not persuaded that the proposed model does not strike a reasonable balance between extending the funding capacity of the scheme while ensuring that no sector is threatened by potentially unaffordable levies.

We consider this model is the most appropriate, proportionate and affordable funding solution we have been able to identify, for the reasons we have already explained in CP12/16 and CP13/1. The responses to CP13/1 do not raise any new considerations that we have not already addressed in those papers.

### **The concepts of affinity and affordability**

In both the current model and the CP12/16 model (as revised by CP13/1), funding support (from firms that do not share the affinity of activity that applies to the class in which the claims arise) is justified on the principle of mutual financial interest: recognition of the common benefit to the regulated community of FSCS' contribution to consumer confidence and financial stability.

The proposed rules seek to ensure that a call from the pool, if triggered, is minimised for those firms that consider they have no connection with the firm giving rise to the claims.

This is achieved in a number of ways:

- The maximum exposure of the FCA retail pool<sup>13</sup> is significantly less than under existing rules.
- The costs are spread more widely: firms that pay FCA fees<sup>14</sup> will also be members of the corresponding FCA provider contribution classes so they will be called upon to contribute to the pool irrespective of whether they can give rise to claims on the FSCS.<sup>15</sup> This approach mirrors the approach on which base costs are levied against these firms.
- Using FCA fees as the basis for contribution ensures that the cost of non-reciprocal support is reasonable and affordable.

Two respondents reached directly opposing interpretations of the maximum potential exposure for the FCA provider contribution classes. We have therefore amended the final Handbook rules to make clear and explicit that (other than in the circumstance we highlighted in CP13/1<sup>16</sup>), the maximum amount that any single 'class' of firms can be called upon to contribute to compensation

13 For members of the FCA provider contribution classes that currently participate in the classes that will become PRA FSCS funding classes.

14 In the activity groups that will be 'A.1: Deposit acceptors', 'A.2: Home finance providers and administrators', 'A.3: Insurers – general' or 'A.4: Insurers – life' with effect from 1 April 2013.

15 This determines if they can claim an exemption from specific and compensation costs allocated to their corresponding FSCS funding class.

16 CP13/1, paragraph 3.23

costs (arising in their own FSCS funding class, from the pool or in aggregate) is the annual affordability threshold<sup>17</sup> for that (or, in the case of FCA provider contributors, the corresponding) FSCS funding class.

The costs for firms were taken into account in the cost benefit analysis of each paper, in as far as they were possible to estimate. They set out examples of what the potential cost impacts of their proposed models might be, but this was purely for illustrative purposes. Costs to firms would only ever arise if the pool is triggered. The impact on each class (or firm within the class) would then depend on the size of the pool contribution required and the composition and the size of the class required to contribute but will be capped at the relevant annual threshold for the class(es).

One respondent claimed that CP13/1 lacked a detailed comparison with CP12/16. The cost benefit analysis in CP13/1 compared the proposal with the rules that are currently in place, as per the requirement under the Financial Services and Markets Act, as amended by the Financial Services Act 2012. In addition, using their respective proposed models, both CP12/16 and CP13/1 specifically included an example of levy allocation in the same event of a £500m levy arising in the FCA FSCS investment intermediation funding class, so that firms could more easily appreciate the effect of the revised approach.

### **Spreading costs over time**

We do not consider that spreading costs over time is a sustainable or secure long-term funding source for the FCA FSCS funding classes. It could exacerbate the volatility and sustainability issues for the classes affected.

Furthermore, the FSCS's borrowing facilities are a matter for negotiation between independent commercial entities, and Chapter 5 of CP13/1 outlined some of the practical limitations associated with borrowing and the 'clawing back' of pool contributions.

### **The consultation period**

It is implicit in any consultation that some, or all, of the rule changes consulted on may not be made, or may be made in a modified form. We chose to extend the consultation to offer stakeholders the opportunity to comment on a revision that was the direct outcome of the original three-month consultation. We recognise the period was short, but we sought to engage key stakeholders in advance and a longer time scale would have jeopardised the legal certainty and operational readiness needed by 1 April 2013.

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<sup>17</sup> As confirmed by CP13/1, the class thresholds will be amended from 1 April 2013 to achieve a better balance between the funding needs for each class and affordability for the firms within them.

## Annex 1

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# List of non-confidential respondents

AEGON UK

Association for Financial Markets in Europe

Association of British Credit Unions Ltd

Association of British Insurers

Association of Mortgage Intermediaries

Association of Professional Financial Advisors

Aviva

British Bankers' Association

British Insurance Brokers' Association

Council of Mortgage Lenders

IG Group

International Underwriting Association

Investment Management Association

Killik & Co

Legal and General Group Plc

Lloyd's

Lloyd's Market Association

Prudential

RSA Insurance Group Plc

Sabre Insurance Company Limited

St James's Place Wealth Management

The Association of Private Client Investment Managers and Stockbrokers

The Building Societies Association

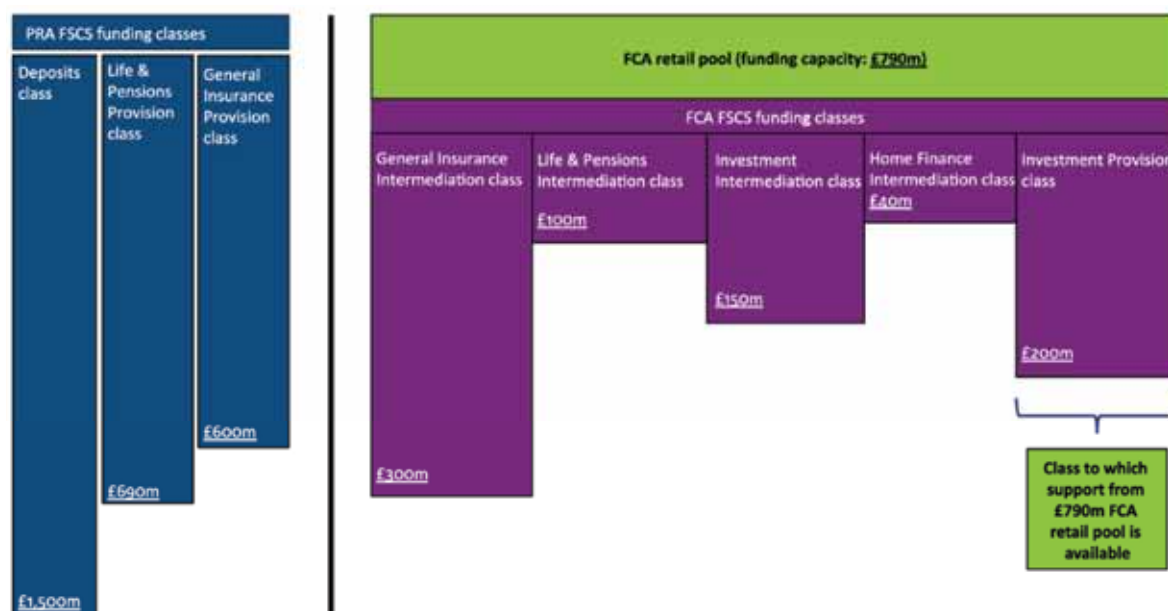


## Annex 2

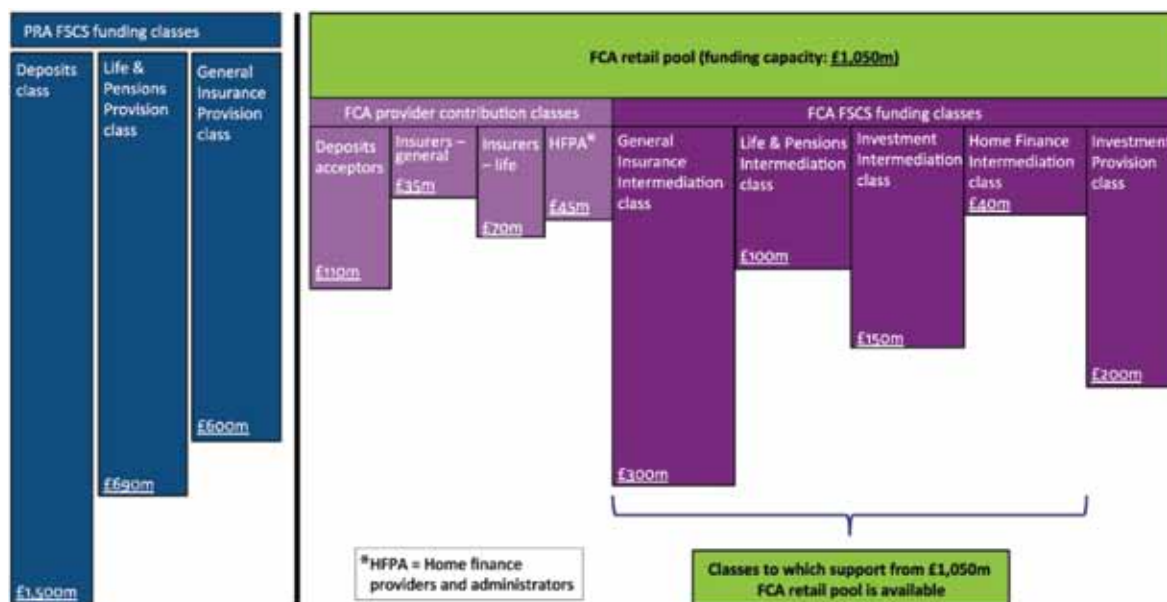
# FCA retail pool

- Chart 1 reflects the proposal set out in CP12/16. It shows the composition of the FCA retail pool if compensation costs exceed the Investment Provision class threshold. Chart 2 shows the revision to the pool in Chart 1 that would apply if a class threshold in one or more of the FCA Intermediation classes is breached.

**Chart 1: FCA retail pool – for compensation costs exceeding the Investment Provision class threshold only**



**Chart 2: Revised FCA retail pool – for compensation costs exceeding an FCA Intermediaries class threshold**



## Appendix 1

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# Made rules (legal instrument)

**FINANCIAL SERVICES COMPENSATION SCHEME (FUNDING REVIEW:  
RETAIL POOL) INSTRUMENT 2013**

**WHEREAS:**

- A. The Financial Services Authority has, in accordance with Article 5 of the Designation Order, appointed persons to exercise functions referred to in Article 5(1) of the Designation Order, which include the function of the Financial Conduct Authority of making rules, giving guidance and issuing codes.
- B. By virtue of Article 5(3)(a) of the Designation Order the persons appointed may discharge the relevant functions as if they were the governing body of the Financial Conduct Authority.
- C. By virtue of Article 7(1) of the Designation Order this Instrument shall be treated as if it had been made by the Financial Conduct Authority acting through its governing body.
- D. Article 2(1)(c) of the Early Commencement Order commenced certain of the Financial Conduct Authority's rule making and other powers for the purposes specified in Part 3 of the Schedule to that Order.

**Interpretation**

- 1. In this Instrument (including the Recitals):
  - (1) "Designation Order" means the Financial Services Act 2012 (Transitional Provisions) (Rules and Miscellaneous Provisions) Order 2013 (SI 2013/161);
  - (2) "Early Commencement Order" means the Financial Services Act 2012 (Commencement No. 1) Order 2013 (SI 2013/113);
  - (3) "the 2000 Act" means the Financial Services and Markets Act 2000;
  - (4) "the 2012 Act" means the Financial Services Act 2012;
  - (5) "the Authority" means the Financial Services Authority; and
  - (6) "Financial Conduct Authority" means the body corporate referred to in section 1A of the 2000 Act as amended by section 6 of the 2012 Act.

**Rules, etc. made, given or amended by the Financial Conduct Authority**

- 2. In accordance with Article 2(1) of the Early Commencement Order and in the exercise of the powers and related provisions specified in paragraph 3, the Financial Conduct Authority makes, amends, issues, gives, or imposes each provision in the Annexes to this Instrument.

3. The Glossary of definitions is amended in accordance with Annex A to this Instrument.
4. The Fees manual (FEES) is amended in accordance with Annex B to this Instrument.
5. In Annex B to this Instrument, the “notes” (indicated by “**Note:**”) are included for the convenience of readers but do not form part of the legislative text.
6. The Financial Conduct Authority makes, amends, issues, gives or imposes the provisions in the Annexes to this Instrument in exercise of the following powers and related provisions of the 2000 Act, as amended by the 2012 Act:
  - (1) section 137T (General supplementary powers);
  - (2) section 139A (Power of the FCA to give guidance);
  - (3) section 213 (The compensation scheme); and
  - (4) section 214 (General).
7. The rule-making powers listed in paragraph 6 are specified for the purposes of section 138G (Rule-making instruments) of the 2000 Act, as amended by the 2012 Act.

### **Commencement**

8. The Financial Conduct Authority directs that this Instrument comes into force on 1 April 2013.

### **Citation**

9. This Instrument may be cited as the Financial Services Compensation Scheme (Funding Review: Retail Pool) Instrument 2013.

**By order of the persons appointed under Article 5 of the Designation Order to discharge specified functions of the Financial Conduct Authority as if they were its governing body**

19 March 2013

## Annex A

### Amendments to the Glossary of definitions

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

Insert the following new definition in the appropriate alphabetical position. The text is not underlined.

<i>FCA provider contribution class</i> [FCA]	<i>a class to which the FSCS may only allocate a compensation costs levy or specific costs levy allocated to the retail pool, as described in FEES 6.5A, namely: the deposit acceptor's contribution class; the insurers - life contribution class; the insurers - general contribution class; or the home finance providers and administrators' contribution class.</i>
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Amend the following as shown.

*class*

**(A) In the FCA Handbook:**

(1) (in GENPRU, INSPRU and SUP) (in relation to a contract of insurance) any class of contract of insurance listed in Schedule 1 to the Regulated Activities Order (Contracts of insurance) and references to:

(a) general insurance business class 1, 2 3, etc. are references to contracts of insurance of the kind mentioned in the corresponding numbered paragraph in Part I of Schedule 1 to that Order or, as the context may require, to the effecting or carrying out of contracts of insurance of that kind; and

(b) long-term insurance business class I, II, III, etc. are references to contracts of insurance of the kind mentioned in the corresponding numbered paragraph in Part II of Schedule 1 to that Order, as the context may require, to the effecting or carrying out of contracts of insurance of that kind.

(2) (in COLL):

(a) a particular class of units of an authorised fund; or

(b) all of the units relating to a single sub-fund; or

- (c) a particular class of *units* relating to a single *sub-fund*; or
- (d) in relation to an *EEA UCITS scheme*, any arrangement equivalent to (a), (b) or (c).
- (3) (in *COBS*) a particular category or type of *packaged product*.
- (4) (in *LR*) *securities* the rights attaching to which are or will be identical and which form a single issue or issues.
- (5) (in *FEES*) one of the broad classes to which *FSCS* allocates levies as described in *FEES* 6.4.7AR, *FEES* 6.5.6AR and *FEES* 6 Annex 3AR.

**(B) In the PRA Handbook:**

- (1) ...
- (2) ...
- (3) ...
- (4) ...
- (5) ...

*levy limit*

**(A) In the FCA Handbook:**

(in *FEES*) the maximum aggregate amount of *compensation costs* and *specific costs* that may be allocated to a particular *class* in one financial year as set out in *FEES* 6 Annex 2R, whether directly or (where relevant to that *class*) through the *retail pool*. *FCA provider contribution classes* do not have a *levy limit*: they have a *retail pool* levy limit: see *FEES* 6 Annex 5R.

**(B) In the PRA Handbook:**

(in *FEES*) the maximum aggregate amount of *compensation costs* and *specific costs* that may be allocated to a particular *class* in one financial year as set out in *FEES* 6 Annex 2R.

## Annex B

### Amendments to the Fees manual (FEES)

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

[*Editor's Note:* In this Annex, the provisions shown as being deleted are provisions in the FCA Handbook only. The same provisions in the PRA Handbook remain unaffected by these deletions.]

## 6 Financial Services Compensation Scheme Funding

### 6.1 Application

...

General structure

...

6.1.7 G ~~In order to allocate a share of the amount of *specific costs* and *compensation costs* to be funded by an individual *participant firm*, the funding arrangements are split into eight *classes*: the *deposits class*; the *life and pensions provision class*; the *general insurance provision class*; the *investment provision class*; the *life and pensions intermediation class*; the *home finance intermediation class*; the *investment intermediation class* and the *general insurance intermediation class*. The *permissions* held by a *participant firm* determine into which *class*, or *classes*, it falls.~~ [deleted]  
[FCA/  
PRA]

6.1.7A G In order to allocate a share of the amount of *specific costs* and *compensation costs* to be funded by an individual *participant firm*, the funding arrangements are split into twelve *classes*: the *deposits class*; the *life and pensions provision class*; the *general insurance provision class*; the *investment provision class*; the *life and pensions intermediation class*; the *home finance intermediation class*; the *investment intermediation class*; the *general insurance intermediation class*; the *deposit acceptor's contribution class*; the *insurers - life contribution class*; the *insurers - general contribution class*; and the *home finance providers and administrators' contribution class*. The *permissions* held by a *participant firm* determine into which *class*, or *classes*, it falls.  
[FCA]

...

The management expenses levy

...

6.1.11 G ~~The second element of a *management expenses levy* is a *specific costs levy* for the "*specific costs*" of running the *compensation scheme* in a financial year. These costs are attributable to a *class*, and include the salary costs of~~  
[FCA/



PRA] certain staff of the *FSCS* and claims handling and legal and other professional fees. It also may include the cost of any insurance cover that *FSCS* secures against the risk of *FSCS* paying out claims above a given level in any particular *class* (but below the *levy limit* for that *class* for the year). The *specific costs* are attributed to the *class* which is responsible for those costs. When the *FSCS* imposes a *specific costs levy*, the levy is allocated to the *class* which is responsible for those costs up to the relevant *levy limits*. The *FSCS* may include in a *specific costs levy* the *specific costs* that the *FSCS* expects to incur (including in respect of defaults not yet declared at the date of the levy) during the financial year of the *compensation scheme* to which the levy relates. The amount that each *participant firm* pays towards the *specific costs levy* is calculated by reference to the amount of business conducted by the *firm* in each of the *classes* to which the *FSCS* has allocated *specific costs*. Each *class* has a separate "tariff base" for this purpose, set out in *FEES 6 Annex 3R*. *Participant firms* may be exempt from contributing to the *specific costs levy*. [deleted]

6.1.11A G The second element of a *management expenses levy* is a *specific costs levy*  
[FCA] for the "specific costs" of running the *compensation scheme* in a financial year. These costs are attributable to a *class*, and include the salary costs of certain staff of the *FSCS* and claims handling and legal and other professional fees. It also may include the cost of any insurance cover that *FSCS* secures against the risk of *FSCS* paying out claims above a given level in any particular *class* (but below the *levy limit* for that *class* for the year). The *specific costs* are attributed to the *class* which is responsible for those costs. When the *FSCS* imposes a *specific costs levy*, the levy is allocated to the *class* which is responsible for those costs up to the relevant *levy limits*. *Specific costs* attributable to certain *classes*, which exceed the *class levy limits*, may be allocated to the *retail pool*. The *FSCS* may include in a *specific costs levy* the *specific costs* that the *FSCS* expects to incur (including in respect of defaults not yet declared at the date of the levy) during the financial year of the *compensation scheme* to which the levy relates. The amount that each *participant firm* pays towards the *specific costs levy* is calculated by reference to the amount of business conducted by the *firm* in each of the *classes* to which the *FSCS* has allocated *specific costs*. Each *class* has a separate "tariff base" for this purpose, set out in *FEES 6 Annex 3AR*. *Participant firms* may be exempt from contributing to the *specific costs levy*.

...

#### The retail pool

6.1.16A G The *FCA* has made *rules* providing that *compensation costs* and *specific*  
[FCA] *costs* attributable to the intermediation *classes* and the investment provision *class*, which exceed the *class levy limits*, may be allocated to the *retail pool*. Levies allocated to the *retail pool* are then allocated amongst the other such *classes*, together with certain *classes* (known as *FCA provider contribution classes*). The *FCA provider contribution classes* may contribute to *compensation costs levies* or *specific costs levies* funded by the *retail pool*,

but not themselves receive any such funding. The *FCA provider contribution classes* have a different tariff structure to the other *classes*, based on *regulatory costs* (see *FEES 6.5A.6R*).

...

## 6.2 Exemption

6.2.1 R (1) ~~A *participant firm* which does not conduct business that could give rise to a *protected claim* by an *eligible claimant* and has no reasonable likelihood of doing so is exempt from a *specific costs levy*, or a *compensation costs levy*, or both, provided that:~~  
[FCA/  
PRA]

(a) ~~it has notified the *FSCS* in writing that those conditions apply; and~~

(b) ~~the conditions in fact continue to apply.~~

(2) ~~The exemption takes effect from the date on which the notice was received by the *FSCS*, subject to *FEES 6.2.6R*. [deleted]~~

6.2.1A R (1) Except as set out in (3), a *participant firm* which does not conduct business that could give rise to a *protected claim* by an *eligible claimant* and has no reasonable likelihood of doing so is exempt from a *specific costs levy*, or a *compensation costs levy*, or both, provided that:  
[FCA]

(a) it has notified the *FSCS* in writing that those conditions apply; and

(b) the conditions in fact continue to apply.

(2) The exemption takes effect from the date on which the notice was received by the *FSCS*, subject to *FEES 6.2.6R*.

(3) The exemption in (1) does not apply in respect of a *specific costs levy* or *compensation costs levy* arising from the *firm's* membership of an *FCA provider contribution class*.

...

## 6.4 Management expenses

...

### Specific costs levy

6.4.6 R ~~The *FSCS* must allocate any *specific costs levy* amongst the relevant *classes* in proportion to the amount of relevant costs arising from the different activities for which *firms* in those *classes* have permission up to the *levy limit* of each relevant *class*. [deleted]~~  
[FCA/  
PRA]

- 6.4.6A      R      The FSCS must allocate any *specific costs levy*:  
[FCA]
- (1)      first, amongst the relevant *classes* in proportion to the amount of relevant costs arising from the different activities for which *firms* in those *classes* have *permission* up to the *levy limit* of each relevant *class*. The *FCA provider contribution classes* are not relevant *classes* for this purpose; and
  - (2)      thereafter, where the *levy limit* has been reached (whether as a result of *compensation costs* or *specific costs* or both) for a *class* whose attributable costs may be allocated to the *retail pool* (see *FEES 6 Annex 5R*), to the *retail pool*, in accordance with and subject to *FEES 6.5A*.
- 6.4.7      R      The FSCS must calculate a *participant firm's* share of a *specific costs levy*  
[FCA/  
PRA]      (subject to *FEES 6.3.22R* (Adjustments to calculation of levy shares)) by:
- ~~(1)      identifying each of the relevant *classes* to which the *participant firm* belongs, using the statement of business most recently supplied under *FEES 6.5.13R*;~~
  - ~~(2)      identifying the *management expenses* other than *base costs* which the *FSCS* has incurred, or expects to incur, in the relevant financial year of the *compensation scheme*, allocated to the *classes* identified in (1), but not yet levied;~~
  - ~~(3)      calculating, in relation to each relevant *class*, the *participant firm's* tariff base as a proportion of the total tariff base of all *participant firms* in the *class*, using the statement of business most recently supplied under *FEES 6.5.13R*;~~
  - ~~(4)      applying the proportion calculated in (3) to the figure in (2); and~~
  - ~~(5)      if more than one *class* is relevant, adding together the figure in (4) for each *class*. [deleted]~~
- 6.4.7A      R      The FSCS must calculate a *participant firm's* share of a *specific costs levy*  
[FCA]      (subject to *FEES 6.3.22R* (Adjustments to calculation of levy shares)) by:
- (1)      identifying each of the relevant *classes* to which the *participant firm* belongs, using the statement of business most recently supplied under *FEES 6.5.13R*;
  - (2)      identifying the *management expenses* other than *base costs* which the *FSCS* has incurred, or expects to incur, in the relevant financial year of the *compensation scheme*, allocated to the *classes* identified in (1), but not yet levied;
  - (3)      calculating, in relation to each relevant *class*, the *participant firm's* tariff base (see *FEES 6 Annex 3AR*) as a proportion of the total tariff base of all *participant firms* in the *class*, using the statement of

business most recently supplied under FEES 6.5.13R (but this paragraph is modified for a *specific costs levy* allocated to an *FCA provider contribution class* in the *retail pool* by FEES 6.5A.6R);

- (4) applying the proportion calculated in (3) to the figure in (2); and
- (5) if more than one *class* is relevant, adding together the figure in (4) for each *class*.

...

## 6.5 Compensation costs

...

- 6.5.2 R ~~The FSCS must allocate any *compensation costs levy*:~~
- [FCA/  
PRA]
- (1) ~~first, to the *classes* in proportion to the amount of *compensation costs* arising from, or expected to arise from, claims in respect of the different activities for which *firms* in those *classes* have *permission* up to the *levy limit* of each relevant *class*; and~~
  - (2) ~~thereafter, where the *levy limit* has been reached (whether as a result of *compensation costs* or *specific costs* or both) for a *class* whose attributable costs may be allocated to the *retail pool*, to the *retail pool*, in accordance with FEES 6.5A. [deleted]~~

Allocation: all classes except A, B and C

- 6.5.2-A R The FSCS must allocate any *compensation costs levy*:
- [FCA]
- (1) first, to the relevant *classes* in proportion to the amount of *compensation costs* arising from, or expected to arise from, claims in respect of the different activities for which *firms* in those *classes* have *permission* up to the *levy limit* of each relevant *class*. The *FCA provider contribution classes* are not relevant *classes* for this purpose; and
  - (2) thereafter, where the *levy limit* has been reached (whether as a result of *compensation costs* or *specific costs* or both) for a *class* whose attributable costs may be allocated to the *retail pool* (see FEES 6 Annex 5R), to the *retail pool*, in accordance with, and subject to, FEES 6.5A.

...

- 6.5.6 R ~~The FSCS must calculate each *participant firm's* share of a *compensation costs levy* (subject to FEES 6.3.22R (Adjustments to calculation of *levy shares*)) by:~~
- [FCA/  
PRA]

- (1) ~~identifying each of the *classes* to which each *participant firm* belongs, using the statement of business most recently supplied under FEES 6.5.13R(1);~~
- (2) ~~identifying the *compensation costs* falling within FEES 6.5.1R allocated, in accordance with FEES 6.5.2R, to the *classes* identified in (1);~~
- (3) ~~calculating, in relation to each relevant *class*, the *participant firm's* tariff base as a proportion of the total tariff base of all *participant firms* in the *class*, using the statement of business most recently supplied under FEES 6.5.13R;~~
- (4) ~~applying the proportion calculated in (3) to the figure in (2); and~~
- (5) ~~if more than one *class* is relevant, adding together the figure in (4) for each *class*. [deleted]~~

6.5.6A  
[FCA]

R The FSCS must calculate each *participant firm's* share of a *compensation costs levy* (subject to FEES 6.3.22R (Adjustments to calculation of levy shares)) by:

- (1) identifying each of the relevant *classes* to which each *participant firm* belongs, using the statement of business most recently supplied under FEES 6.5.13R(1);
- (2) identifying the *compensation costs* falling within FEES 6.5.1R allocated, in accordance with FEES 6.5.2R, to the *classes* identified in (1);
- (3) calculating, in relation to each relevant *class*, the *participant firm's* tariff base (see FEES 6 Annex 3AR) as a proportion of the total tariff base of all *participant firms* in the *class*, using the statement of business most recently supplied under FEES 6.5.13R (but this paragraph is modified for a *compensation costs levy* allocated to an *FCA provider contribution class* in the *retail pool* by FEES 6.5A.6R);
- (4) applying the proportion calculated in (3) to the figure in (2); and
- (5) if more than one *class* is relevant, adding together the figure in (4) for each *class*.

Classes and tariff bases for compensation cost levies and specific costs levies

6.5.7  
[FCA/  
PRA]

~~R When calculating a *participant firm's* share of a *compensation costs levy* or *specific costs levy* allocated to each *class* the FSCS must use the *classes* and tariff bases as set out in the table in FEES 6 Annex 3R. [deleted]~~

...

Insert the following sub-chapter after FEES 6.5. The new text is not underlined.

## 6.5A The retail pool

Allocation of compensation costs levies and specific costs levies through the retail pool

6.5A.1 R ~~[to follow]~~ The *FSCS* must allocate a *compensation costs levy* or *specific costs levy*, which has been allocated to the *retail pool* (under *FEES* 6.5.2-AR(2)):

- (1) to *classes* whose *retail pool* levy limit has not been reached as at the date of the levy;
- (2) in proportion to the relative sizes of the *retail pool* levy limits of the *classes* in (1); and
- (3) in accordance with the table in *FEES* 6 Annex 5R.

[**Note:** The *retail pool* levy limits for *classes* other than *FCA provider contribution classes* are the normal *levy limits* for that *class*. See the table in *FEES* 6 Annex 5R for the *retail pool* levy limits for all relevant *classes*.]

6.5A.2 R (1) An allocation in *FEES* 6.5A.1R to an *FCA provider contribution class* other than the home finance providers and administrators' contribution *class* may not be of an amount that, if it were added to any *compensation costs levies* or *specific costs levies* which have previously been imposed on the *PRA funding class* which corresponds to that *FCA provider contribution class* (as set out in *FEES* 6.5A.7R) the combined figure would be greater than the *levy limit* of the corresponding *PRA funding class*.

- (2) Where:
  - (a) an *FCA provider contribution class* has already contributed to *specific costs* or *compensation costs* (through the *retail pool*); and
  - (b) if the amount of that previous contribution by the *class* in (a) were added to a *compensation costs levy* or *specific costs levy* which is being imposed on the *PRA funding class* which corresponds to the *class* in (a) (and any previous such levies), the combined figure would be greater than the *levy limit* of the corresponding *PRA funding class*;

the *FSCS* must, so far as reasonably possible, obtain repayment of the previous contribution by the *class* in (a) from the *retail pool* (including the *FCA provider contribution classes* except the *class* in (a)) to the extent that ensures that the combined figure in (b) would no longer be greater than the *levy limit* of the corresponding *PRA funding class*, and credit the repayment to the *class* in (a).

- (3) The *FSCS* may obtain the repayment in (2) by:
- (a) a levy;
  - (b) commercial or other borrowing; or
  - (c) utilising funds as set out in, and subject to, *FEES* 6.3.17R.

[**Note:** the home finance providers and administrators' contribution *class* does not have a corresponding *PRA funding class*.]

- 6.5A.3 [FCA] G In considering which of the options in *FEES* 6.5A.2R(2) to adopt, the *FSCS* will generally impose a levy, rather than borrow or utilise funds as described in *FEES* 6.5A.2R(2)(c), unless the latter options appear to be preferable in the specific circumstances prevailing at the relevant time.
- 6.5A.4 [FCA] R The calculation of the relative sizes of the *retail pool* levy limit (for the purpose of *FEES* 6.5A.1R) is based on the original *retail pool* levy limits for the *classes* (as set out in *FEES* 6 Annex 5R) and not the remaining capacity in each *class*.
- 6.5A.5 [FCA] R When the *FSCS* allocates excess *compensation costs levies* or *specific costs levies* under *FEES* 6.5A.1R or any levy imposed under *FEES* 6.5A.2R(3)(a), a *class* to which part of the excess is allocated (a "receiving class") may, as a result of that allocation, itself reach its limit. In that case, the *FSCS* must apply *FEES* 6.5A.1R or *FEES* 6.5A.2R so that any resulting excess levy beyond the limit of the receiving class is allocated amongst the remaining *classes* whose limits have not been reached, to the exclusion of the receiving *class*. This process is repeated until the *compensation costs levy* or *specific costs levy* has been met in full or the limits of all *classes* have been exhausted.

Calculation of participant firms' shares in levies allocated to classes in the retail pool

- 6.5A.6 [FCA] R In relation to a *specific costs levy* or *compensation costs levy* allocated to an *FCA provider contribution class* in the *retail pool*, *FEES* 6.4.7AR(3) and *FEES* 6.5.6AR(3), respectively, are replaced by the following: "calculating, in relation to each relevant *class*, the *participant firm's* most recent *regulatory costs* arising from its membership of the corresponding activity group (as listed in *FEES* 4 Annex 1AR) set out in *FEES* 6.5A.7R, as a proportion of the total most recent *regulatory costs* of all *participant firms* in that activity group

arising from their membership of that group;”.

- 6.5A.7 R The corresponding *PRA* funding *classes* and corresponding activity groups referred to in *FEES* 6.5A.2R and *FEES* 6.5A.6R respectively are as follows:

<b>FCA provider contribution class</b>	<b>Corresponding PRA funding class</b>	<b>Corresponding activity group</b>
Deposit acceptor's contribution <i>class</i>	Deposits	A.1: Deposit acceptors
Insurers - life contribution <i>class</i>	Life and pensions provision	A.4: Insurers - life
Insurers - general contribution <i>class</i>	General insurance provision	A.3: Insurers - general
Home finance providers and administrators' contribution <i>class</i>	None	A.2: Home finance providers and administrators

Delete FEES 6 Annex 3R in its entirety. The deleted text is not shown.

### 6 Annex Financial Services Compensation Scheme - classes [deleted] 3R

...

Insert the following Annex. The new text is not underlined.

### 6 Annex Financial Services Compensation Scheme - classes 3AR

[FCA] This table belongs to *FEES* 6.4.7AR and *FEES* 6.5.6AR

<b>Class A</b>	<b>Deposits</b>
<b>Firms with permission for:</b>	<i>accepting deposits and/or operating a dormant account fund. BUT does not include any fee payer who either effects or carries out contracts of insurance.</i>
<b>Tariff base</b>	(1) <i>Protected deposits</i> and/or (2) <i>Protected dormant accounts</i> multiplied by 0.2 as at 31 December. Except where paragraph (4) says otherwise, <i>protected deposits</i> must be adjusted as follows.



	(1) Only include a <i>protected deposit</i> to the extent that an <i>eligible claimant</i> would have a claim in respect of it.
	(2) Exclude any amount in respect of which the <i>FSCS</i> would not pay compensation due to the maximum payment limits in <i>COMP</i> 10.2.
	(3) The tariff base calculation is made on the basis of the information that the <i>firm</i> would have to include in the <i>single customer views</i> it has to be able to produce under <i>COMP</i> 17 (Systems requirements for firms that accept deposits). The information must be of the extent and standard required if the <i>firm</i> was preparing the <i>single customer views</i> as at the valuation date for the tariff base (31 December).
	(4) (a) If this paragraph applies, the adjustments in (1) to (3) do not apply and the calculation is based on <i>protected deposits</i> .
	(b) This paragraph applies with respect to a <i>protected deposit</i> to the extent that, under <i>COMP</i> 17, the <i>firm</i> does not have to identify an <i>eligible claimant</i> with respect to that <i>protected deposit</i> because the account is held by the account holder on behalf of others.
	(c) This paragraph applies with respect to a <i>protected deposit</i> that has been excluded from the <i>single customer view</i> because it is an account that is not active, as defined in <i>COMP</i> 17.2.3R(2).

	<b>General Insurance</b>
<b>Class B1</b>	General Insurance Provision
<b>Firms with permission for:</b>	<i>effecting contracts of insurance; and/or</i>
	<i>carrying out contracts of insurance;</i>
	that are <i>general insurance contracts</i> .
<b>Class B2</b>	General Insurance Intermediation
<b>Firms with permission for:</b>	Any of the following in respect of <i>general insurance contracts</i> :
	<i>dealing in investments as agent;</i>
	<i>arranging (bringing about) deals in investments;</i>
	<i>making arrangements with a view to transactions in</i>

	<p><i>investments;</i></p> <p><i>assisting in the administration and performance of a contract of insurance;</i></p> <p><i>advising on investments;</i></p> <p><i>agreeing to carry on a regulated activity which is within any of the above.</i></p>
<b>Tariff base</b>	<p>Class B1: <i>Relevant net premium income</i> and eligible gross technical liabilities. The levy is split into two in the ratio 75:25. The tariff base for the first portion (75%) is calculated by reference to <i>relevant net premium income</i>. The tariff base for the second portion (25%) is based on eligible gross technical liabilities.</p> <p>Eligible gross technical liabilities are calculated in accordance with the method for calculating gross technical liabilities in fee block A3 in part 2 of <i>FEES 4 Annex 1BR</i> with the following adjustments.</p> <p>(1) Eligible gross technical liabilities are calculated by reference to <i>protected contracts of insurance</i> with <i>eligible claimants</i>.</p> <p>(2) A <i>firm</i> may choose not to apply paragraph (1) and instead include all gross technical liabilities that it would be obliged to take into account for fee block A3 as long as the amount that it would include under (1) is lower.</p> <p>(3) If an <i>incoming EEA firm</i> does not report gross technical liabilities in the way contemplated by this table, the <i>firm's</i> gross technical liabilities are calculated in the same way as they would be for a <i>UK firm</i>.</p> <p>(4) None of the notes for the calculation of fees in fee block A3 in part 2 of <i>FEES 4 Annex 1BR</i> apply except for the purposes of (2).</p> <p>(5) A <i>directive friendly society</i> must also calculate eligible gross technical liabilities in accordance with this table.</p> <p>(6) A <i>non-directive friendly society</i> must calculate gross technical liabilities as the amount that it is required to show in FSC 2 - Form 9 line 11 in Appendix 10 of <i>IPRU(FSOC)</i> (assets allocated towards the general insurance business required minimum margin) in relation to the most recent financial year of the <i>firm</i> (as at the applicable reporting date under <i>FEES 6.5.13R</i>) for which the <i>firm</i> is required to have reported that information to the <i>PRA</i> under <i>IPRU(FSOC)</i>. A <i>non-directive friendly society</i> must disregard for this purpose such amounts as are not required to be included by reason of a <i>waiver</i> or a written concession carried forward as an amendment to the <i>rule</i> to which it relates under <i>SUP TP</i>.</p> <p>Class B2: <i>annual eligible income</i> where <i>annual eligible</i></p>

	<p><i>income</i> means annual income adjusted in accordance with this table. Annual income is calculated as the sum of (a) and (b):</p> <p>(a) the net amount retained by the <i>firm</i> of all brokerages, fees, commissions and other related income (for example, administration charges, overrides and profit shares) due to the <i>firm</i> in respect of or in relation to <i>class B2</i> activities, including any income received from an <i>insurer</i>; and</p> <p>(b) if the <i>firm</i> is an <i>insurer</i>, in relation to <i>class B2</i> activities, the amount of <i>premiums</i> receivable on its <i>contracts of insurance</i> multiplied by 0.07, excluding those <i>contracts of insurance</i> which result from <i>class B2</i> activities carried out by another <i>firm</i>, where a payment has been made by the <i>insurer</i> to that other <i>firm</i> and that payment is of a type that falls under (a).</p> <p>Notes relating to the calculation of the tariff base for <i>class B2</i>:</p> <p>(1) Exclude annual income for <i>pure protection contracts</i>. Only include <i>general insurance contracts</i>.</p> <p>(2) The calculation is adjusted in accordance with the definition of <i>annual eligible income</i>.</p> <p>(3) Net amount retained means all the commission, fees, etc. in respect of <i>class B2</i> activities that the <i>firm</i> has not rebated to customers or passed on to other <i>firms</i> (for example, where there is a commission chain). Items such as general business expenses (for example, employees' salaries and overheads) must not be deducted.</p> <p>(4) <i>Class B2</i> activities mean activities that fall within <i>class B2</i>. They also include activities that now fall within <i>class B2</i> but that were not <i>regulated activities</i> when they were carried out.</p> <p>(5) A reference to a <i>firm</i> also includes a reference to any <i>person</i> who carried out activities that would now fall into <i>class B2</i> but which were not at the time <i>regulated activities</i>.</p>
	<b>Life and Pensions</b>
<b>Class C1</b>	Life and Pensions Provision
<b>Firms with permission for:</b>	<i>effecting contracts of insurance</i> ; and/or
	<i>carrying out contracts of insurance</i> ;
	<i>that are long-term insurance contracts</i> (including <i>pure</i>

	<i>protection contracts</i> ).
<b>Class C2</b>	Life and Pensions Intermediation
<b>Firms with permission for:</b>	Any of the following:
	<i>dealing in investments as agent;</i>
	<i>arranging (bringing about) deals in investments;</i>
	<i>making arrangements with a view to transactions in investments;</i>
	<i>assisting in the administration and performance of a contract of insurance;</i>
	<i>advising on investments;</i>
	<i>advising on pension transfers and pension opt-outs;</i>
	<i>providing basic advice on a stakeholder product;</i>
	<i>agreeing to carry on a regulated activity which is within any of the above;</i>
	in relation to any of the following:
	<i>long-term insurance contracts (including pure protection contracts);</i>
	<i>rights under a stakeholder pension scheme or a personal pension scheme.</i>
<b>Tariff base</b>	<p>Class C1: <i>Relevant net premium income</i> and eligible mathematical reserves. The levy is split into two in the ratio 75:25. The tariff base for the first portion (75%) is calculated by reference to <i>relevant net premium income</i>. The tariff base for the second portion (25%) is based on mathematical reserves.</p> <p>Eligible mathematical reserves are calculated in accordance with the method for calculating mathematical reserves in fee block A4 in part 2 of <i>FEES 4 Annex 1BR</i> with the following adjustments.</p> <p>(1) Eligible mathematical reserves are calculated by reference to <i>protected contracts of insurance</i> with <i>eligible claimants</i>.</p> <p>(2) A <i>firm</i> may choose not to apply paragraph (1) and instead include all mathematical reserves that it would be obliged to take into account for fee block A4 as long as the amount that it would include under (1) is lower.</p>

(3) If an *incoming EEA firm* does not report mathematical reserves in the way contemplated by this table, the *firm's* mathematical reserves are calculated in the same way as they would be for a *UK firm*.

(4) None of the notes for the calculation of fees in fee block A4 in part 2 of *FEES 4 Annex 1BR* apply except for the purposes of (2).

(5) A *directive friendly society* must also calculate eligible mathematical reserves in accordance with this table.

(6) A *non-directive friendly society* must calculate mathematical reserves as the amount that it is required to show in FSC 2 - Form 9 line 23 in Appendix 10 of *IPRU(FSOC)* (total mathematical reserves after distribution of surplus) in relation to the most recent financial year of the *firm* (as at the applicable reporting date under *FEES 6.5.13R*) for which the *firm* is required to have reported that information to the *PRA* under *IPRU(FSOC)*. A *non-directive friendly society* must disregard for this purpose such amounts as are not required to be included by reason of a *waiver* or a written concession carried forward as an amendment to the *rule* to which it relates under *SUP TP*.

(7) The provisions relating to pension fund management business in Part 2 of *FEES 4 Annex 1BR* do not apply. A *firm* undertaking such business that does not carry out any other activities within *class C1* (ignoring any activities that would have a wholly insignificant effect on the calculation of its tariff base for *class C1*) must use its Long-term insurance capital requirement instead of gross technical liabilities. The Long-term insurance capital requirement means the amount that it is required to show as its Long-term insurance capital requirement in Form 2 Line 31 (Statement of solvency - Long-term insurance business) in relation to the most recent financial year of the *firm* (as at the applicable reporting date under *FEES 6.5.13R*) for which the *firm* is required to have reported that information to the *PRA*.

(8) The split in the levy between *relevant net premium income* and eligible mathematical reserves does not apply to a partnership pension society (as defined in Chapter 7 of *IPRU(FSOC)* (Definitions)). Instead the levy is only calculated by reference to *relevant net premium income*.

Class C2: *annual eligible income* where *annual eligible income* means annual income adjusted in accordance with this table. Annual income is calculated as the sum of (a) and (b):

(a) the net amount retained by the *firm* of all brokerages, fees, commissions and other related income (for example, administration charges, overrides and profit shares) due to the *firm* in respect of or in relation to *class C2* activities including any income received from an *insurer*; and

(b) if the *firm* is a life and pensions *firm*, in relation to *class C2* activities, the amount of *premiums* or commission receivable on its life and pensions contracts multiplied by 0.07, excluding those life and pensions contracts which result from *class C2* activities carried out by another *firm*, where a payment has been made by the life and pensions *firm* to that other *firm* and that payment is of a type that falls under (a).

Notes relating to the calculation of the tariff base for *class C2*:

(1) Life and pensions contracts mean *long-term insurance contracts* (including *pure protection contracts*) and rights under a *stakeholder pension scheme* or a *personal pension scheme*.

(2) Life and pensions *firm* means an *insurer*. It also means a *firm* that provides *stakeholder pension schemes* or *personal pension schemes* if those activities fall into *class D1*.

(3) The calculation is adjusted in accordance with the definition of *annual eligible income*.

(4) Net amount retained means all the commission, fees, etc. in respect of *class C2* activities that the *firm* has not rebated to customers or passed on to other *firms* (for example, where there is a commission chain). Items such as general business expenses (for example, employees' salaries and overheads) must not be deducted.

(5) *Class C2* activities mean activities that fall within *class C2*. They also include activities that now fall within *class C2* but that were not *regulated activities* when they were carried out.

(6) A reference to a *firm* also includes a reference to any *person* who carried out activities that would now fall into *class C2* but which were not at the time *regulated activities*.

	Investment
<b>Class D1</b>	Investment provision
<b>Firms with permission for:</b>	Any of the following:
	<i>managing investments;</i>
	<i>establishing, operating or winding up a regulated collective investment scheme;</i>
	<i>establishing, operating or winding up an unregulated collective investment scheme;</i>
	<i>acting as trustee of an authorised unit trust scheme;</i>
	<i>acting as the depositary or sole director of an open-ended investment company;</i>
	<i>establishing, operating or winding up a stakeholder pension scheme;</i>
	<i>establishing, operating or winding up a personal pension scheme;</i>
	<i>agreeing to carry on a regulated activity which is within any of the above.</i>
<b>Class D2</b>	Investment Intermediation
<b>Firms with permission for:</b>	Any of the following activities in relation to <i>designated investment business</i> :
	<i>dealing in investments as principal;</i>
	<i>dealing in investments as agent;</i>
	<i>MiFID business bidding;</i>
	<i>arranging (bringing about) deals in investments;</i>
	<i>making arrangements with a view to transactions in investments;</i>
	<i>advising on investments;</i>
	<i>providing basic advice on a stakeholder product;</i>
	<i>safeguarding and administering investments;</i>
	<i>arranging safeguarding and administering of assets;</i>

	<i>operating a multilateral trading facility;</i>
	<i>agreeing to carry on a regulated activity which is within any of the above;</i>
BUT excluding activities that relate to <i>long-term insurance contracts</i> or rights under a <i>stakeholder pension scheme</i> or a <i>personal pension scheme</i> .	
<b>Tariff base</b>	Class D1: <i>annual eligible income</i> where <i>annual eligible income</i> means annual income adjusted in accordance with this table. Annual income is equal to the net amount retained by the <i>firm</i> of all income due to the <i>firm</i> in respect of or in relation to activities falling within <i>class</i> D1.
	Class D2: <i>annual eligible income</i> where <i>annual eligible income</i> means annual income adjusted in accordance with this table. Annual income is equal to the net amount retained by the <i>firm</i> of all income due to the <i>firm</i> in respect of or in relation to activities falling within <i>class</i> D2.
	Notes on <i>annual eligible income</i> for <i>classes</i> D1 and D2:
	(1) For the purposes of calculating annual income, net amount retained means all the commission, fees, etc. in respect of activities falling within <i>class</i> D1 or D2, as the case may be, that the <i>firm</i> has not rebated to customers or passed on to other <i>firms</i> (for example, where there is a commission chain). Items such as general business expenses (for example employees' salaries and overheads) must not be deducted.
	(2) The calculation is adjusted in accordance with the definition of <i>annual eligible income</i> .
	(3) Box management profits are excluded from the calculation of annual income.

	<b>Home Finance</b>
<b>Class E2</b>	Home Finance Intermediation
<b>Firms with permission for:</b>	Any of the following activities:
	<i>arranging (bringing about) a home finance transaction;</i>
	<i>making arrangements with a view to a home finance</i>



	<i>transaction;</i> <i>advising on home finance transactions;</i> the activities of a <i>home finance provider</i> which would be arranging but for article 28A of the <i>Regulated Activities Order</i> (Arranging contracts or plans to which the arranger is party); <i>agreeing to carry on a regulated activity</i> which is within any of the above.
<b>Tariff base</b>	Class: E2: <i>annual eligible income</i> where the annual income is calculated in accordance with fee-block A18 in part 2 of <i>FEES 4 Annex 1AR</i> .
<b>Class F</b>	<b>Deposit acceptor's contribution</b>
<b>Firms with permission for:</b>	<i>accepting deposits</i> and/or <i>operating a dormant account fund</i> . BUT does not include any fee payer who either effects or carries out <i>contracts of insurance</i> .
<b>Class G</b>	<b>Insurers – life contribution</b>
<b>Firms with permission for:</b>	<i>effecting contracts of insurance;</i> and/or <i>carrying out contracts of insurance;</i> in respect of <i>specified investments</i> including <i>life policies</i> ; <i>entering as provider into a funeral plan contract</i> . -
<b>Class H</b>	<b>Insurers – general contribution</b>
<b>Firms with permission for:</b>	<i>effecting contracts of insurance;</i> and/or <i>carrying out contracts of insurance;</i> in respect of <i>specified investments</i> that are: - <i>general insurance contracts;</i> or - <i>long-term insurance contracts</i> other than <i>life policies</i> .
<b>Class I</b>	<b>Home finance provision</b>
<b>Firms with permission for:</b>	Any of the activities below:
	<i>entering into a home finance transaction;</i>

	<i>administering a home finance transaction;</i>
	<i>agreeing to carry on a regulated activity which is within any of the above.</i>

Notes
(1) Any reference in this annex to a <i>specified investment</i> includes a reference to <i>rights to or interests in investments</i> in that <i>specified investment</i> .
(2) In calculating <i>annual eligible income</i> a <i>firm</i> must apportion income between different <i>classes</i> and between income that falls within the definition of <i>annual eligible income</i> and income that does not in a reasonable and consistent way and on the basis of clear policies.
(3) The question of whether a <i>person</i> is an <i>eligible claimant</i> or not or whether a <i>contract of insurance</i> is a <i>protected contract</i> or not or whether business is compensatable business or not must be judged at whichever of the following dates the <i>firm</i> chooses:  (a) (for a <i>person</i> who has become a new <i>client</i> during the period by reference to which the <i>firm's</i> tariff base is being calculated) the date on which the <i>person</i> becomes a <i>client</i> ;  (b) (for a <i>person</i> who has ceased to be a <i>client</i> during that period) the date on which the <i>person</i> ceases to be a <i>client</i> ; or  (c) (in any other case) the date to which the most recent information supplied by the <i>firm</i> under <i>FEES</i> 6.5.13R is prepared.  However this does not apply for the purpose of calculating the tariff base for <i>class A</i> (Deposits) so far as it relates to <i>protected deposits</i> .
(4) For classes G to I (inclusive) the tariff base is not set out in this Annex: see <i>FEES</i> 6.4.7R(3), <i>FEES</i> 6.5.6R(3) and <i>FEES</i> 6.5A.6R

Insert the following new Annex after *FEES* 6 Annex 4G. The text is not underlined.

**6 Annex 5R Classes participating in the retail pool and applicable limits**  
[FCA]

This table belongs to *FEES* 6.5A.1R.

Class	Attributable costs for this class in excess of levy limit allocated to the retail pool?	Retail pool levy limit (£ million)	Retail pool compensation costs levy or specific costs levy allocated to this class?
<b>FCA provider contribution classes</b>			

[Note: The <i>FCA provider contribution classes</i> contribute to a <i>compensation costs levy</i> or <i>specific costs levy</i> allocated to the <i>retail pool</i> , unless the <i>compensation costs</i> or <i>specific costs</i> are attributable to the investment provision <i>class</i> . <i>Compensation costs</i> or <i>specific costs</i> attributable to the corresponding <i>PRA funding classes</i> are never allocated to the <i>retail pool</i> ]			
Deposit acceptors contribution	No	110	Yes (except for costs attributable to the investment provision class)
Insurance – life contribution		70	
Insurance – general contribution		35	
Home finance providers and administrators’ contribution		45	
<b>Classes that both contribute to and are funded by the retail pool</b> [ <b>Note:</b> A <i>compensation costs levy</i> or <i>specific costs levy</i> , in respect of costs attributable to these <i>classes</i> in excess of their <i>levy limits</i> , must be allocated to the <i>retail pool</i> . A <i>compensation costs levy</i> or <i>specific costs levy</i> allocated to the <i>retail pool</i> is then allocated to all other <i>classes</i> contributing to the <i>retail pool</i> (up to each <i>class’s retail pool</i> contribution limit), except as specified below for the investment provision <i>class</i> .]			
Investment provision	Yes, under <i>FEES</i> 6.5.2-AR(2) (but costs attributable to the investment provision <i>class</i> cannot be allocated to the <i>FCA provider contribution classes</i> )	<i>Class levy limit</i>	Yes
Life and pensions intermediation			
Home finance intermediation			
Investment intermediation			
General insurance intermediation			

## Transitional Provisions and Schedules

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TP 7 Transitional provisions relating to changes to the FSCS levy arrangements taking effect in 2013/14

7.1 [FCA/PRA]	R	...
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<p><u>7.2</u> [FCA]</p>	<p><u>R</u></p>	<p>For the purpose of <i>FEES 6.5A.6R</i>, ‘<i>FEES 4 Annex 1AR</i>’ must be read as ‘<i>FEES 4 Annex 1R</i>’ (as it was in force immediately before 1 April 2013) until the <i>regulatory costs</i> arising from the activity group in <i>FEES 4 Annex 1AR</i> have been determined. The <i>FSCS</i> may recalculate the liabilities once the <i>regulatory costs</i> arising from the activity group in <i>FEES 4 Annex 1AR</i> have been determined and credit or debit <i>participant firms</i> as appropriate.</p>
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## Appendix 2

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# Designation of Handbook Provisions

1. FSA Handbook provisions will be ‘designated’ to create a FCA Handbook and a PRA Handbook on the date that the regulators exercise their legal powers to do so. Please visit our website<sup>1</sup> for further details about this process.
2. All the amendments to the Handbook Provisions and the new Provisions are FCA rules and were made by the persons appointed under Article 5 of the Financial Services Act 2012 (Transitional Provisions) (Rules and Miscellaneous Provisions) Order 2013 (SI 2013/161) to discharge specified functions of the Financial Conduct Authority as if they were its governing body.

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

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