

FCA regulated fees and levies 2014/15

**Including feedback on CP14/6 and
'made rules'**

July 2014



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In this Policy Statement we report on the main issues arising from Consultation Paper 14/6 (*FCA Regulated fees and levies: Rates proposals 2014/15*) and publish the final rules.

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Abbreviations used in this paper

AIFMD	Alternative Investment Fund Managers Directive
AFR	Annual funding requirement
CASS	Client Assets sourcebook
CM&A	Client money and assets
CIS	Collective investment schemes
CJ	Compulsory jurisdiction
CP	Consultation paper
CFEB	Consumer Financial Education Body
DPBs	Designated professional bodies
EEA	European Economic Area
FPS	Financial Penalty Scheme
FSA	Financial Services Authority
FSMA	Financial Services and Markets Act
LIBOR	London interbank offered rate
MTFs	Multilateral trading facilities
NFPs	Not-for-profit bodies
OFT	Office of Fair Trading
ORA	Ongoing regulatory activity
PS	Policy statement
PSRs	Payment Services Regulations

1. Overview

Introduction

- 1.1** We are publishing the 2014/15 periodic regulatory fees and levies rules for the:
- Financial Conduct Authority (FCA)
 - Financial Ombudsman Service (ombudsman service) general levy
 - Money Advice Service¹
- 1.2** We also publish our feedback on the responses received to the consultation on the draft fees and levies rules in CP14/6 *FCA Regulated fees and levies: Rates proposals 2014/15*, published 31 March 2014. The consultation period for CP14/6 closed on 30 May 2014.

Who does this affect?

- 1.3** All authorised firms and other bodies that pay fees and levies to us, the ombudsman service and the Money Advice Service, as set out in Table 1.1.

Table 1.1 Fee-payers affected by each chapter

Issue	Fee-payers affected	Chapters
FCA		
Periodic fee rates	Authorised firms – the 'A' fee-blocks in Table 2.1 in chapter 2	2
	All fee-payers except authorised firms – fee-blocks B to G in Table 2.1. in chapter 2	3
FCA applying financial penalties	Fee-payers listed in Table 4.1 in chapter 4	4
Consumer credit periodic fees		
Related FCA fees, the ombudsman service levy and the Money Advice Service levy	Consumer credit firms who become authorised during 2014/15	5

¹ The Money Advice Service is referred in the legislation and our FEES manual rules as the Consumer Financial Education Body (CFEB)

Issue	Fee-payers affected	Chapters
Ombudsman service		
General levy rates	Firms subject to the ombudsman service	6
Money Advice Service		
Money advice levies	Authorised firms, payment institutions and electronic money issuers	7
Debt advice levies	Firms in fee-blocks A.1 (Deposit acceptors) and A.2 (Home finance providers and administrators)	

Is this of interest to consumers?

- 1.4** Our fees rules are not directly of interest to consumers, although indirectly our fees are met by consumers.

Context

- 1.5** Generally, our annual fees consultation follows this cycle:
- **October/November** – we consult on any changes to our policy on how fees and levies are raised. Depending on the proposed changes, we would expect to provide feedback on the responses received to this consultation in the following February Handbook Notice. In the case of CP13/14, which we published in October 2013, we provided feedback and published the final rules in CP14/6, which was published 31 March 2014.
 - **January** – we consult on the Financial Services Compensation Scheme (FSCS) management expenses levy limit (MELL). This is a joint consultation with the Prudential Regulation Authority (PRA). We provided feedback on responses received to this consultation in the March 2014 Handbook Notice.
 - **March** – we consult on FCA periodic fees rates for the next financial year (1 April to 31 March) and any proposed changes to application fees or other fees. We also consult on the ombudsman service general levy and Money Advice Service levies for the next financial year. CP14/6, which was published 31 March 2014 covered the March part of the annual fees consultation in relation to 2014/15.
 - **June/July** – In this PS we are publishing the feedback on the responses we received to CP14/6 together with the final FCA, ombudsman service and Money Advice Service fees and levies rates for 2014/15, set out in Appendix 1.
- 1.6** As we are at the end of this annual cycle for 2014/15, we will update our *How we raise our fees*² paper and publish it on our website in August.

² July 2013 version currently available at www.fca.org.uk/static/documents/how-we-raise-our-fees.pdf

Summary of feedback and our response

- 1.7** Overall, we received 27 responses to CP14/6 – 18 trade bodies and nine individual firms. The non-confidential respondents are listed in Annex 1.
- 1.8** A full breakdown of the 'A' to 'G' fee-blocks we refer to in this section is given in Table 2.1 of chapter 2.

Responses on FCA fees

- 1.9** Our proposals for FCA fees were contained in chapters 2 to 4 of CP14/6. On our proposals for periodic fees for the 'A' fee-block, 15 respondents commented – 11 trade bodies and four firms.
- 1.10** Although there was some recognition that the 3.3% AFR increase was relatively modest, almost all respondents challenged the increase given the significant increases in recent years. Generally, respondents called for more accountability and transparency over the amount of our annual funding requirement (AFR) raised and its distribution across fee-blocks. Some respondents also made reference to the related recommendations in the March 2014 National Audit Office (NAO) report.
- 1.11** There was a mixed response on our proposal to keep minimum fees unchanged for the fifth year running – four respondents in favour and four against.
- 1.12** We received responses from four trade bodies representing general insurers, private/retail client investment managers, financial advisers and wholesale market brokers covering three sub-sets of the 'A' fee-block (A.3, A.7, A.13). These responses were effectively seeking to further sub-divide these fee-blocks to allow the AFR allocation to reflect the variations of the type of business that their members undertake within the regulated activities covered by the existing fee-blocks and the extent they undertake those activities for 'retail' or 'wholesale' customers.
- 1.13** The trade body representing financial advisers, while acknowledging that recent policy changes we have made to the A.13 fee-block should result in a reduction in fees for most advisers, raised concerns that their members continue to pay too much because we allocate 15% (£68m) of our AFR to the A.13 fee-block. They also suggested that the benefit their members will derive from one of the policy changes in 2014/15 should be applied retrospectively.
- 1.14** A trade body representing mortgage intermediaries challenged the £15.7m (3.2%) allocation of our AFR to the fee-block that includes their members (A.18). This they argued was disproportionate, given their analysis that showed a significant increase in regulatory costs since this activity became regulated while during the same period the number of brokers had fallen substantially.
- 1.15** A trade body representing general insurers and a European Economic Area (EEA) firm passporting into the UK on a branch basis questioned the current 10% fees discount we apply to EEA branches in comparison with the 90% discount provided by the FSA.
- 1.16** One trade body proposed that the allocation of our prudential costs (fee-block AP.0) should take into account the four FCA Prudential Categories, which reflect the nature and extent of prudential supervision.

- 1.17** In relation to the new A.21 fee-block (firms holding client money or assets or both), one trade body highlighted that we were not treating all CASS (Client Assets sourcebook) firms the same and asked us to state the basis for our belief that the impact of currently excluding some CASS firms from A.21 is small.
- 1.18** We had no responses from fee-payers in the 'B' to 'G' fee-blocks. One respondent, a life insurer in the 'A' fee-block, asked us to explain why these fee-blocks contribute a relatively small part (8%) of our budget.

Our response

Our AFR for 2014/15 remains unchanged at £446.4m, an increase of 3.3% over 2013/14. The main reason for the increase is that we have not been able to return as much under-spend to fee-payers as last year (we returned £19.5m in 2013/14 but a reduced £10.0m in 2014/15). Excluding the impact of the under-spend returned, the underlying increase in the AFR is 1% – close to the 1.4% increase in our annual Ongoing Regulatory Activity (ORA) budget, which increased from £445.7m in 2013/14 to £452.0m in 2014/15.

The increase in our budget was driven by our new competition team to deliver our competition objective. A full breakdown of the year-on-year movement in our AFR was provided in chapter 2 of CP14/6, supplemented by chapter 8 in our 2014/15 *Business Plan*, published with our *Risk Outlook* at the same time as the CP. We also delivered on our public commitment to keep FSA legacy costs at the same level as 2013/14, despite our need to continue to upgrade our information systems (IS) and technology platform.

Our *Business Plan* is one of the key ways that we demonstrate accountability and transparency. As flagged in CP14/6, it sets out how we plan to promote our vision and achieve our objectives during 2014/15, which will be resourced by our AFR. We believe the *Business Plan* helps firms to better understand how we use the fees we raise from them. Our approach to allocating the AFR increase across fee-blocks for 2014/15 was to maintain an even distribution unless, identified at an individual fee-block level, the change in allocation was materially different from the overall increase in the AFR. This enabled a clearer link between the reasons for material differences and our *Business Plan*. We will continue to seek to improve the transparency of this link in future years.

We are also accountable to Treasury and are required to report to it on, amongst other things, the extent that we have met the principles of good regulation. This includes consideration of the need to use our resources in the most efficient and economic way. The report to Treasury is laid before Parliament, published as our *Annual Report* and discussed at our Annual Public Meeting. Our *Annual Report* for 2013/14 will be published in July.

Chapter 7 of our *Business Plan* also sets out information for firms in relation to our Value for Money (VfM) strategy, our response to the NAO recommendations and our approach to performance management.

We are maintaining unchanged minimum fees from 2013/14. In our October 2014 fees policy CP, we plan to consult on a range of alternatives for calculating the minimum fees and keeping them under review.

We are not changing the levels of allocation of our AFR across fee-blocks. These are set out in Table 2.1 in chapter 2. We are also not planning to split the A.3, A.7 and A.13 fee-blocks further. Overall, we believe that the current 16 sub-sets of the 'A' fee-blocks represents the right level of recognition of the diversity of authorised firms, which account for 92% of our AFR – a level across which we can allocate our AFR with reasonable accuracy and transparency. The AFR allocated to the fee-blocks is recovered from firms based on their size as a proxy for the impact risk on our statutory objectives should they fail. The measures of size differ across fee-blocks but within them they represent an objective and transparent measure of regulated activity that can be consistently applied to all firms in the fee-block.

Although we allocate 15% (£68m) of our AFR to the A.13 fee-block it is not only recovered from financial advisers. We estimate that the amount recovered from financial advisers to be £6m (8.5%) and the number of financial advisers to be 55% of the total firms that pay fees in A.13.

Financial advisers will benefit from the policy change we made to set up a separate fee-block for the activity of holding client money/assets (A.21) as they will be in the wider A.13 fee-block, now with much larger firms (measured by income from regulated activities). As a result, they will pay less fees even though the AFR allocated to the fee-block is larger.

We consulted on this change in CP13/14 (October 2013). Our feedback to this consultation was included in chapter 8 of CP14/6 in which we stated that we did not agree that this change should be applied retrospectively. We highlighted that although creating a new fee-block will always lead to winners and losers in the short term, this does not mean that some firms have been historically 'overcharged' any more than others have been 'undercharged'. We are recovering the same amount of money from investment intermediaries as previously. Creating the new A.21 fee-block enabled us to pool large and small firms together into a revised A.13 fee-block and this has the effect of reducing the blended fee-rate per £100,000 of income.

We acknowledge that fees have gone up in the A.18 fee-block over a period when the number of firms have fallen but not to the same degree as indicated in the response. In the five years to 2009/10, the average AFR allocation was £10.4m. In 2010/11, there was a 33% increase to £14.4m, which was attributed in part to the projected increase in work from the issues highlighted at the start of the Mortgage Market Review (MMR). In the FSA's 2010/11 *Business Plan*, the FSA noted that the MMR signalled a major change in its approach to the regulation of this market. From 2010/11 to 2014/15, the average allocation is £14.9m. During this period, the FSA continued with the MMR and reported on its development. In our 2014/15 *Business Plan*, we flagged that during this year we will implement the MMR, including significant changes for intermediaries. We continue to believe that 3.2% of our 2014/15 AFR is a reasonable reflection of how we plan to allocate our resources to the regulated activities covered by the A.18 fee-block in order to meet our statutory objectives, in particular, to secure an appropriate degree of protection for consumers in this market.

We are not changing the level of fee discounts for EEA branches as we believe they appropriately reflect our responsibilities in relation to them.

We are not planning to change the way we allocate our prudential regulation costs within the AP.0 fee-block. We accept that the current basis does not take into account the prudential categories of firms. However, it does distribute the recovery in proportion to the overall size of firms' regulated activity as measured by the total fees they pay in the regulated activity-driven fee-blocks they come under.

The CASS firms excluded from the A.21 fee-block represent only 1.1% of the client money and assets tariff data (measure of size) and therefore their contribution to the recovery of the costs allocated to A.21 would be negligible. However, we will be consulting in our October 2014 fees policy CP on bringing these additional firms into A.21.

In Chapter 3 we provide the basis for allocating 8% of our AFR to the 'B' to 'G' fee-blocks.

Responses to ombudsman service general levy

- 1.19** All seven trade body respondents that commented on the allocation of the general levy supported the proposed allocation.

Responses to Money Advice Service levies

- 1.20** Of the eight responses received on the money advice levy, most agreed or had no strong objections to the proposals. One felt that wholesale markets should not have to contribute. Four of the responses supported the revised allocation method although one expressed concern, saying it was not proportionate. Other comments were made such as the Money Advice Service should be accountable and regularly audited by the NAO, the allocations method should be kept under review, and a couple expressed support that the budget was held at £43m.
- 1.21** There were three responses about the debt advice levy, two of which supported the proposals and the other saying it was not fair and proportionate.

Our response

We have decided to proceed with the levy rates as proposed. We will keep the funding under review and ask the Money Advice Service to look again at the allocation methods for both money advice and debt advice once the new system has had the benefit of operating for a year.

The NAO review of the Money Advice Service published in December 2013 confirmed that the Money Advice Service was providing value for money in debt advice and, although it had not yet demonstrated this for money advice, it was moving in the right direction.

The Treasury launched an independent review of the Money Advice Service on 30 May. It will assess the current and future need for financial education and how efficiently and effectively the Money Advice Service has been meeting consumers' needs for debt and money advice. It will report at the end of 2014.

Responses to consumer credit fees

FCA fees

- 1.22** We received 18 responses, almost all from professional or trade bodies.
- 1.23** There were mixed views on our proposed fee rates. Some agreed, several thought they were too high. There was some support for our proposal to structure fees to keep rates down for smaller firms, but some considered it was unreasonable to expect larger organisations to subsidise their competitors. Two respondents warned that our rates relied on our estimates of population from 2016/17. If numbers were lower than anticipated, the fees would be higher.
- 1.24** Several respondents argued for our fees to take account of risk rather than putting all types of business into a single fee-block.
- 1.25** The relevant trade bodies supported the exemption of credit unions and community finance organisations from periodic fees until their income went above £250,000.
- 1.26** There was criticism of the impact of our fees on mortgage and investment intermediaries who have to pay fees even if they earn no direct income from consumer credit.
- 1.27** There was a suggestion that the current non-consumer credit minimum fee of £1,000 should cover all authorised activity, with no additional minimum fee for consumer credit.
- 1.28** There was a query about the continuing uncertainty over the long-term position of second-charge mortgage lenders.
- 1.29** Several respondents raised technical points about our definitions of income although we were not consulting on these.

Our response

We are not changing the fee rates on which we consulted. The new regulatory regime is more costly than the previous one because the government has given us greater responsibilities and stronger powers, so our fees are necessarily higher. We recognise the concerns about population projections and will continue to remodel the fees as the data improves. We are committed to levying fair and proportionate fees.

Our experience is that a larger number of risk-based fee-blocks would have been disproportionately complicated.

Our fees for mortgage and investment intermediaries follow firms' permissions and individual firms must judge whether they need consumer credit permissions to do business.

We propose to carry out a review of minimum fees for the October 2014 fees policy CP, and we will take these comments into account.

We appreciate that the regulatory arrangements for second-charge lenders may change when the EU Mortgage Directive is implemented. For the moment they are covered by the consumer credit legislation.

Some of the queries about income definitions were specific to particular types of firm and we are discussing these directly with the respondents. If they generate issues of wider interest, we will address them in our October fees CP.

Ombudsman service levy

- 1.30** Six respondents (four trade bodies and two consumer credit firms) agreed with our proposed ombudsman service levy rates for consumer credit firms. Two respondents asked us to clarify why firms above the £250,000 income threshold would not receive any recognition for the £140 ombudsman levy they have already paid the OFT.

Our response

We have decided to proceed with the levy rates as proposed. We did not believe that £140 would be material to firms above the £250,000 income threshold to warrant the additional cost of reimbursing the levy paid to the OFT. We have reconsidered and believe the additional costs of providing a credit are marginal and therefore the recognition of the ombudsman service levy paid to the OFT will apply to all firms in their periodic fee invoice when they become FCA authorised.

Money Advice Service levy

- 1.31** We received 12 responses, three from individual firms and nine from trade bodies. As with FCA fees, views on the rates were mixed. One response made the point that short-term credit was only 2% of unsecured lending and this should be reflected in the MAS levy.

Our response

We have decided to proceed with the levy rates as proposed. While short-term lending is a critical area, the Money Advice Service levy covers all of its activities, and so the anticipated allocation of resources to particular segments of the market has been factored into the calculation.

Credit-broking merchant discount

- 1.32** We proposed the introduction of a measure, which we called the 'credit-broking merchant discount,' to take account of the common business model whereby retailers are charged by third-party lenders when they arrange loans for their customers. For example, a retailer who arranges an interest-free loan of £1,000 to enable a customer to purchase its goods, may receive, say, £950 from the lender.

- 1.33** We received two responses, both extremely thoughtful, including one drafting correction and a suggestion that our description of the arrangement was misleading. These are discussed in greater detail in paragraphs 5.12 – 5.15 of chapter 5.

Our response

It has proved difficult to describe an arrangement for which there appears to be no industry-standard expression and we discuss the issues in the chapter. We have accepted the drafting correction. We agree that our name for the measure could be improved and believe a more accurate description is: the ‘lender’s credit broker charge.’ We have decided to rename it accordingly.

Consumer credit fee-payers

Consumer credit firms do not pay FCA periodic fees, or ombudsman service or Money Advice Service levies, while they have interim permission. There will be a flow of firms into the consumer credit regime throughout 2014/15 as, from 1 April 2014, we started accepting new applications and applications from firms with interim permission that we have asked to apply for full authorisation.

When a firm is authorised it does not pay a full year’s fee or levy, but is charged prorata on the basis of the number of months remaining in the fee year. Consequently, no firms will pay the full rates in 2014/15; that is discussed in chapter 5 and detailed in Appendix 1 of this policy statement.

It will be 2016/17 before the status of all the former Office of Fair Trading (OFT) licensees is determined and we have a full population of consumer credit firms. To maintain consistency over the long term, we have modelled our fee and levy rates on our best estimates of the number and size of firms we expect to be authorised in 2016/17.

Compatibility statement

- 1.34** The rules we have now made do not differ in substance from those proposed in Appendix 5 of CP14/6, except regarding certain periodic fee rates, as explained in Chapters 2 to 7. However, these changes do not alter the compatibility statements we published with CP14/6.
- 1.35** Annex 1 of CP 14/6 included a statement that we did not expect the proposals consulted on to have a significantly different impact on mutual societies when compared to other authorised persons. In our opinion, the changes to these proposals set out in this policy statement do not alter this assessment.

Next steps

What do you need to do next?

- 1.36** We highlighted in CP14/6 that fee-payers should be aware that the draft fee rates and levies in Appendix 5 of CP14/6 were calculated using estimated fee-payer populations and tariff data (measures of size), which may change when the final fee rates are calculated in June 2014.
- 1.37** Table 2.2 in Chapter 2 shows the estimated firm populations and tariff data contained in CP14/16 and the actual figures used to calculate the final fees rates. It also shows the year on year movements in the draft fee rates contained in CP14/6 and the year on year movements in the final fee rates in the in Appendix 1 of this policy statement.
- 1.38** Our **online fees calculator** is available for firms to calculate their individual fees based on the final rates in Appendix 1 of this policy statement. This includes FCA fees, the ombudsman service general levies and Money Advice Service levies.
- 1.39** In the case of the 'B' to 'G' fee-blocks covered in Chapter 3, we have highlighted where final fee rates have changed since the draft rates in CP14/6.

What will we do?

- 1.40** We will invoice fee-payers from July 2014 onwards for their 2014/15 periodic fees.

2. FCA periodic fees for authorised firms

(FEES 4 Annex 2AR, final rules in Appendix 1)

2.1 In this chapter we:

- confirm our 2014/15 annual funding requirement (AFR) and allocation across fee-blocks
- give feedback on the responses to Chapter 2 and 3 of CP14/6, in which we consulted on the draft fees rates rules for authorised firms – the 'A' fee-block
- highlight the changes between the draft fees rates in CP14/6 and the final rates contained in Appendix 1

2014/15 annual funding requirement (AFR) and allocation across fee-blocks

2.2 Following completion of our audited 2013/14 accounts, our total 2014/15 AFR of £446.4m remains unchanged from CP14/6 representing an increase of £14.3m (3.3%) from 2013/14.

2.3 Our approach to the allocation of the 2014/15 AFR increase across fee-blocks was to maintain an even distribution of the increase unless, identified at an individual fee-block level, the allocation movements were materially different from the overall increase in the AFR. This was the case in the following fee- blocks (explanations were provided in Chapter 2 of CP14/16):

- AP.0 FCA Prudential fee-block +42.5%
- A.1 Deposit acceptors fee-block +3.9%
- A.7 Portfolio managers +11.7%
- A.9 Managers and depositaries of investment funds, and operators of collective investment schemes or pension schemes +23.6%
- A.10 Firms dealing as principal -5.6%
- A.13 Advisory arrangers, dealers or brokers –18.7%

2.4 Table 2.1 confirms that the allocation of the £446.4m AFR remains unchanged from CP14/6.

Table 2.1: FCA AFR allocations to fee-blocks

Fee-block	(i)	Actual 2014/15 £m	Actual 2013/14 £m	Movement
A.0 FCA minimum fee	Solo	18.0	18.0	0%
AP.0 FCA prudential fee (ii)	Solo	15.6	11.0	42.5%
A.1 deposit acceptors	DR	62.3	60.0	3.9%
A.2 home finance providers and administrators	Solo	16.0	15.5	3.2%
A.3 insurers – general	DR	22.8	22.1	3.2%
A.4 insurers – life	DR	38.5	37.3	3.2%
A.5 managing agents at Lloyd's	DR	0.2	0.2	3.2%
A.6 the Society of Lloyd's	DR	0.3	0.3	3.1%
A.7 portfolio managers	Solo	43.4	38.8	11.7%
A.9 managers and depositaries of investment funds, and operators of collective investment schemes or pension schemes	Solo	13.4	10.8	23.6%
A.10 firms dealing as principal	Solo & DR (iii)	46.2	48.9	-5.6%
A.13 advisory arrangers, dealers or brokers (iv)	Solo	68.0	83.6	-18.7%
A.21 firms holding client money or assets or both	Solo	13.4	0.0	N/A
<i>A.13 and A.21 sub-total</i>	<i>(iv)</i>	<i>81.4</i>	<i>83.6</i>	<i>-2.7%</i>
A.14 corporate finance advisors	Solo	12.6	12.2	3.2%
A.18 home finance providers, advisers and arrangers	Solo	15.7	15.2	3.2%
A.19 general insurance mediation	Solo	25.9	25.1	3.2%
B. recognised investment exchanges, operators of multilateral trading facilities, recognised auction platforms and service companies	Solo	6.9	6.7	3.1%
C. collective investment schemes	Solo	2.3	2.2	3.1%
D. designated professional bodies	Solo	0.2	0.2	3.1%

E. issuers and sponsors of securities	Solo	19.7	19.1	3.1%
F. unauthorised mutuals	Solo	1.6	1.6	3.1%
G. firms registered under the Money Laundering Regulations 2007 and firms covered by the Regulated Covered Bonds Regulations 2008, Payment Services Regulations 2009 and Electronic Money Regulations 2011	Solo	3.5	3.5	3.1%
Total		446.4	432.1	3.3%

Notes:

(i) Solo = FCA solo-regulated fee-block activities. DR = fee-block activities that are dual-regulated by the FCA for conduct purposes and the PRA for prudential purposes.

(ii) AP.0 FCA prudential fee-block is only recovered from FCA solo-regulated firms in proportion to the total periodic fees they pay through FCA solo-regulated fee-blocks.

(iii) Includes certain investment firms that have been designated by the PRA to be regulated by the PRA for prudential purposes. These designated firms do not pay fees in the AP.0 FCA prudential fee fee-block. The remaining firms in A.10 are solo-regulated by the FCA and, therefore, pay prudential fees to the FCA in AP.0.

(iv) See Table 2.3 in Chapter 2 of CP14/6 which gave an explanation of the year-on-year movement of -2.7% from A.13 and A.12 fee-blocks in 2013/14 and A.13 and the new A.21 fee-blocks in 2014/15.

2.5 The remainder of this chapter covers the 'A' fee-blocks in Table 2.1 and Chapter 3 covers the other 'B' to 'G' fee-blocks.

Periodic fees for authorised firms – summary of proposals

2.6 In Chapter 3 of CP14/6 we proposed:

- a minimum fee of £1,000, the same as 2013/14, and that the lower concession minimum fees for smaller credit unions and friendly societies should also remain unchanged
- to continue to apply a premium of 25% and 65% to the fee rates for medium-high and high-impact firm respectively in the top two bands of the A.1 fee-block (Deposit acceptors)
- introducing bandings for the new A.21 fee-block (Firms holding client money or assets or both) based on the risk classifications we apply to firms in the client assets sourcebook (CASS) and moderate the fees we charge these firms in line with the resources applied to large, medium and small CASS firms
- to continue to apply the 2013/14 level of fees discounts for European Economic Area (EAA) passported-in branches. For all relevant fee-blocks the discount is 10% except for A.19 (General insurance mediation) where the discount is 50%

2.7 The draft fee rates were contained in Appendix 5 of CP14/6 and our online fees calculator was available to help firms calculate the proposed fees for 2014/15.

2.8 We asked:

Q1: Do you have any comments on the proposed FCA 2014/15 minimum fees and variable periodic fee rates for authorised firms?

Responses to consultation

2.9 Overall we received 27 responses to CP14/6 – 18 trade bodies and nine individual firms. The non-confidential respondents are listed in Annex 1.

2.10 On the proposals for periodic fees in the 'A' fee-blocks, 15 respondents commented – 11 trade bodies and four firms.

Responses to overall increase in AFR

2.11 Although there was some recognition that the 3.3% AFR increase was relatively modest, almost all respondents challenged the increase, highlighting that it was in addition to significant increases in recent years.

2.12 There was also a general call for us to be more accountable in the way we control our costs and for greater transparency on how we spend our AFR, the reasons for increases and the basis for the distribution of the AFR across fee-blocks. On cost control and transparency, one respondent asked for more clarity on the following areas in relation to the overall increase in our AFR:

- Little information is provided on how the planned increase in IT costs will be funded from re-prioritisation, savings and operational efficiencies and what impact this will have.
- Our competition objective has been in place since 1 April 2013, so why could we have not looked for savings within in the existing budget to cover the cost of the additional specialist competition expertise.

2.13 Three respondents referred to the March 2014 report from the National Audit Office (NAO), in particular the NAO's recommendations that we should develop more structured approaches to evaluation of our work, refine our performance measurement frameworks and publish our key measures of performance. This was alongside general references by respondents that we need to demonstrate value for money (VfM).

2.14 Two respondents raised concerns about the 'hidden costs' of regulation, such as Section 166 reports, one of which called for us to be more transparent about how these costs are absorbed by firms and publish clear details of the frequency of use and the related costs across the various categories of firms.

Our response

Our Annual Funding Requirement (AFR) in 2014/15 is £446.4m, a 3.3% increase on last year. The main reason for the increase is that we have not been able to return as much under spend to fee payers as last year (we returned £19.5m in 2013/14 but a reduced £10.0m in 2014/15).

Excluding the impact of the under spend returned, the underlying increase in the AFR is 1% - close to the 1.4% increase in our annual Ongoing Regulatory Activity (ORA) budget, which increased from £445.7m in 2013/14 to £452.0m in 2014/15. The increase in our budget was driven by our new competition team to deliver our competition objective. A full breakdown of the year-on-year movement in our AFR was provided in Chapter 2 of CP14/6 supplemented by Chapter 8 in our 2014/15 *Business Plan* published with our *Risk Outlook* at the same time as the CP.

We delivered on our public commitment to keep FSA legacy costs at the same level as 2013/14 despite our need to continue to upgrade our information systems (IS) and technology platform. We believe this was a good example of demonstrating cost control as to fund our IS plans we re-prioritised, made savings and made a number of operating efficiencies.

Our IS plans were detailed in Chapter 7 of our *Business Plan* and included updating our Online Notifications and Applications system (ONA) with a new 'Connect' portal as part of the INTACT (INTElligent Application of Case management Technology) system. This will significantly improve the way we interact with firms.

Chapter 4 of our *Business Plan* acknowledged that our competition objective was new with the creation of the FCA in April 2013. It also explained the key activities in this area for 2014/15. We also noted that from April 2015 we will have concurrent powers with the Competition and Markets Authority (CMA) to enforce competition law. So in addition to continuing the activities started in 2013/14, we will be preparing for this throughout 2014/15, including training existing staff, recruiting new staff, strengthening our internal process, and building a close relationship with the CMA.

Our *Business Plan* is one of the key ways that we demonstrate accountability and transparency. As flagged in CP14/6 it set out how we plan to promote our vision and achieve our objectives during 2014/15 which will be resourced by our AFR. We believe the *Business Plan* helps firms to better understand how we use the fees we raise from them. Our approach to allocating the AFR increase across fee-blocks for 2014/15 was to maintain an even distribution unless, identified at an individual fee-block level, the allocation movements were materially different from the overall increase in the AFR. This enabled a clearer link between the reasons for material differences and our *Business Plan*. We will continue to seek to improve the transparency of this link in future years.

We are also accountable to Treasury and are required to report to them on, among other things, the extent that we have met the principles of good regulation. This includes considering the need to use our resources in the most efficient and economic way. The report to Treasury is laid before Parliament, published as our *Annual Report*, and discussed at our Annual Public Meeting. Our *Annual Report* for 2013/14 will be published in July.

Chapter 7 of our *Business Plan* set out:

- our VfM strategy, and noted that we will be implementing a number of VfM initiatives throughout the year that we will monitor, measure and report on
- that we will also work together with the NAO and address the recommendations from its review of the FCA
- that we have a pragmatic approach to performance, which takes into account the appropriate use of resources – this means we are likely to be less reliant on the sort of large research programmes specifically designed by us for performance measurement and make more use of research and analysis by other organisations e.g. financial research surveys

Section 166 of FSMA gives us the power to obtain an independent view of aspects of a firm's activities that cause us concern or where we require further analysis. Appointment of the skilled person firms can either be by the regulated firm, or (under the Financial Services Act 2012), directly by the FCA. In each case, we set the scope and review costs are payable by the regulated firm. In our *Annual Report* for 2013/14, we plan to publish information relating to the usage and costs of Section 166 reports during that year.

Responses to proposals on minimum fees

- 2.15** Eight respondents commented. Four trade bodies representing smaller firms (mainly credit unions) supported the proposal to keep minimum fees unchanged for the fifth year running.
- 2.16** One large insurance firm and three trade bodies covering insurers, wholesale market brokers and investment managers/advisers did not. They highlighted in the main that this was resulting in larger firms increasingly cross subsidising smaller firms and that some check on this should be introduced.

Our response

We are continuing to maintain minimum fees unchanged for 2014/15. The proportion of firms that only pay minimum fees and therefore have not seen any increases in five years is 42%, but they represent less than 2% (£7.6m) of the total 'A' fee-block.

However, we acknowledge the concerns that some respondents have made. We will take these into account when consulting on a range of alternatives for calculating the minimum fee and keeping it under review, which we plan to do as part of our annual fees policy CP in October 2014.

In Chapter 5 we provide feedback on the responses to consumer credit minimum fees proposed in CP14/6 from 'A' fee-block firms that will also pay minimum fees for their consumer credit activity.

Responses to proposals on fee-blocks A.3, A.7 and A.13

2.17 The regulated activity covered by these fee-blocks is defined in Part 1, FEES 4 Annex 1AR of our FEES Manual.³ Firms who have applied, been authorised and therefore are permitted to undertake these regulated activities (permitted business) will come under these fee-blocks. The groups of regulated activities have been consulted on previously by the FSA or us. We refer to them as:

- A.3 insurers –general
- A.7 portfolio managers
- A.13 advisory arrangers, dealers or brokers

A.3 insurers – general

2.18 One trade body representing general insurers who raised overall concerns regarding the increase in the AFR allocated to this fee-block (in addition to the significant increases in recent years) also highlighted that the resulting increase in fees is particularly acute for reinsurance business when considering ‘the type and sophistication of the risks written (generally low-volume, high value), the limited risk to consumers and required regulatory activity’. These concerns were also raised by an individual European Economic Area (EEA) firm operating as a branch in the UK undertaking reinsurance business.

A.7 portfolio managers

2.19 The AFR allocation to this fee-block increased by £4.6m to £43.4m (11.7%), which reflected, in part, the recovery of our set-up costs for the implementing the Alternative Investment Fund Managers Directive (AIFMD).

2.20 A trade body raised concerns that the majority of their members in this fee-block provide discretionary services to retail clients and as such they are not subject to the provisions of the AIFMD. Therefore, in their view, their members are funding regulatory costs attributable to the wholesale activities of predominantly large firms.

A.13 advisory arrangers, dealers or brokers

2.21 One trade body representing financial advisers, while acknowledging that recent policy changes we have made to the A.13 fee-block should result in a reduction in fees for most advisers, raised concerns that their members continue to pay too much because we allocate 15% (£68m) of our AFR to A.13. In contrast, they point to £62.3m in A.1 (Deposit acceptors – ‘the banks’) and the total for insurers £61.3m (fee-blocks A.3 life and A.4 general).

2.22 One of the policy changes financial advisers would have benefited from was the introduction of the new A.21 fee-block (Firms holding client money or assets or both) for 2014/15. The consequence of this change is that the A.13 fee-block has merged with fee-block A.12, which included firms who also do the activities covered by A.13 but had been in a separate fee-block as they held client money/assets in conjunction with those activities.

2.23 This trade body also urged us to make an adjustment to the 2014/15 fees for firms in the ‘old’ A.13 to correct what they see as an error in the treatment of financial advisers in 2013/14 before the policy change had been made.

³ fshandbook.info/FS/html/FCA/FEES/4/Annex1A

- 2.24** Two other trade bodies made a joint response. The members of these trade bodies include the wholesale intermediation of platform and Over the Counter (OTC) markets in financial, energy, commodity and emission markets and their traded derivatives. These firms also fall under the A.13 fee-block, which we refer to as 'wholesale market brokers'. These trade bodies highlighted that the direct allocation of our AFR to this fee-block and the use of income as a measure of size within it fails to recognise the diversity of firms within A.13. They suggest that we consider allocating costs to fee-blocks based on a matrix that takes into account the firms FCA risk category and wholesale/retail nature of their business.

Our response

These trade bodies, representing general insurers, private/retail client investment managers, financial advisers and wholesale market brokers and covering three sub-sets of the 'A' fee-block, are effectively seeking to further sub-divide these fee-blocks to allow AFR allocation to reflect the variations of the type of business that some of their members undertake within the regulated activities covered by the existing fee-blocks and the extent they undertake those activities for 'retail' or 'wholesale' customers.

Overall we believe that the current 16 sub-sets of the 'A' fee-blocks represents the right level of recognition of the diversity of authorised firms which account for 92% of our AFR – a level across which we can allocate our AFR with reasonable accuracy and transparency. The AFR allocated to the fee-blocks is recovered from firms based on their size as a proxy for the risk to our statutory objectives if they fail. The measures of size differ across fee-blocks but within them they represent an objective and transparent measure of regulated activity that can be consistently applied to all firms in the fee-block.

In our *How we raise our fees*⁴ document, we set out more fully the policy rationale for the method that we use to calculate fees for all fee-payers. This policy rationale was used to support the consultations, undertaken by the FSA and subsequently ourselves, on the rules that form our FEES Manual.

During 2013/14 we carried out a review of how we raise our fees, which included exploring some fundamental alternatives to the current method. One of those fundamental alternatives was to consider using the four firm categories we use for our supervisory resourcing model to allocate our costs across firms. We engaged with a wide range of stakeholders, including 13 trade bodies. Chapter 9 of CP14/6 reported that, taking into account the views of stakeholders, we had decided that we should continue with the current overall approach.

Part of our reasons for doing so was that stakeholders did not propose any fundamental alternatives at the outset of the review and our discussions with stakeholders on the fundamental alternatives that we proposed showed there was no broad consensus for such degrees of departure from the current method.

Similarly, we had mixed responses to this decision from the stakeholders we had engaged with during the review. Some welcomed the decision to continue with the current method, some urged us to further consider the fundamental

⁴ July 2013 version currently available at www.fca.org.uk/static/documents/how-we-raise-our-fees.pdf and an updated version will be published in July

alternatives. Most did not comment. So we do not plan to initiate any fundamental changes to the current method for raising fees for the foreseeable future. The only exception to this is minimum fees as highlighted under paragraph 2.16.

The above feedback relates to all the respondents to the proposals under fee-blocks A.3, A.7 and A.13. In the remainder of this section we feedback more on each.

A.3 insurers – general

We acknowledge that firms in this fee-block can carry out a range of types of general insurance, either wholly or as a mix of different types of business. Firms will view them as having different risk profiles, as we will when applying our resources to mitigating the risk they represent to our statutory objectives. Reinsurance business is one type of general insurance business, which is covered by the regulated activity this fee-block represents. We believe that the 16 subsets of the 'A' fee-block (which includes A.3) sufficiently recognises the diversity of authorised firms for the purposes of allocating our AFR.

The tariff base (measure of size) for A.3 is a combination of premiums and gross technical liabilities. We would point out that in the case of a pure reinsurer carrying on general insurance business through a branch in the UK, the amount of tariff data used to calculate fees only relates to that in respect of its UK business.

A.7 portfolio managers

The £4.6m increase (11.7%) in the AFR allocation to the A.7 fee-block is made up of the £3.3m (8.5%) for the AIFMD set-up costs and 3.2% for the overall increase in the AFR.

Since July 2013, the A.7 fee-block has grouped together the following activities of:

- managing investments
- managing a UCITS⁵
- managing an Alternative Investment Fund (AIF)

Costs which relate to one of these activities will, when allocated to A.7, fall to be recovered from the fee-block as a whole. As such, the costs which relate to the AIFMD activities are recovered from A.7 as a whole.

When the FSA consulted on the rules (FSA CP13/9) which gave effect to this it received no objections to them. Neither did it receive any fundamental objections to adding the same activities to the A.9 fee-block (managers and depositaries of investment funds etc).

⁵ undertakings for collective investment in transferable securities (UCITS)

In relation to the AIFMD implementation costs in particular, we note that a consequence of our fee-block structure is that, from time to time, 'one-off' costs will be recovered from a sub-set of firms within a fee-block to whom the costs do not relate. We do not believe that the recovery of some of the costs of implementing the AIFMD from all the firms in A.7 is extraordinary in this regard. As such, we continue to consider it appropriate to recover some of the AIFMD scope change costs from the A.7 fee-block.

We did not receive any responses from firms/trade bodies covered by the A.9 fee-block in relation to this allocation.

The total £43.4m AFR allocated to the A.7 fee-block will be recovered from firms based on the size of their funds under management (FUM). Firms with larger FUM will pay a greater proportion of the £3.3m AIFMD costs

A.13 advisory arrangers, dealers or brokers – financial advisers

Although we allocate 15% (£68m) of our AFR to the A.13 fee-block, it is not only recovered from financial advisers that carry on the regulated activity covered by A.13 in relation to retail investment products.

The A.13 fee-block can also include, for example, non-discretionary investment managers and wholesale market brokers. The fee-blocks highlighted as comparable with A.13 are more narrowly based and banks as well as life insurers can pay fees in A.13. We have estimated the proportion of the A.13 fee-block that is recovered from financial advisers to be £6m (8.5%) and the number of financial advisers to be 2,778 around 55% of the total firms that pay fees in A.13.

For the purposes of this data we have only included firms that pay fees in the A.13 and complete the Retail Mediation Activities Return (RMAR), through which they report to us their financial information. Banks, life insurance firms and other firms that pay fees in A.13 do not complete the RMAR so we believe that the A.13 firms who do complete the RMAR is a reasonable proxy for financial advisers.

Financial advisers will benefit from the policy change we made to set-up a separate fee-block for the activity of holding client money/assets (A.21) as they will be in the wider A.13 fee-block, now with much larger firms (measured by income from regulated activities), and as a result will pay less fees even though the AFR allocated to the fee-block is larger.

We consulted on this change in CP13/14 (October 2013). Our feedback was included in Chapter 8 of CP14/6, in which we stated that we did not agree this change meant that financial advisers have been over charged in previous years. We highlighted that creating a new fee-block will always lead to winners and losers in the short-term, this does not mean that some firms have been historically 'overcharged' any more than others have been 'undercharged'. We are recovering the same amount of money from investment intermediaries as previously. Creating the new A.21 fee-block enabled us to pool large and small firms together into a revised A.13 fee-block and this has the effect of reducing the blended fee-rate per £100,000 of income.

Wholesale market brokers also come under the A.13 fee-block and, being much larger firms (measured by income from regulated activities), will see their fees

increase from the same policy change that has benefited financial advisers. The type of business undertaken by wholesale market brokers is one type of advisory arranging or broking regulated activity covered by the A.13. We believe that the 16 sub-sets of the 'A' fee-block (which includes A.13) sufficiently recognises the diversity of authorised firms for the purposes of allocating our AFR.

Responses to proposals on fee-block A.18 home finance providers, advisers and arrangers

- 2.25** A trade body representing mortgage intermediaries challenged the £15.7m (3.2%) allocation of our AFR to the A.18 fee-block. They raised concerns that this amount is disproportionate against the background that, based on their analysis, the smallest mortgage brokers have seen their costs double since 2004 (when the FSA first started regulating this activity) and larger brokers costs have increased 3.5 times (350%), while over the same period the number of brokers have fallen from a high of 30,000 to 12,000 today (60%).
- 2.26** They called for us to place a greater focus on a more appropriate risk measure based on the capacity of the industry to fund regulation, rather than the need to fund the regulator itself. Also, they expressed concerns about the way we allocate our indirect costs and that we should place a greater focus on direct costs to ensure, where possible, costs are paid by the fee-blocks that generate the cost.

Our response

We acknowledge that fees have gone up in the A.18 fee-block over a period when the number of firms has fallen, but not to the same degree as indicated in the response. During the nine-year relevant period the AFR allocated to A.18 has increased from £9.6m to £15.7m (64%) and the number of firms paying fees in A.18 has decreased from 7,080 to 5,036 (down 29%).

In the five years to 2009/10 the average AFR allocation was £10.4m. In 2010/11 there was a 33% increase to £14.4m which was attributed in part to the projected increase in work arising from the issues highlighted at the commencement of the Mortgage Market Review (MMR). In the FSA's 2010/11 *Business Plan* the FSA noted that the MMR signalled a major change in its approach to the regulation of this market. From 2010/11 to 2014/5 the average allocation is £14.9m. During this period the FSA continued with the MMR and reported on its development. In our 2014/15 *Business Plan* we flagged that during this year we will implement the MMR including significant changes for intermediaries. We continue to believe that 3.2% of our 2014/15 AFR is a reasonable reflection of how we plan to allocate our resources to the regulated activities covered by the A.18 fee-block in order to meet our statutory objectives, in particular, to secure an appropriate degree of protection for consumers in this market.

We believe that meeting our statutory objectives should be the key driver for where we allocate our resources. In doing so, we seek to allocate as much of the related direct costs to the particular fee-block as possible as explained in our *How we raise our fees* publication. The AFR allocated to A.18 is recovered from firms in proportion to the amount of their income from this regulated activity. The A.18 fee-block includes banks and building societies as well as what can be referred to as 'mortgage brokers'.

Responses to proposals on EEA fee discount for the A.3 fee-block (insurers-general)

- 2.27** EEA firms that passport into the UK on a branch basis are given a percentage discount on the variable periodic fees they pay compared to a UK-authorized firm conducting the same business in the relevant fee-blocks. The discounts take account of our regulatory responsibility in relation to these UK branches. We consulted on maintaining for 2014/15 the current level of 10% discount for eight out of the nine relevant fee-blocks (including A.3) and 50% for A.19 (general insurance mediation). Under the FSA, as both prudential and conduct regulator for general insurance providers (A.3), the discount was 90%.
- 2.28** One trade body representing general insurers, while acknowledging that under our consultations for 2013/14 we had increased the discount for the A.3 fee-block from 0% to 10%, continued to raise concerns over the reduction from 90% under the FSA, especially given that there is a 50% discount for the A.19 fee-block. Some of its members have particularly expressed concerns that the regulatory fees levied in the UK are already substantially greater than those levied in other EEA countries. An individual EEA firm operating as a branch in the UK also raised similar concerns, but also noted that it is not straightforward to make international comparisons about the cost of insurance industry regulation because regulatory structures and aims vary and so do insurance products and providers.

Our response

We agree that it is not straightforward to make direct comparisons between the UK and other EEA countries about the costs associated with regulating the insurance industry. For example, the UK general insurance market is one of the largest markets in the EEA. Indeed, the tariff data reported to the FCA in respect of its 2014/2015 fees gives a clear indication of its size and significance to the UK financial system. A.3 general insurers' reported £65.9bn of total gross premium and the total gross technical liabilities reported amounted to £135.8bn (as stated in Table 2.2). Fee discounts for UK branches of EEA firms were introduced by the FSA to take account of the Home state being primarily responsible for the prudential regulation of an EEA firm and the Host state being primarily responsible for conduct regulation. The FSA was both the prudential and conduct regulator for the regulated activities covered by the A.3 (and other dual-regulated fee-blocks), therefore the FSA's discounts aimed to reflect the difference between the combined prudential and conduct resources applied to regulating UK branches of EEA firms compared to UK-based firms.

Under the new regulatory framework in which regulatory responsibilities are split between the PRA and FCA, the FCA charges fees only for its regulatory functions. Consequently, if firms are undertaking dual-regulated activities, they pay prudential fees to the PRA and if they are also in the solo-regulated fee-blocks they do not pay fees in our FCA prudential fee-block (AP.0). Therefore, FCA discounts are not directly comparable with the discounts under the FSA.

An important factor that our discounts for UK branches of EEA firms take into account is that, while we are generally responsible for their conduct supervision as host regulator our supervisory responsibilities for UK branches of EEA firms, in relation to systems and controls and approved persons, are less than for UK-based firms carrying on the same regulated activities:

- **Systems and controls** – In general, the home state is responsible for systems and controls. However, this does not necessarily mean that we cannot consider the systems and controls of UK branches of EEA firms for carrying out, where appropriate and including in cooperation with the home state regulator, our supervisory responsibilities in relation to conduct matters.
- **Approved persons** – As host state regulator, for UK branches of EEA firms we only apply a subset of controlled functions in relation to approved persons, which vary depending on which EU Directive applies. In the main the controlled functions we apply are CF11 – Money Laundering Reporting Officer (MLOR), CF29 – significant management function and CF30 – customer function. The remaining 10 controlled functions are not generally applied.

UK branches of EEA firms pay fees in the relevant fee-blocks, including A.3, within the same overall fees framework as a UK firm. The regulated business they carry out in the UK places them in the same fee-blocks and the amount of our AFR allocated to each fee-block represents the costs of mitigating the risks to our statutory objectives of all firms covered by each fee-block. The allocated AFR to each fee-block is recovered from firms in proportion to the size of the regulated activity they carry out in the UK. To this extent a UK branch of an EEA firm is treated no differently to a UK-based firm.

We continue to believe that a 10% discount for the eight fee-blocks that include A.3 take into account the UK's responsibilities for EEA branches at an appropriate level.

UK branches of A.19 firms have a larger discount to take into account the more limited nature of our regulatory responsibilities in relation to them, which includes recognition of the fact that the conduct requirements of the insurance mediation directive are generally home state requirements.

Responses to proposals on the AP.0 FCA Prudential fee-block

- 2.29** Currently, the £15.6m AFR allocated to this fee-block is recovered from FCA solo-regulated firms in proportion to the size of the fees they pay under the other 'A' fee-blocks they belong to. Dual-regulated firms do not contribute as they pay fees to the PRA for prudential regulation.
- 2.30** One trade body proposed that our allocation of our prudential costs should take into account the four FCA Prudential Categories, which reflect the nature and extent of prudential supervision.

Our response

In our 2013/14 fees review (also referred to in our response under paragraph 2.24) we considered the fundamental alternative of allocating our AFR to four firm category blocks (based on the FCA firm categories used under our supervisory model), in line with the total supervisory resources applied to the firms in each. One of the drawbacks of this approach was that the supervisory model will continue to evolve and the assignment of firms to the categories will change, making it volatile. Medium and small-sized firms that moved between categories could see significant changes in their fees. There was also no broad consensus, amongst the 13 trade bodies we engaged with, on moving to such a fundamental alternative approach.

We believe the same issues would apply to using the FCA prudential fee-blocks to split AP.0 into four prudential blocks. We would also have the additional allocation challenge of identifying the level of resources used for each prudential block with reasonable accuracy and transparency. At the moment we only have to identify the total resources applied to our prudential regulation of solo-regulated firms.

We accept that the current basis does not take into account the prudential categories of firms. However, it does distribute the recovery in proportion to the overall size of firms' regulated activity, as measured by the total fees they pay in the regulated activity-driven fee-blocks they come under.

Responses to A.21 fee-block (Firms holding client money or assets or both)

- 2.31** In chapter 8 of CP14/6 we clarified that a firm holding client money/assets would only be captured by A.21 if it was also in the A.13 fee-block (advisory arrangers, dealers or brokers). We indicated that this would account for the vast majority of CASS supervision costs and we intend to recover any CASS costs relating to firms not covered by A.21, because they are not in A.13, in the usual way through the other relevant fee-blocks (for example A.7 portfolio managers).
- 2.32** We said that we would consider whether we should widen the definition of A.21 to include these other firms and report further in our October 2014 fees policy CP. One trade body highlighted that we were not treating all CASS firms the same and we should state the basis for our belief that the number of CASS firms not covered by A.21 is small to give assurance to firms in the CASS regime that they are competing equally.

Our response

At the time of CP14/6 the number of CASS firms was 1,399, of which 385 (27.5%) would not be captured by the A.21 fee-block. These firms represent only 1.1% of the client money and assets tariff data (measure of size) and therefore their contribution to the recovery of the costs allocated to A.21 would be negligible. However, we will be consulting in our October 2014 CP on bringing these additional firms within the definition of the A.21 fee-block.

Changes between draft fee rates and final rates

- 2.33** We highlighted in CP14/6 that fee-payers should be aware that the draft fee rates and levies in Appendix 5 of CP14/6 were calculated using estimated fee-payer populations and tariff data (measures of size), which may change when the final fee rates are calculated in June 2014.
- 2.34** In the case of the 'A' fee-blocks, this was also the first year that firms previously in the A.12 fee-block have had to report their income from the regulated activities of advisory arrangers, dealers or brokers in the A.13 fee-block, but excluding any income from the activity of holding client money and/or assets.

- 2.35** Our experience of collecting tariff data for the A.13 fee-block up to March showed that some firms were including income from holding client money and/or assets and where this occurred we asked them to amend their tariff data which we would continue to do during the consultation period. So we further highlighted that the total tariff data we use to calculate the final A.13 fee-rate in June could be much lower than we had used to calculate the draft fee-rates in CP14/6, which would result in a higher final fee-rate we have now calculated.
- 2.36** Table 2.2 shows the estimated firm populations and tariff data contained in CP14/16 and the actual figures used to calculate the final fees rates. It also shows the year-on-year movements in the draft fee rates in CP14/6 and the year-on-year movements in the final fee rates in Appendix 1 of this policy statement. The final A.21 client money tariff data is 11% less than was used to calculate the draft fee rates and therefore the final fee rates will be around 11% higher.
- 2.37** Our **online fees calculator** is available for firms to calculate their individual fees based on the final rates in Appendix 1 of this policy statement. This includes FCA fees, the ombudsman service general levies and Money Advice Service levies.

A.21 fee-block (Firms holding client money or assets or both)

- 2.38** In CP14/6, in recognition of the concerns raised by firms in our consultation through CP13/14 (October 2013), we proposed introducing bandings within the A.21 fee-block based on the risk classifications we apply to firms in the CASS sourcebook. This will enable us to align where we apply our resources and the fees we charge firms.
- 2.39** The bandings and level of moderation we proposed to apply to the tariff data for both client money and client assets have not changed since CP14/6 (set out in Table 3.2. of Chapter 3). However, the changes in tariff data since CP14/16 have affected the outcome of this moderation as the final distribution of the 2014/15 £13.4m AFR for A.21 will be as follows (figures in brackets are those estimated in CP14/6):
- CASS large firms 75.74% (76.49%)
 - CASS medium firms 24.23% (23.49%)
 - CASS small firms 0.03% (0.02%)

Table 2.2: Changes in data used to calculate draft and final fee rates and year on year movement in draft fee-rates and actual fee rates

Fee-block	Tariff base	Number of firms in fee-blocks			Tariff data			Year on year movement in fee rates from 2013/14	
		2014/15 Actual	2014/15 Estimated	Change	2014/15 Actual	2014/15 Estimated	Change	CP14/6 Estimated	Actual
A.1	Modified eligible liabilities	895	898	-0.3%	£2,857.0bn	£2,908.6bn	-1.8%	1.1%	3.0%
A.2	Number of mortgages or other home finance transactions	307	308	-0.3%	£7.4m	£7.4m	0.5%	4.8%	5.3%
A.3	Gross premium income	370	380	-2.6%	£65.9bn	£61.6bn	6.9%	4.8%	-2.3%
	Gross technical liabilities				£135.8bn	£130.7bn	3.9%		
A.4	Adjusted gross premium income	204	204	0.0%	£62.1bn	£56.9bn	8.5%	7.4%	-1.7%
	Mathematical reserves				£893.4bn	£890.2bn	0.4%		
A.5	Active capacity	61	60	1.7%	£26.4bn	£24.7bn	6.9%	3.5%	-3.7%
A.7	Funds under management	2,548	2,586	-1.5%	£5,412.3bn	£5,237.1bn	3.4%	1.2%	-2.8%
A.9	Gross income	784	789	-0.6%	£9.4bn	£8.5bn	12.0%	23.9%	8.9%
A.10	Traders	429	431	-0.5%	9,826	9,868	-0.4%	-1.5%	-1.2%
A.13 (i)	Annual income	8,846	8,828	0.2%	£25.2bn	£25.6bn	-1.4%	-59.8%	-59.2%
A.14	Annual income	766	776	-1.3%	£5.4bn	£4.2bn	24.8%	7.4%	-19.3%
A.18	Annual income	5,036	5,283	-4.7%	£1.0bn	£1.0bn	-2.7%	-1.9%	0.7%
A.19	Annual income	12,527	12,749	-1.7%	15.2bn	£15.2bn	-0.7%	0.6%	1.1%
A.21 (ii)	Client money	927	1,014	-8.6%	£153.6bn	£172.8bn	-11.1%	N/A	N/A
	Assets held				£11,677.1bn	£11,689.1bn	-2.1%	N/A	N/A

Notes:

(i) Fee-block A.13 2013/14 figures are a combination of those from A.13 and A.12. Fee-block A.12 covered the same regulated activities as A.13 plus the activity of holding client money or assets or both. Following consultation in CP13/14 (October 2013), the A.12 fee-block is no longer used and fee-block A.21 block was introduced to cover the activity of holding client money or assets or both. Our feedback on responses received to CP13/14 is set out in Chapter 8 on CP14/6.

(ii) 2014/15 is the first year for this fee-block so there are no 2013/14 fee rates to compare with 2014/15 rates.

3.

FCA periodic fees for other bodies

- 3.1** In this chapter we give feedback on the responses to Chapter 4 of CP14/6, in which we consulted on draft fees rate rules for other bodies that fall within the 'B' to 'G' fee-blocks:
- B, market infrastructure providers
 - C, collective investment schemes
 - D, designated professional bodies
 - E, issuers and sponsors of securities (UK Listing Authority – UKLA)
 - F, unauthorised mutual
 - G, firms registered under the Money Laundering Regulations 2007 and firms covered by the Regulated Covered Bonds Regulations 2008, the Payment Services Regulations 2009 and the Electronic Money Regulations 2011
- 3.2** We also highlight the changes between the draft fees rates in CP14/6 and the final rates contained in Appendix 1.

Periodic fees for other bodies – summary of proposals

- 3.3** The proposed draft periodic fees were set to recover the AFR allocated to the 'B' to 'G' fee-blocks set out in in Table 2.2 of Chapter 2 of CP14/6. As confirmed in Table 2.1 of Chapter 2 of this policy statement, the allocation of our AFR to these fee-blocks has not changed from CP14/6.
- 3.4** We also proposed changes to the way fees are calculated for the operators of multi-lateral trading facilities and service companies in the 'B' fee-block and firms subject to the regulated covered bonds regulations in the fee-block 'G'.
- 3.5** We asked:

Q2: *Do you have any comments on the proposed FCA 2014/15 minimum fees and variable periodic fee rates for fee-payers other than authorise firms?*

Responses to consultation

- 3.6** We had no responses from fee-payers in the 'B' to 'G' fee-blocks.
- 3.7** One respondent, a life insurer noted that that we highlight that 92% of our AFR is contributed by firms in the 'A' fee-block. They asked for greater transparency around the regulatory work performed for the 'B' to 'G' fee-blocks that would satisfactorily explain why these fee-blocks contribute a relatively small part (8%) of our budget.

Our response

The amounts of our AFR we allocate to these fee-blocks reflect the resources we need to mitigate the risks that these bodies represent to our statutory objectives as they apply to them. This is no different to how we allocate our AFR across the sub-sets of the 'A' fee-blocks where there can be very different levels of AFR allocated e.g. £12.6m to A.14 (corporate finance advisors) and £62.3 to A.1 (deposit acceptors).

The 'B' to 'G' fee-blocks also cover regulatory responsibilities that are very different from authorised firms under the 'A' fee-block. For example, the 'E' fee-block covers our regulatory responsibilities as the UK Listing Authority, and under fee-block 'F' we only have a registration function for unauthorised mutuals.

Changes between draft fee rates and final rates

- 3.8** We highlighted in CP14/6 that fee-payers should be aware that the draft fee rates and levies in Appendix 5 of CP4/6 were calculated using estimated fee-payer populations and tariff data (measures of size), which may change when the final fee rates are calculated in June 2014.
- 3.9** We list below, where applicable, the percentage movements in the fee rates between the draft version in CP14/6 and the final rates in Appendix 1 of this policy statement:
- C, Collective investment schemes – a decrease of 0.7%
 - E, Issuers and sponsors of securities (UK Listing Authority – UKLA). In the case of issuers, a decrease of 3.2% (other than the minimum fee)
 - G, Fee-payers covered by the Payment Services Regulations 2009. A decrease of 1% (other than minimum fees)
 - G, Fee-payers covered by the Electronic Money Regulations 2011 – a decrease of 2.4% (other than minimum fee) resulting in these fees being unchanged from 2013/14

4. FCA applying financial penalties

- 4.1** In this chapter we confirm the amount of retained penalties from 2013/14 and the final percentage rebates that will be applied to 2014/15 periodic fees paid by firms.
- 4.2** Each year the financial penalties we impose on regulated persons, as a result of taking enforcement action, must be paid to the Treasury after certain enforcement costs (retained penalties). These retained penalties are applied to the benefit of regulated persons through rebates to periodic fees in the following year. How these rebates are calculated is set out in our Financial Penalty Scheme, which we have consulted on previously and was detailed in Chapter 5 of CP14/6, and also in Annex 2 of this policy statement.
- 4.3** In Chapter 5 of CP14/6 we estimated the retained penalties for 2013/14 to be £43.6m. The amount of the estimated retained penalties allocated to each fee-block and the estimated percentage rebates for 2014/15 periodic fees was set out in Table 5.1 in CP14/6.
- 4.4** The final amount of retained penalties for 2013/14 is £39.1m, 10.3% less than estimated in CP14/6. Table 4.1 sets out how the reduced retained penalties have been distributed across fee-blocks, which is in the same proportions as CP14/6. The level of rebates is 10.3% less in each case.

Table 4.1 Final schedule of application of 2013/14 retained penalties in 2014/15

Fee block	Actual 2013/14 retained penalties applied to benefit of fee-payers (£m)	Actual rebate applied to 2014/15 fees	Estimated 2013/14 retained penalties applied to benefit of fee-payers (£m)	Estimated rebate applied to 2014/15 fees
AP.0 FCA prudential	0.0	0.0%	0.0	0.0%
A.1 deposit acceptors	4.8	7.7%	5.3	8.5%
A.2 home finance providers and administrators	0.5	3.3%	0.6	3.7%
A.3 insurers – general	1.1	4.7%	1.2	5.2%
A.4 insurers – life	1.9	4.9%	2.1	5.4%
A.5 managing Agents at Lloyd's	0.0	0.0%	0.0	0.0%
A.6 the Society of Lloyd's	0.0	0.0%	0.0	0.0%
A.7 portfolio managers	7.8	18.0%	8.7	20.1%

Fee block	Actual 2013/14 retained penalties applied to benefit of fee-payers (£m)	Actual rebate applied to 2014/15 fees	Estimated 2013/14 retained penalties applied to benefit of fee-payers (£m)	Estimated rebate applied to 2014/15 fees
A.9 managers and depositaries of investment funds, and operators of collective investment schemes or pension schemes	1.2	9.1%	1.4	10.1%
A.10 firms dealing as principal	4.2	8.9%	4.7	10.0%
A.13 advisory arrangers, dealers or brokers	9.0	13.3%	10.1	14.8%
A.14 corporate finance advisors	1.3	10.3%	1.5	11.5%
A.18 home finance providers, advisers and arrangers	2.2	13.8%	2.4	15.4%
A.19 general insurance mediation	1.9	7.5%	2.2	8.3%
A.21 firms holding client money or assets or both	2.1	15.9%	2.4	17.7%
B. (multilateral trading facility operators only)	0.0	0.0%	0.0	0.0%
E. issuers and sponsors of securities	1.0	5.1%	1.1	5.6%
G. Firms registered under the Money Laundering Regulations 2007. Firms subject to: - Regulated Covered Bonds Regulations 2008; - Payment Services Regulations 2009; and - Electronic Money Regulations 2011.	0.0	0.0%	0.0	0.0%
Total	39.1		43.6	

Rebates rounded down to 1 decimal point

5.

Consumer credit periodic fees for 2014/15

(FEES 4 Annex 2AR, rules in Appendix 1)

- 5.1** This chapter presents our feedback on the consumer credit proposals in CP14/6:
- Periodic fees and levies for 2014/15 – for the FCA, the Financial Ombudsman Service (ombudsman service) and the Money Advice Service
 - Credit-broking merchant discount – measuring the consumer credit broking activities of retailers

FCA fees

- 5.2** In CP14/6, we presented our proposed fee and levy rates for the two consumer credit fee-blocks we had set up:
- Fee-block CC1: firms with limited consumer credit permissions
 - Fee-block CC2: firms with full consumer credit permissions
- 5.3** Since it will be 2016/17 before the status of all of the firms formerly licensed by the Office of Fair Trading (OFT) has been determined, we explained that we had modelled the rates on the basis of the costs we will be looking to recover in 2016/17 and our best estimates of the number and size firms we expect to be authorised by then. This model has been set up with a view to generating rates for 2014/15 that are broadly in line with those that will prevail in 2016/17.
- 5.4** Our proposed periodic fee rates were set out in Table 7.1 of CP 14/6. We asked:

Q3: *Do you agree with our proposed FCA fee rates for consumer credit firms?*

Responses on FCA fees

- 5.5** We received 18 responses, almost all from professional or trade bodies. Where similar comments were made about FCA fees as well as ombudsman and Money Advice Service levies, we have covered them in the section on FCA fees to avoid repetition. Additional specific points are picked up in the relevant response paragraphs.

5.6 The key matters raised were:

- **Fee rates:** Six respondents agreed with our proposed fee rates, while three had no objections. Two of them supported our proposal to keep rates lower for the smaller firms, though one suggested there should be an additional income band, below £50,000, to reduce charges for the smallest firms with full permission. One firm made its consent conditional on us being able to demonstrate that there was no cross subsidisation by current non-consumer credit firms. Nine respondents considered our fees too high and one made the same point about the application fees that we introduced from 1 April. Three objected to structuring fees to keep rates down for smaller firms. As one put it, it was unreasonable that 'larger organisations are expected to subsidise the costs of their competitors'. Two commented that our structure would particularly disadvantage medium-sized firms above the minimum fee threshold of £250,000, particularly those in the £250,000 to £5m bracket. One asked for the threshold to be raised to £500,000. The other commented that fees represented a larger share of profit for these firms than larger ones, so our structure would not encourage competition or new entrants to the market.
- **Population projections:** Two respondents warned that our estimates of population from 2016/17, on which we had based our fees, might prove to be understated. One urged us to update our modelling regularly to reduce the potential for a significant shift in fees as the picture of the full market becomes clearer.
- **Risk:** Several respondents argued for our fees to take account of risk rather than putting all types of business into a single fee-block.
- **Concessions for credit unions and community finance organisations:** The relevant trade bodies supported the exemption of credit unions and community finance organisations from periodic fees until their income went above £250,000, though with some reservations about the impact on firms when they crossed the threshold.
- **Mortgage and investment intermediaries:** There was criticism of the impact of our fees on mortgage and investment intermediaries. Many intermediary firms that are already authorised by us take out consumer credit permissions as a safety net and earn no income from them, but have to pay fees as if they earned direct income from consumer credit.
- **Minimum fees:** There was a suggestion that the current non-consumer credit minimum fee of £1,000 should cover all authorised activity, with no additional minimum fee for consumer credit.
- **Second charge mortgage lenders:** There was a query about the continuing uncertainty over the long-term position of second charge mortgage lenders.
- **Queries about income definitions:** Several respondents raised technical points about our definitions of income although we were not consulting on these – eg treatment of unregulated income, possibility of basing fees on profit rather than gross income, etc.

Our response

All the comments we received were helpful and thoughtful. Our feedback is:

- **Fee rates:** Opinions were mixed and we are not changing the rates on which we consulted. The new regulatory regime is more costly than the previous one because the government has given us greater responsibilities and stronger powers. Our fees are necessarily higher. They are determined by the costs we need to recover. These include both the cumulative set-up costs of establishing the regime and the annual running costs. None of the set up costs have been charged to existing FCA-authorized firms, and the creation of distinct consumer credit fee-blocks ring-fences costs. We reiterate our commitment to supporting the smallest firms and believe that this fosters competition. A point has to be drawn, above which they have to compete on equal terms. The threshold is necessarily arbitrary and, at whatever level it is set, some firms will find the transition to variable fees awkward.
- **Population projections:** We recognise that the actual population of authorised firms in 2016/17 may be higher or lower than currently projected and we confirm that we will continue to remodel the fees as the data improves with a view to keeping the actual 2016/17 rates broadly in line with those published previously. We are committed to levying fair and proportionate fees.
- **Risk:** As we explained in our October 2013 fees CP (CP13/14, paragraph 2.35), we did consider a larger number of risk-based fee-blocks, but our experience is that this would have been disproportionately complicated. In particular, many firms would find themselves in several fee-blocks because they had multiple permissions, and would have had to sub-divide all of their data to apportion it between fee-blocks, reporting separately on each.
- **Concessions for credit unions and community finance organisations:** We do not believe it would be fair on other firms to extend the exemption on fees for firms with social objectives beyond £250,000 of income. Our aim is to support them as they develop. After that, they should compete on equal terms and, since the threshold has been clearly stated, they should build the fees into their business planning.
- **Mortgage and investment intermediaries:** Our fees follow firms' permissions so this is a perimeter issue and the trade bodies continue to engage with us over it. It is for individual firms to judge whether they need consumer credit permissions to do business.
- **Minimum fees:** We introduced separate minimum fees for consumer credit as part of the process of focusing cost recovery on the firms directly engaged in the business. We propose to carry out a review of minimum fees for the October 2014 fees policy CP, and we will take these comments into account.

- **Second charge mortgage lenders:** We appreciate that the regulatory arrangements for second-charge lenders may change when the EU Mortgage Directive is implemented. For the moment they are covered by the consumer credit legislation, so must obtain consumer credit permissions and pay consumer credit fees on the same basis as other firms.
- **Queries about income definitions:** Some of the queries were specific to particular types of firm and we are discussing these directly with the respondents. If they generate issues of wider interest, we will address them in our October fees CP. Firms should restrict their reporting to income from regulated consumer credit activities only. To take a particular query put to us, this would, for example, require the exclusion of income from business-to-business lending. We have based our definitions on gross income rather than profit, with as few deductions as possible, to reduce the scope for inconsistent reporting between firms. We use income as a measure of size to achieve a fair distribution of cost recovery across the fee-block. No measure can be perfect, but we believe profit is less objective than gross income.

Ombudsman service levy

- 5.7** Our proposed levy rates were set out in Table 7.2 of CP 14/6. OFT licensees paid an ombudsman service levy of £140 when they applied for their five-year consumer credit licences. Because this money has already been passed to the ombudsman service and the change of regulator did not affect the ombudsman service regime, we proposed to exempt former OFT licensees from further levies up to five years from the date of their OFT licence, so long as their consumer credit income was not above £250,000. We asked:

Q4: Do you agree with our proposed ombudsman service levy rates for consumer credit firms?

Responses on ombudsman service levy

- 5.8** Six respondents (four trade bodies and two consumer credit firms) agreed with our proposed ombudsman service levy rates for consumer credit firms.
- 5.9** Two respondents asked us to clarify why firms above the £250,000 income threshold would not receive any recognition for the £140 ombudsman levy they have already paid the OFT.

Our response

We have decided to proceed with the levy rates as proposed. We did not believe that £140 would be material to firms above the £250,000 income threshold to warrant the additional cost of reimbursing the levy paid to the OFT. We have reconsidered and believe the additional costs of providing a credit are marginal and therefore the recognition of the ombudsman service levy paid to the OFT will apply to all firms in their periodic fee invoice when they become FCA authorised.

Money Advice Service levy

5.10 Our proposed levy rates were set out in Table 7.3 of CP 14/6. We asked:

Q5: *Do you agree with our proposed Money Advice Service levy rates for consumer credit firms?*

Responses on Money Advice Service levy

5.11 We received 12 responses, three from individual firms and nine from trade bodies. Nine responses supported or had no objections to the proposals. Two of these responses welcomed the minimum £10 fee. Three responses did not support the proposals saying it was not either proportionate or reasonable to expect firms to fund based on their income and should be based on the type of business a firm operates or that it was reasonable for adviser firms to pay a further fee for consumer credit activities. One response made the point that short term credit was only 2% of unsecured lending and this should be reflected in the MAS levy.

Our response

We have decided to proceed with the levy rates as proposed. While short-term lending is a critical area, the Money Advice Service levy covers all of its activities, and so the anticipated allocation of resources to particular segments of the market has been factored into the calculation.

Credit-broking merchant discount

5.12 We proposed the introduction of a measure, which we called the 'credit-broking merchant discount,' to take account of the common business model whereby retailers are charged by third-party lenders when they arrange loans for their customers. For example, a retailer who arranges an interest-free loan of £1,000 to enable a customer to purchase its goods, may receive, say, £950 from the lender.

5.13 The £50 represents a charge of 5% levied by the lender for providing the credit service and the lender would report it to us as consumer credit income. The retailer would have received no consumer credit income for its credit-broking activity. Its benefit comes from facilitating the turnover of retail stock, which is not an activity regulated by us. The retailer therefore had no consumer credit income and so we were not capturing this important credit-broking activity which affects large numbers of customers. Our solution was to ask retailers to report the lender's charge – £50 in the example above – as a proxy for the activity.

5.14 We asked:

Q6: *Do you have any comments on our definition of the 'credit-broking merchant discount'?*

Responses on credit-broking merchant discount

5.15 We received two responses, both detailed and extremely thoughtful. The key issues were:

- Our description of the arrangement was misleading. It is not a subsidy or discount offered by the retailer. It is a charge made by the lender.
- Since the charge reduces the retailer's profit, it is not an accurate proxy for the benefit the retailer receives from credit-broking. A different proxy should be defined – though no alternative was offered.
- The same figure would be reported twice for different activities, 'which would be excessive.'
- There was an error in the final sentence of the guidance, which referred to the charge being made against the customer when it should be the retailer.
- Since the charge is not income, it will cause confusion. Firms will not realise they are supposed to report it as income and will submit incorrect data. The charge should be recorded in a separate box on our regulatory reporting forms, partly to distinguish it from income and partly to draw attention to it. Our current reporting and application forms do not refer to the charge, and firms will not think of it on their own.
- Some firms will in fact earn income from credit-broking and may not appreciate that they are supposed to add positive and negative figures together. Further guidance is needed on how the charge should be reported.

Our response

It has proved difficult to describe an arrangement for which there appears to be no industry -standard expression. We accept the point that the charge is levied by the lender not offered by the retailer. We believe a more accurate description of the arrangement is: the 'lender's credit broker charge' and have decided to rename the measure accordingly.

There appeared to be some misunderstanding over what we were measuring. We do not regulate firms' retail business so have no regulatory interest in any benefits they may gain through arranging credit for their customers. Our concern is that the credit broking arrangements are conducted properly and that the customers are treated fairly when they are introduced to the lender. In many cases, the loan arranged will in practice be less than the sale price of the goods since the customer pays a deposit. Consequently, the charge made by the lender is a fair measure of the loan the customer has entered into.

We appreciate that it might look as if we are double counting but, since we are measuring two distinct activities, we do not believe this is the case. One figure is, clearly and unambiguously, the income the lender receives from the credit agreement. The other figure may be less intuitively obvious, but it is the price the retailer pays as a credit broker to obtain a credit agreement for the customer. We are open to suggestions, but we have not yet found a better alternative measure of the scale of this credit-broking business.

We have accepted the correction to the guidance and this is incorporated in the instrument.

We agree that reporting the lender's charge separately would draw attention to it, but it is our objective to keep reporting simple. Our fees will be calculated from a single figure and we would prefer firms to have ownership of that figure so that they can recognise it if challenged, or if they wish to challenge us. Because the charge has been under consultation, it has not been included in the guidance to which firms are referred when completing their forms. When the rule is made, the cross-references will be clearer. We will keep the position under review and if it seems that separating the figures would help firms, we will consider the options.

6. Financial Ombudsman Service general levy

(FEES 5 Annex 1R, rules in Appendix 1)

- 6.1** In this chapter we provide feedback on the responses received to Chapter 10 of CP 14/6 in which we consulted on the tariff rates for the 2014/15 Financial Ombudsman Service's (ombudsman service) general levy for 2013/14 and the distribution across industry blocks.
- 6.2** The ombudsman service consulted separately on its case fees and total budget. In March 2014 the FCA Board approve the ombudsman service's annual budget of £277.4m for 2014/15 including the general levy, case fees and the number of free cases. Details of the consultation by the ombudsman service, and final budget and plan, are available on its website: <http://www.financial-ombudsman.org.uk/publications/plan-budget.htm>
- 6.3** The ombudsman service requested that we raise £23.3m through the general levy (which is the same amount⁶ we forecast to collect in 2013/14). As complaint trends (excluding payment protection insurance (PPI)) have remained stable, we consulted on allocating the general levy broadly on the same basis that we did last year. Annually, the amounts payable by each block will vary to reflect changes in the proportions of cases in each block.
- 6.4** We asked:

Q7: *Do you have any comments on the proposed method of calculating the tariff rates for firms in each block towards the CJ levy and our proposals for how the overall CJ levy should be apportioned?*

Responses to consultation

- 6.5** All of the seven respondents to the consultation who commented on the allocation of the general levy between industry blocks supported the proposed allocation.
- 6.6** One respondent suggested that the ombudsman service should introduce a new fee for claims management companies (CMC) or adopt a policy to not charge firms a case fee if a claim brought by a CMC turns out to be unfounded, vexatious or frivolous. These suggestions are not relevant to the allocation of the general levy so are outside the scope of this consultation.

⁶ The ombudsman service asked us to raise £23m in 2013/14 but we will actually collect £23.3m by the end of the financial year due to a movement in tariff data since the rates were modelled and published.

Changes between draft levy rates and final rates

- 6.7** We highlighted in CP14/6 that fee-payers should be aware that the draft ombudsman service levy rates in Appendix 5 of CP14/6 were calculated using estimated fee-payer populations and tariff data (measures of size), which may change when the final levy rates are calculated in June 2014.
- 6.8** The ombudsman service levy rates in Appendix 1 of this policy statement have changed since the draft rates in CP14/6.
- 6.9** Our online fees calculator is available for firms to calculate their individual ombudsman service levy rates based on the final rates in Appendix 1 of this policy statement.

7. Money Advice Service levies

(FEES 7 Annex 1R, rules in Appendix 1)

7.1 In this chapter we provide feedback on the responses received to Chapter 11 of CP14/6, in which we consulted on the 2014/15 levy rates for the Money Advice Service.⁷ Two separate levies were proposed for the Money Advice Service:

- £43m for the delivery of money advice
- £38.1m for the coordination and provision of debt advice

Allocation and recovery for money advice

7.2 The total budget for delivering the money advice function for 2014/15 is £43m. The breakdown of expenditure can be found in the Money Advice Service's business plan that was published on 2 April.⁸ The levy income will be reduced by £0.805m due to a £0.2m cash surplus generated in the year and £0.6m of income received in excess of budget during the years 2011/12 and 2012/13. We will therefore raise £42.2m from the industry through the levy for 2014/15. Table 7.1 at the end of this chapter sets out how this will be allocated.

7.3 Funding for money advice will come from levies raised from FSMA-authorised firms, payment institutions and electronic money issuers. The allocation of the money advice budget will be based on three components that carry equal weighting. All firms pay a fixed minimum £10 fee. The three components are:

- How consumers use the four channels of the Money Advice Service (web, telephone, face-to-face and printed literature), which will be weighted by the different costs of the relevant channels.
- Mapping the five Money Advice Service's outcomes in its 2013/14 Business Plan to appropriate fee-blocks. The outcomes are managing debt well, saving regularly, saving for retirement, protecting assets and making provisions for dependents.
- A levy based on our own allocation for 2014/15.

7.4 We asked:

Q8: *Do you have any comments on the proposed 2014/15 Money Advice Service levy rates for money advice?*

⁷ The Money Advice Service is referred to in the legislation and our fees manual as the Consumer Financial Education Body (CFEB).

⁸ The Money Advice Business Plan 2014/15 at www.moneyadvice.service.org.uk/en/static/publications.

Responses to consultation

- 7.5** We received eight responses; three from individual firms and five from trade bodies. Here we summarise the responses received and our feedback.
- 7.6** Seven respondents supported or had no strong objections to the proposals and one asked that wholesale markets should be exempt from the levy. Four respondents expressed support for the revised allocation method, although one response expressed concern on the allocation methodology, adding it was not proportionate for a UK branch to be charged for a service it did not use. Two respondents welcomed the decision to hold the budget at £43m and two suggested that future funding should be kept under review with the allocation method based on consumer usage and outcomes, and not aligned with the FCA's own allocation. One respondent said the Money Advice Service should be accountable and subject to regular audits by NAO and expressed concern about how the Money Advice Service used its funding, citing an example of its advertising campaign, which attracted large numbers of mortgage related queries that it could not deal with effectively.

Our response

Having considered the responses received we have decided to apportion the money advice levy as set out in CP14/6. This means that the allocation for funding for money advice will be based on the three-stage approach set out in paragraph 7.3. We will keep the funding under review and ask the Money Advice Service to look again at the allocation method once the new system has had the benefit of operating for a year. When reviewing the method we will ask the Money Advice Service to take into consideration the responses received.

The NAO undertook a review of the Money Advice Service, which it published in December 2013. The review said that while the Money Advice Service had not yet demonstrated value for money for money advice, it was moving in the right direction by developing a more specific and targeted provision for those in greatest need.

The Treasury launched an independent review of the Money Advice Service on 30 May. The review will assess the current and future need for financial education and advice and the role the Money Advice Service could and should play in meeting this need. It will also look at how effectively and efficiently the Money Advice Service has been meeting this need, building on the NAO's findings. It will recommend changes it sees as necessary to ensure that the Money Advice Service meets consumers' needs for education, money advice and debt advice as efficiently and effectively as possible. The review is due to be published at the end of 2014.

Allocation and recovery for debt advice

- 7.7** The total budget for debt advice in 2014/15 is £38.1m. A breakdown of the budget can be found in the Money Advice Business plan. Funding for debt advice will come from A1 and A2 fee-blocks, using a model that takes account of both total lending and write-off levels, on a 50% basis for each, based on Bank of England data.

7.8 We asked:

Q9: *Do you have any comments on the proposed 2014/15 Money Advice Service levy rates for debt advice?*

7.9 We received three responses; two from trade bodies and one from an individual firm. Two supported the proposals and one expressed concern that the proposals were not fair and proportionate.

Our response

Having considered the responses received we have decided to apportion the debt advice levy as set out in CP14/6. We feel that the revised allocation method reflects more fairly the difficulties that can happen during the lending process. As with the money advice levy we will ask the Money Advice Service to look again at the debt advice allocation method once the new method has been in operation for a year.

The NAO report of December 2013 stated that the Money Advice Service was providing value for money on its debt advice work and the independent review that is due to report at the end of 2014 will also ensure that the Money Advice Service is meeting consumers' needs for debt advice in the most efficient and effective way.

The Money Advice Service will also implement a three-year funding agreement with debt advice providers from October 2014 to ensure that debt advice is being provided in a consistent and coordinated manner in England and Wales.

Table 7.1 The revised AFR allocation table comparing 2014/15 to final AFR

Fee-block	2014/15 Consultation AFR (£m)	2014/15 Final AFR (£m)	Movement
Money Advice levy			
A.0 minimum fee	0.2	0.2	-1.9%
A.1 deposit acceptors	10.2	10.0	-1.9%
A.2 home finance providers and administrators	7.2	7.1	-1.9%
A.3 insurers – general	3.9	3.8	-1.9%
A.4 insurers – life	6.3	6.2	-1.9%
A.5 managing Agents at Lloyd's	0.0	0.0	-1.9%
A.6 the Society of Lloyd's	0.0	0.0	-1.9%

Fee-block	2014/15 Consultation AFR (£m)	2014/15 Final AFR (£m)	Movement
A.7 portfolio managers	2.5	2.4	-1.9%
A.9 managers and depositaries of investment funds, and operators of collective investment schemes or pension schemes	1.2	1.2	-1.9%
A.10 firms dealing as principal	2.5	2.4	-1.9%
A.13 advisory arrangers, dealers or brokers	3.7	3.6	-1.9%
A.14 corporate finance advisers	0.5	0.5	-1.9%
A.18 home finance providers, advisers and arrangers	2.2	2.1	-1.9%
A.19 general insurance mediation	1.1	1.1	-1.9%
A.21 firms holding client assets or money	1.6	1.6	-1.9%
G. firms covered by Payment Services Regulations 2009 and Electronic Money Regulations 2011	0.1	0.1	-1.9%
Debt advice levy			
A.1 deposit acceptors	18.8	18.8	0.0%
A.2 home finance providers and administrators	19.2	19.2	0.0%
Money Advice Service total	81.1	80.3	-1.0%

Changes between draft levy rates and final rates

- 7.10** We highlighted in CP14/6 that fee-payers should be aware that the draft Money Advice Service levy rates in Appendix 5 of CP14/6 were calculated using estimated fee-payer populations and tariff data (measures of size), which may change when the final levy rates are calculated in June 2014.
- 7.11** The Money Advice Service levy rates in Appendix 1 of this policy statement have changed since the draft rates in CP14/6.
- 7.12** Our online fees calculator is available for firms to calculate their individual Money Advice Service levy rates based on the final rates in Appendix 1 of this policy statement.

Annex 1

List of non-confidential respondents

ACE Credit Union Services
The Association of British Credit Unions Limited
Association of British Insurers
Association of Mortgage Intermediaries
Association of Professional Financial Advisers
BCCA
British Vehicle Rental and Leasing Association
Community Development Finance Association
Consumer Finance Association
Creative United
Credit Services Association
Finance and Leasing Association
Financial Solutions 2000
Fish Brothers Group Limited
International Underwriting Association
Iron Daisy
Lloyd's Market Association
London Energy Brokers' Association
Oasis – the dental people
Society of Lloyd's
Swiss Re Services Limited
UKCreditUnions Ltd
Wealth Management Association, (WMA)
Westcot Credit Services Ltd
Wholesale Markets Brokers' Association

Annex 2

FCA financial penalty scheme

1. Paragraph 21 of Schedule 1ZA of the Financial Services and Markets Act 2000 (FSMA) (as amended by the 2012 Act and the Legal Aid, Sentencing and Punishment of Offenders Act 2012 (Referral Fees) Regulations 2013) sets out how we should treat the financial penalties we impose on regulated persons (firms).
2. The scheme does not apply to revenue from penalties imposed on firms in the 'G' fee-blocks under regulations applying European Union Directives, all of which is paid to the Treasury. The key requirements are set out below.
 - Financial penalties received by us must be paid to the Treasury net of certain enforcement costs incurred in the financial year in which the penalties were received. These enforcement costs, which are defined in the legislation and subject to a power of direction by the Treasury, represent the 'retained penalties'.
 - For retained penalties, we must prepare and operate a scheme (the Financial Penalty Scheme (FPS)) for ensuring that retained penalties are applied for the benefit of firms.
 - Firms that have become liable to pay any penalty to us in any financial year do not receive any benefit from any penalty imposed on any firm under the scheme in the following year.
3. Under our FPS we apply retained penalties, received in any financial year, as a rebate to the periodic fees paid in the following financial year by firms in the fee-blocks set out in Table A.
4. The total retained penalties from any financial year will be allocated across these fee-blocks in proportion to the allocation of the enforcement budgeted costs for the following financial year. This will target the benefit from retained penalties to the fee-blocks that are paying for enforcement costs.
5. Enforcement costs are not allocated to the A.0 minimum fee fee-block. Therefore, retained penalties are not allocated to this fee-block.
6. The firms on which any penalty was imposed in a financial year will not receive any rebate to their periodic fees paid, for any retained penalties, in the following financial year.
7. Each year we publish a schedule setting out the:
 - total retained penalties in the previous financial year
 - amount of retained penalties allocated to each fee-block
 - percentage rebate that will be applied in the following financial year to the periodic fees paid by the firms in those fee-blocks

8. A draft of this schedule is published in our annual fees rates CP in March; the final schedule is published in the subsequent policy and feedback statement to that consultation in June.

Table A: Financial Penalty Scheme – relevant fee-blocks

AP.0	FCA prudential
A.1	deposit acceptors
A.2	home finance providers and administrators
A.3	insurers – general
A.4	insurers – life
A.5	managing agents at Lloyd's
A.6	the Society of Lloyd's
A.7	portfolio managers
A.9	managers and depositaries of investment funds, and operators of collective investment schemes or pension schemes
A.10	firms dealing as principal
A.13	advisory arrangers, dealers or brokers
A.14	corporate finance advisors
A.18	home finance providers, advisers and arrangers
A.19	general insurance mediation
A.21	firms holding client money or assets or both
B.	recognised investment exchanges and operators of multilateral trading facilities (only)
E.	issuers and sponsors of securities

Appendix 1

Made rules – final fees and levy rates

PERIODIC FEES (2014/2015) AND OTHER FEES INSTRUMENT 2014**Powers exercised**

- A. The Financial Conduct Authority makes this instrument in the exercise of:
- (1) the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 137A (The FCA’s general rules);
 - (b) section 137T (General supplementary powers);
 - (c) section 139A (Power of the FCA to give guidance);
 - (d) section 234 (Industry funding);
 - (e) paragraph 23 (Fees) of Part 3 (Penalties and Fees) of Schedule 1ZA (The Financial Conduct Authority) of the Act; and
 - (f) paragraph 12 of Part 2 (Funding) of Schedule 1A (Further provision about the Consumer Financial Education Body);
 - (2) the following provisions of the Payment Services Regulations 2009 (SI 2009/209):
 - (a) regulation 82 (Reporting requirements);
 - (b) regulation 92 (Costs of supervision); and
 - (c) regulation 93 (Guidance);
 - (3) the following provisions of the Electronic Money Regulations 2011 (SI 2011/99):
 - (a) regulation 49 (Reporting requirements);
 - (b) regulation 59 (Costs of supervision); and
 - (c) regulation 60 (Guidance); and
 - (4) the following powers and related provisions in the Regulated Covered Bond Regulations 2008 (SI 2008/346):
 - (a) regulations 18, 20, 24 and 25 (notification requirements);
 - (b) regulation 42 (Guidance); and
 - (c) regulation 46 and paragraph 5 of Schedule 1 (fees).
- B. The rule-making powers listed above are specified for the purpose of section 138G (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on 4 July 2014.

Amendments to the FCA Handbook

D. The Fees manual (FEES) is amended in accordance with the Annex to this instrument.

Citation

E. This instrument may be cited as the Periodic Fees (2014/2015) and Other Fees Instrument 2014.

By order of the Board of the Financial Conduct Authority
26 June 2014

Annex

Amendments to the Fees manual (FEES)

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

4.4 Information on which Fees are calculated

- 4.4.1 R A firm (other than the Society and an MTF operator in relation to its MTF business) must notify to the FCA (in its own capacity and, if applicable, in its capacity as collection agent for the PRA) the value (as at the valuation date specified in Part 5 of FEES 4 Annex 1AR in relation to fees payable to the FCA or Part 5 of FEES 4 Annex 1BR in relation to fees payable to the PRA) of each element of business on which the periodic fee payable by the firm is to be calculated.

...

4 Annex FCA Activity groups, tariff bases and valuation dates 1AR

...

Part 3	
This table indicates the tariff base for each fee-block set out in Part 1.	
The tariff base in this Part is the means by which the FCA measures the amount of business conducted by a firm for the purposes of calculating annual periodic fees payable to the FCA by that firm.	
Activity group	Tariff base
...	
B. Service companies	Not applicable. <u>ANNUAL INCOME</u> Annual income as defined in FEES 4 Annex 11AR
B. MTF Operators	Not applicable. <u>SUPERVISORY CATEGORY</u> <u>The general supervisory category to which the firm was assigned as at the start of the relevant fee year.</u>
...	

...

Part 5

This table indicates the valuation date for each fee-block. A *firm* can calculate its tariff data in respect of fees payable to the *FCA* by applying the tariff bases set out in Part 3 with reference to the valuation dates shown in this table.

Activity group	Valuation date
...	
B. Service companies	Not applicable. <u>Annual income for the financial year ended in the calendar year ending 31 December.</u>
B. <i>MTF</i> operators	Not applicable <u>The start of the relevant <i>fee year</i>.</u>
...	

...

4 Annex 2AR FCA Fee rates and EEA/Treaty firm modifications for the period from 1 April ~~2013~~ 2014 to 31 March ~~2014~~ 2015

Part 1
This table shows the tariff rates applicable to each of the fee blocks set out in Part 1 of *FEES* 4 Annex 1AR.

...	
(3)	For a <i>firm</i> which has not complied with <i>FEES</i> 4.2.2G (Information on which fees are calculated) for this period:
	...
(c)	The <u>the</u> minimum total fee (including the administrative fee in (b)) is £430, unless the firm is a <i>PRA-authorized person</i> in which case the total minimum total fee (including the administrative fee in (b)) is £215.

Activity group	Fee payable	
A.1	Band width (£million of Modified Eligible Liabilities (MELs))	Fee (£/£m or part m of MELs)

		General Periodic fee
	>10 - 140	14.13 <u>14.56</u>
	>140 - 630	14.13 <u>14.56</u>
	>630 - 1,580	14.13 <u>14.56</u>
	>1,580 - 13,400	17.66 <u>18.20</u>
	>13,400	23.31 <u>24.02</u>
	...	
A.2	Band width (No. of mortgages and/or home finance transactions)	Fee (£/mortgage)
	>50	2.07 <u>2.18</u>
A.3	Gross premium income (GPI)	Periodic fee
	Band Width (£million of GPI)	Fee (£/m or part m of GPI)
	>0.5	322.00 <u>314.73</u>
	PLUS	
	Gross technical liabilities (GTL)	General Periodic fee
	Band Width (£million of GTL)	Fee (£/£m or part £m of GTL)
	>1	16.97 <u>17.04</u>
	...	
A.4	Adjusted annual gross premium income (AGPI)	General Periodic fee
	Band Width (£million of AGPI)	Fee (£/£m or part £m of AGPI)
	>1	473.00 <u>464.98</u>
	PLUS	
	Mathematical reserves (MR)	General Periodic fee
	Band Width (£million of MR)	Fee (£/£m or part £m of MR)

	>1	10.64 <u>10.76</u>
A.5	Band Width (£million of Active Capacity (AC))	Fee (£/£m or part £m of AC)
	>50	8.31 <u>8.00</u>
A.6	Flat fee (£)	297,642 <u>306,774</u>
A.7	For class 1(C), (2) and (3) firms:	
	Band Width (£million of Funds under Management (FuM))	Fee (£/£m or part £m of FuM)
	>10	8.54 <u>8.30</u>
	...	
A.9	Band Width (£million of Gross Income (GI))	Fee (£/£m or part £ m of GI)
	>1	1,309.00 <u>1,425.00</u>
A.10	Band Width (No. of traders)	Fee (£/person)
	>1	5,018.00 <u>4,960.00</u>
	...	
A.13	Band Width (£ thousands of annual income (AI))	Fee (£/£ thousand or part £ thousand of AI)
	>100	6.89 <u>2.81</u>
A.14	Band Width (£ thousands of annual income (AI))	Fee (£/£ thousand or part £ thousand of AI)
	>100	2.85 <u>2.30</u>
A.18	Band Width (£ thousands of Annual Income (AI))	Fee (£/£ thousand or part £ thousand of AI)
	>100	17.40 <u>17.53</u>
A.19	Band Width (£ thousands of Annual Income (AI))	Fee (£/£ thousand or part £ thousand of AI)
	>100	1.76 <u>1.78</u>

A.21	<i>Client money</i>	
	Band Width (£ <i>client money</i>) (CM) held	Fee (£/£ millions or part £ million of CM)
	more <u>less</u> than £1 billion <u>million</u>	{tbe} <u>110.20</u>
	an amount equal to or greater than £1 million but less than or equal to £1 billion	{tbe} <u>82.65</u>
	less <u>more</u> than £1 million <u>billion</u>	{tbe} <u>55.10</u>
	PLUS	
	<i>Safe custody assets</i>	
	Band Width (£ <i>safe custody assets</i>) (CA) held	Fee (£/£ millions or part £ million of CA)
	more <u>less</u> than £100 billion <u>10 million</u>	{tbe} <u>0.52</u>
	an amount equal to or greater than £10 million and less than or equal to £100 billion	{tbe} <u>0.39</u>
	less <u>more</u> than £10 million <u>100 billion</u>	{tbe} <u>0.26</u>
B. Market operators		£45,000
B. Service companies	Bloomberg LP	£58,000
	LIFFE Services Ltd	£45,000
	OMGEO Ltd	£45,000
	Reuters Ltd	£58,000
	Swapswire Ltd	£45,000
	Plus Derivative Exchange Ltd	£45,000
	DTCC Derivatives Repository Limited	£45,000
	Avelo Portal Limited	£45,000

	Calestone Ltd	£45,000
	Xtractor Ltd	£45,000
	Pirum Systems Limited	£45,000
	Fidessa	£45,000
<u>B. Service Companies</u>	<u>Band Width</u>	<u>Flat fee (£)</u>
	<u>Annual income up to and including £100,000</u>	<u>1,000</u>
	<u>Annual income over £100,000 up to and including £1,000,000</u>	<u>10,000</u>
	<u>Annual income over £1,000,000</u>	<u>45,000</u>
	<u>A service company that fails to provide income data for the relevant fee year is deemed to fall within the highest band width.</u>	
...		
CC1. Credit-related regulated activities with limited permission	Band Width (£ thousands of annual income (AI))	Fee (£/ £ thousand or part £ thousand of AI)
	{tbc} <u>0 - 10</u>	{tbc} <u>100</u>
	{tbc} <u>>10 - 50</u>	{tbc} <u>250</u>
	{tbc} <u>>50 - 100</u>	{tbc} <u>400</u>
	{tbc} <u>>100</u>	{tbc} <u>500</u>
	<u>PLUS:</u>	
		<u>Fee (£/£ thousand or part £ thousand of AI)</u>
	{tbc} <u>>250</u>	{tbc} <u>0.40</u>
CC2. Credit-related regulated activities	Band Width (£ thousands of annual income (AI))	Fee (£/ £ thousand or part £ thousand of AI)

	{tbe} 0 - 50	{tbe} 300
	{tbe} >50 - 100	{tbe} 500
	{tbe} >100	{tbe} 1,000
	<u>PLUS:</u>	
		Fee (£/£ thousand or part £ thousand of AI)
	{tbe} >250	{tbe} 0.78

Part 2

This table shows the tariff rates applicable to each of the fee blocks set out in Part 2 of FEES 4 Annex 1AR.

...		
	(2)	The conditions referred to in (1)(a) are that the <i>credit union</i> has a tariff base (Modified Eligible Liabilities) of:
	...	
	(b)	greater than 0.5million but less than 20 2.0 million, in which case a minimum fee of £540 is payable.
	...	
AP.0	Periodic fees payable under fee blocks A.2, and A.7 to A.19 and A.21 in Part 1 multiplied by rate £ 0.078 <u>0.118</u>	

...

4 Annex 4R Periodic fees in relation to collective investment schemes, AIFs marketed in the UK and small registered UK AIFMs payable for the period 1 April ~~2013~~ 2014 to 31 March ~~2014~~ 2015

Part 1 – Periodic fees payable

Scheme type	Basic fee (£)	Total funds/sub-funds	Fund factor	Fee (£)
-------------	---------------	-----------------------	-------------	---------

		aggregate		
ICVC, AUT, ACS, Section 264 of the <i>Act</i> , (for <i>fee year</i> 2013/2014 only); <i>schemes</i> formerly recognised under section 270 of the <i>Act</i> , as in force immediately before 22 July 2013; <i>schemes</i> other than <i>non-EEA AIFs</i> recognised under section 272 of the <i>Act</i> ,	680 715	1 – 2	1	680 715
		3 – 6	2.5	1700 1,788
		7 – 15	5	3400 3,575
		16 – 50	11	7480 7,865
		> 50	22	14,960 15,730
<i>Non-EEA AIFs</i> recognised under section 272 of the <i>Act</i> , (from <i>fee year</i> 2014/2015); <i>schemes</i> formerly recognised under section 270 of the <i>Act</i> , as in force immediately before 22 July 2013	2,770 2,910	1 – 2	1	2,770 2,910
		3 – 6	2.5	6,925 7,275
		7 – 15	5	13,850 14,550
		16 – 50	11	30,470 32,010
		> 50	22	60,940 64,020

...

Part 2 - Periodic fees for *AIFs* marketed in the *UK*, following a notification to the *FCA* under regulation 57, 58 or 59 of the *AIFMD UK regulation*

Notification under regulation 57 of the <i>AIFMD UK regulation</i>	500
Notification under regulation 58 of the <i>AIFMD UK regulation</i>	350
Notification under regulation 59 of the <i>AIFMD UK regulation</i>	500

Part 3 – Periodic fees paid by *small registered UK AIFMs*

The annual fee for *small registered UK AIFMs* is £750

4 Annex 5R Periodic fees for designated professional bodies payable in relation to the period 1 April ~~2013~~ 2014 to 31 March ~~2014~~ 2015

Name of Designated Professional Body	Amount payable
The Law Society of England & Wales	£ 81,930 <u>85,910</u>
The Law Society of Scotland	£ 14,450 <u>14,690</u>
The Law Society of Northern Ireland	£ 13,510 <u>13,690</u>
The Institute of Actuaries	£10,130
The Institute of Chartered Accountants in England and Wales	£ 26,180 <u>27,490</u>
The Institute of Chartered Accountants of Scotland	£ 11,380 <u>11,410</u>
The Institute of Chartered Accountants in Ireland	£ 10,730 <u>10,750</u>
The Association of Chartered Certified Accountants	£ 18,030 <u>18,480</u>
The Council for Licensed Conveyancers	£ 11,470 <u>11,550</u>
Royal Institution of Chartered Surveyors	£ 14,410 <u>14,620</u>

...

4 Annex 6R Periodic fees for recognised investment exchanges, and recognised auction platforms payable in relation to the period 1 April ~~2013~~ 2014 to 31 March ~~2014~~ 2015

In this Annex

- the term *recognised body* includes a body which was a recognised investment exchange recognised under the Financial Services Act 1986 and which is a *recognised body* as a result of Regulation 9 of the *Recognition Requirements Regulations*.

- the term recognition order includes a recognition order by the *FCA* under section 37 of the Financial Services Act 1986 or a recognition order made by the Treasury

under section 40 of the Financial Services Act 1986 in relation to overseas investment exchanges.

Part 1 – Periodic fees for UK recognised investment exchanges

Name of UK recognised body	Amount payable
ICE Futures Europe Ltd	£690,000 <u>890,000</u>
LIFFE Administration and Management	£995,000 <u>890,000</u>
London Metal Exchange	£610,000 <u>645,000</u>
London Stock Exchange plc	£825,000 <u>870,000</u>
ICAP Securities & Exchange Limited (RIE)	£300,000 <u>315,000</u>
BATS Trading Limited	£300,000 <u>475,000</u>
<u>CME Europe Limited</u>	<u>£300,000</u>
Any other UK <i>recognised investment exchange</i> recognised as such by a <i>recognition order</i> made in the <i>fee year</i>	£300,000

Part 1A – Periodic fees for recognised auction platforms

Name of recognised auction platform	Amount payable
An <i>RAP</i> recognised as such by a <i>recognition order</i> made in the <i>fee year</i>	£50,000

Part 2 – Periodic fees for overseas recognised investment exchanges

The Chicago Mercantile Exchange (CME) (ROIE)	£56,000 <u>58,000</u>
Chicago Board of Trade	£56,000 <u>58,000</u>
EUREX (Zurich)	£56,000 <u>58,000</u>
National Association of Securities and Dealers Automated Quotations	£56,000 <u>58,000</u>

(NASDAQ)	
New York Mercantile Exchange Inc.	£ 56,000 <u>58,000</u>
The Swiss Stock Exchange	£ 56,000 <u>58,000</u>
Sydney Futures Exchange Limited	£ 56,000 <u>58,000</u>
ICE Futures US Inc	£ 56,000 <u>58,000</u>
NYSE Liffe US	£ 56,000 <u>58,000</u>
Any other <i>overseas investment exchange</i> recognised as such by a <i>recognition order</i> made in the <i>fee year</i>	£ 56,000 <u>58,000</u>

4 Annex 7R Periodic fees in relation to the Listing Rules for the period 1 April ~~2013~~ 2014 to 31 March ~~2014~~ 2015

Fee type	Fee amount
Annual fees for the period 1 April 2013 <u>2014</u> to 31 March 2014 <u>2015</u>	
...	...
...	

Table 1

The annual fee for issuers of *securitised derivatives* is £4,750

Table 1A

Tiered annual fees for issuers of global depositary receipts

Fee payable	
Minimum fee (£)	3,800
£ million of Market Capitalisation as at the last <i>business day</i> of the November prior to the <i>fee year</i> in which the fee is	Fee (£/£m of part £m of Market Capitalisation as at the last <i>business day</i> of the November prior to the <i>fee year</i> in

payable	which the fee is payable)
0 – 100	0
> 100 – 250	22.879515 <u>22.778828</u>
> 250 – 1,000	9.15119 <u>9.110927</u>
> 1,000 – 5,000	5.632939 <u>5.608150</u>
> 5,000 – 25,000	0.137405 <u>0.136800</u>
> 25,000	0.044392 <u>0.044197</u>

Table 2

Tiered annual fees for all other issuers

Fee payable	
Minimum Fee (£)	£4,750
£ million of Market Capitalisation as at the last <i>business day</i> of the November prior to the <i>fee year</i> in which the fee is payable	Fee (£/£m of part £m of Market Capitalisation as at the last <i>business day</i> of the November prior to the <i>fee year</i> in which the fee is payable)
0 – 100	0
> 100 – 250	28.599394 <u>28.473535</u>
> 250 – 1,000	11.438999 <u>11.388659</u>
> 1,000 – 5,000	7.041173 <u>7.010187</u>
> 5,000 – 25,000	0.171756 <u>0.171000</u>
> 25,000	0.055490 <u>0.055246</u>

4 Annex 8R Periodic fees in relation to the Disclosure and Transparency Rules for the period 1 April ~~2013~~ 2014 to 31 March ~~2014~~ 2015

Annual fees for the period 1 April ~~2013~~ 2014 to 31 March ~~2014~~ 2015

...

Table 1

Annual fees for non-listed issuers of securitised derivatives, depositary receipts

and global depositary receipts

Issuer	Fee amount
<i>Issuers of securitised derivatives</i>	£3,800
<i>Issuers of depositary receipts and global depositary receipts</i>	£3,040

Table 2

Fee payable	
Minimum Fee (£)	3,800
...	
0 – 100	0
> 100 – 250	22.879515 <u>22.778828</u>
> 250 – 1,000	9.151199 <u>9.110927</u>
> 1,000 – 5,000	5.632939 <u>5.608150</u>
> 5,000 – 25,000	0.137405 <u>0.136800</u>
> 25,000	0.044392 <u>0.044197</u>

...

4 Annex 10R Periodic fees for MTF operators payable in relation to the period 1 April 2013 2014 to 31 March 2014 2015

Name <u>General supervisory category</u> of MTF operator (see Note below)	Fee payable (£)	Due date 1 August 2013 <u>2014</u> or, if later, 30 days from the date of the invoice
Barelays Bank Plc	15,000	
Baltic Exchange Derivatives Trading Ltd	20,000	
BATS Trading Ltd	150,000	
BGC Brokers L.P	50,000	

EuroMTS Limited	50,000	
GFI Brokers Limited	15,000	
GFI Securities Limited	50,000	
ICAP Electronic Broking Limited	50,000	
ICAP Energy Limited	15,000	
ICAP Europe Limited	15,000	
ICAP Shipping Tanker Derivatives Limited	15,000	
ICAP Securities Limited	50,000	
ICAP WCLK Limited	15,000	
J.P.Morgan Cazenove Limited	15,000	
Liquidnet Europe Limited	35,000	
My Treasury Limited	15,000	
iSWAP Euro Ltd	15,000	
Nomura International Ple	15,000	
Credit Agricole Cherveux International	15,000	
SmartPool Trading Limited	20,000	
TFS ICAP Limited	15,000	
Tradeweb Europe Limited	50,000	
Tradition (UK) Limited	15,000	
Tradition Financial Services Limited	15,000	
Tullett Prebon (Europe) Limited	15,000	
Tullett Prebon (Securities) Limited	50,000	
Turquoise Global Holdings Ltd	85,000	
Goldman Sachs International	15,000	
UBS Ltd	15,000	

<u>Category 1</u>	<u>£300,000</u>	
<u>Category 2</u>	<u>£58,000</u>	
<u>Category 3</u>	<u>£17,500</u>	
...	<p>In the case of an <i>EEA firm</i> that:</p> <p>(a) has not carried on the activity of <i>operating a multilateral trading facility</i> in the <i>UK</i> at any time in the calendar year ending 31 December 2012 <u>2013</u>; and</p> <p>(b) notifies the <i>FCA</i> of that fact by the end of March 2013 <u>2014</u>;</p> <p>the fee is zero.</p> <p>.....</p> <p>In any other case £15,000 <u>17,500</u></p>	<p>...</p> <p>In any other case, 1 August 2013 <u>2014</u></p>

....

4 Annex 11R Periodic fees in respect of payment services carried on by fee-paying payment service providers under the Payment Services Regulations and electronic money issuance by fee-paying electronic money issuers under the Electronic Money Regulations and issuance of regulated covered bonds by issuers in relation to the period 1 April ~~2013~~ 2014 to 31 March ~~2014~~ 2015

...

Part 5 – Tariff rates		
Activity group	Fee payable in relation to 2013/14 <u>2014/15</u>	
G.2	Minimum fee (£)	400
	£ million or part £m of Modified Eligible Liabilities (MELS)	Fee (£/£m or part £m of MELS)
	> 0.1	0.27200 <u>0.27450</u>
G.3	Minimum fee (£)	400

	£ thousands or part £ thousand of Relevant Income	Fee (£/£thousand or part £ thousand of Relevant Income)
	> 100	0.18300 <u>0.18470</u>
G.4	Flat fee (£)	£400
G.5	As in G.3.	
G.10	Minimum fee (£)	1,500
	£million or part £m of average outstanding electronic money (AOEM)	Fee (£/£m or part £m of AOEM)
	>5.0	200.00
G.11	Flat fee (£)	£1,000
G.15	Minimum fee for the first registered <i>programme</i> (£)	£68,271 <u>84,439</u>

	>0.00	10.13 <u>86.22</u>
	...	
...		

4 Annex 11AR Definition of annual income for the purposes of calculating fees in fee blocks A.13, A.14, A.18 and, A.19 and B. Service Companies

Annual income definition

...

4 Annex 11BR Definition of annual income for the purposes of calculating fees in fee blocks CC1 and CC2

Annual income definition for *credit related regulated activities*

...

(c) the “fair value” of any goods or services the *firm* provided to *clients*. This is an estimate of the amount the *firm* would otherwise have received for any *regulated activity* under (a) above, but for which it has made a business decision to waive or discount its charges.

Plus:

(d) for credit broking where a firm effects an introduction between a lender and a borrower with a view to the borrower entering into a regulated credit agreement to finance the purchase of goods and/or services by the borrower from the firm, the difference between the amount of credit the lender provides to the borrower and the amount A accepts from the lender.

...

...

4 Annex 13G Guidance on the calculation of tariffs set out in FEES 4 Annex 1AR Part 3

Table 1	
The following table sets out <i>guidance</i> on how a <i>firm</i> should calculate tariffs for fee blocks A.13, A.14, A.18 and , A.19 and B. <u>Service Companies</u> .	
Calculating and apportioning annual income – FEES 4 Annex 11AR	
Calculating annual income	
Defining relevant income streams	
(1)	The <i>firm</i> should refer to the fee-block definitions in <i>FEES 4 Annex 1AR</i> , Part 1 to decide which particular income streams should be taken into account when calculating its annual income for the purposes of fee-blocks A.13, A.14, A.18 and , A.19 <u>and B. Service companies</u> .
(2)	For the avoidance of doubt, the only income streams reportable for a relevant fee-block are those income streams which relate to a <i>regulated activity</i> listed in that fee-block. Income streams that do not relate to a <i>regulated activity</i> listed in the relevant fee-block should not be reported. As such, <i>firms</i> should exclude from the calculation of its annual income any income earned in relation to <i>regulated activities</i> belonging to fee-blocks A.13, A.14, A.18 and , A.19 <u>and B. Service companies</u> where the income is directly derived from the performance of <i>regulated activities</i> belonging to other fee blocks, for example, interest from loans made in the course of providing or administering home finance (A.2), premium interest from carrying out or effecting life insurance contracts (A.3), income from managing the underwriting capacity of a Lloyd’s syndicate as a managing agent at Lloyds (A.5), income from managing investments, collective investment schemes or pensions schemes (A.7 or A.9), income from operating multi-lateral trading facilities (<i>FEES 4 Annex 10R</i>) or income from holding client money or assets (A.21).
...	
...	

Table 2	
The following table sets out <i>guidance</i> on how a <i>firm</i> should calculate tariffs for fee blocks CC.1 and CC.2	
Calculating and apportioning annual income – FEES 4 Annex 11BR	
Calculating annual income	
Defining relevant income streams	
...	
(6)	<p><i>Firms</i> should not estimate a fair value where:</p> <p>(a) there is a statutory prohibition on charging interest (such as bankruptcy debts); or</p> <p>(b) they have reduced or suspended their normal charging structure because the debtor is unable to meet contractual repayments and an alternative repayment arrangement has been agreed with the creditor; or</p> <p>(b) they have made a “borrower-lender-supplier” agreement to allow a customer to pay the cash price of goods or services in instalments – any penalties or interest charged where the customer is in default should be declared as income.</p>
<u>Lender’s credit broker charge</u>	
(6A)	<p>An example of when a <i>firm</i> should report under paragraph (d) of <i>FEES 4 Annex 11BR</i> is set out below:</p> <p><u>If a retailer arranges a loan for £1,000 to enable a <i>consumer</i> to purchase goods from it priced at £1,000, it may agree to accept £950 directly from the <i>lender</i> as payment for those goods to provide an incentive for the <i>lender</i> to enter into the loan. The retailer should report the £50 difference as a measure of the <i>regulated activity of credit broking</i>.</u></p> <p><u>The <i>lender</i> should report the £50 difference along with any subsequent interest or administration or penalty charges paid by the consumer to the <i>lender</i>, as the <i>lender’s</i> income from the <i>regulated credit agreement</i>.</u></p>
...	

...

5 Financial Ombudsman Service Funding

...

5 Annex 1R Annual General Levy Payable in Relation to the Compulsory Jurisdiction for 2013/14 2014/15

Introduction: annual budget

1. The *annual budget* for ~~2013/14~~ 2014/15 approved by the ~~FSA~~ FCA is ~~£283.6m~~ 277.4m.
2. The total amount expected to be raised through the *general levy* in ~~2013/14~~ 2014/15 will be ~~£23m~~ £23.3m (~~net of £2.3m to be raised from consumer credit firms~~).

Compulsory jurisdiction – general levy		
Industry block	Tariff base	General levy payable by firm
1-Deposit acceptors, <i>home finance providers, home finance administrators</i> (excluding <i>firms</i> in block 14) and <i>dormant account fund operators</i>	...	£0.04309 <u>0.043350</u> per relevant account, subject to a minimum levy of £100
2-Insurers - general (excluding <i>firms</i> in blocks 13 & 15)	...	£0.1306 <u>0.1319</u> per £1,000 of relevant annual gross premium income, subject to a minimum levy of £100
3-The <i>Society</i> (of Lloyd's)	...	£25,989 to be allocated by the <i>Society</i>
4-Insurers - life (excluding <i>firms</i> in block 15)	...	£0.01663 <u>0.01650</u> per £1,000 of relevant adjusted annual gross premium income, subject to a minimum levy of £130
5-Portfolio managers (including those holding <i>client money/assets</i> and not holding <i>client money/assets</i>)	...	Levy of £270 <u>275</u>
6-Managers and depositaries of investment funds, and operators of	...	Levy of £65 <u>60</u>

collective investment schemes or pension schemes		
7-Dealers as principal	...	Levy of £75
8-Advisors, <i>arrangers</i> , dealers or brokers holding and controlling <i>client money</i> and/or assets	...	£ 0.15282 <u>0.160</u> per £1,000 of annual income subject to a minimum fee of £45
9-Advisors, <i>arrangers</i> , dealers or brokers not holding and controlling <i>client money</i> and/or assets	...	£ 0.1170 <u>0.1085</u> per £1,000 of annual income subject to a minimum fee of £45
10-Corporate finance advisers	...	Levy of £55
11- <i>fee-paying payment service providers</i> (but excluding <i>firms</i> in any other Industry block except Industry block 18)	...	£ 0.0046 <u>0.0007</u> per £1,000 of relevant income subject to a minimum levy of £75
	...	Levy of £ 35
12-	N/A for 2013/14 <u>2014/15</u>	
13-Cash plan health providers	...	Levy of £65
14- <i>Credit unions</i>	...	Levy of £55
15- <i>Friendly societies</i> whose tax-exempt business represents 95% or more of their total relevant business	...	Levy of £65
16- <i>Home finance providers, advisers and arrangers</i> (excluding <i>firms</i> in blocks 13, 14 & 15)	...	Levy of £ 85 <u>90</u>
17-General insurance mediation (excluding <i>firms</i> in blocks 13, 14 & 15)	...	£ 0.4871 <u>0.4852</u> per £1,000 of <i>annual income</i> (as defined in <i>MIPRU</i> 4.3) relating to <i>firm's relevant</i>

		<i>business</i> subject to a minimum levy of £100
18-fee-paying <i>electronic money issuers</i>	For all <i>fee-paying electronic money issuers</i> except for <i>small electronic money institutions</i> , average outstanding <i>electronic money</i> , as described in FEES 4 Annex 11R Part 3.	£ 0.0020 <u>0.0016</u> per £1,000 of average outstanding electronic money subject to a minimum levy of £75
	For <i>small electronic money institutions</i> , a flat fee	Levy of £50
19 – <i>Credit-related regulated activities with limited permission</i>	For <i>not-for-profit debt advice bodies</i> , a flat fee	Levy of £ {tbe} <u>0</u>
	For all other <i>firms with limited permission</i> , a flat fee	Levy of £ {tbe} <u>35</u>
20 – <i>Credit-related regulated activities</i>	Annual income as defined in FEES 4 Annex 11BR	Levy of £35 Plus £ {tbe} <u>0.02</u> per £ {tbe} <u>1,000</u> of annual income <u>on income above £250,000</u>

...

7 Annex 1R CFEB levies for the period from 1 April ~~2013~~ 2014 to 31 March ~~2014~~ 2015

Part 1

This table shows the *CFEB levies* applicable to each activity group (fee-block)

Activity Group	<i>CFEB levy payable</i>			
	A.1	Column 1 Money advice levy		Column 2 Debt advice levy (Notes 3 – 6)
Band Width (£ million of		Fixed sum (£/£m or	Bandwidth (million of	Fixed sum (/m or part m of

	Modified Eligible Liabilities (MELs))	part £m of MELs)	unsecured debt)	unsecured debt)
	> 10	5.08 <u>3.55</u>	> 0	55.37 <u>190.76</u>
	...			
A.2	Column 1 General levy		Column 2 Debt advice levy (Notes 5 – 6)	
	Band Width (no. of mortgages and/or <i>home finance transactions</i>)	Fixed sum (£/mortgage)	Bandwidth (million of secured debt)	Fixed sum (/m or part m of secured debt)
	>50	0.57 <u>0.96</u>	> 0	24.30 <u>15.80</u>
A.3	Gross premium income (GPI)			
	Band Width (£ million of GPI)		Fixed sum (£/£m or part £m of GPI)	
	>0.5		39.42 <u>52.34</u>	
	PLUS			
	Gross technical liabilities (GTL)			
	Band Width (£ million of GTL)		Fixed sum (£/£m of part £m of GTL)	
	>1		2.08 <u>2.84</u>	
A.4	Adjusted annual gross premium income (AGPI)			
	Band Width (£ million of AGPI)		Fixed sum (£/£m or part £m of AGPI)	
	>1		66.59 <u>74.81</u>	
	PLUS			
	Mathematical reserves (MR)			

	Band Width (£ million of MR)	Fixed sum (£/£m or part £m of MR)
	>1	1.50 <u>1.74</u>
A.5	Band Width (£ million of Active Capacity (AC))	Fixed sum (£/£m or part £m of AC)
	>50	3.89 <u>0.42</u>
A.6	Flat levy	£85,716.00 <u>12,663.30</u>
A.7	For class 1(C)(c), (2) and (3) firms:	
	Band Width (£ million of Funds under Management (FuM))	Fixed sum (£/£m of part £m of FuM)
	>10	0.81 <u>0.47</u>
	...	
A.9	Band Width (£ million of Gross Income (GI))	Fixed sum (£/£m of part £m of GI)
	>1	104.36 <u>129.40</u>
A.10	Band Width (no. of traders)	Fixed sum (£/trader)
	> 1	356.87 <u>258.58</u>
A.13	For class (2) firms	
	Band Width (£ thousands of annual income (AI))	Fee (£/£ thousand or part £ thousand of AI)
	>100	0.48 <u>0.15</u>
	...	
A.14	Band Width (£ thousands of annual income (AI))	Fee (£/£ thousand or part £ thousand of AI)
	>100	0.13 <u>0.09</u>
A.18	Band Width (£ thousands of Annual Income (AI))	Fixed sum (£/£ thousand or part £ thousand of AI)
	>100	1.18 <u>2.38</u>

A.19	Band Width (£ thousands of Annual Income (AI))	Fixed sum (£/£ thousand or part £ thousand of AI)
	>100	0.146 <u>0.075</u>
A.21	Band Width (£ <i>client money</i>) (CM) held	Fee (£/£ millions or part £ million of CM)
	more <u>less</u> than £1 billion <u>million</u>	{tbe} <u>13.25</u>
	an amount equal to or greater than £1 million but less than or equal to £1 billion	{tbe} <u>9.94</u>
	less <u>more</u> than £1 million <u>billion</u>	{tbe} <u>6.63</u>
	PLUS	
	<i>Safe custody assets</i>	
	Band Width (£ <i>safe custody assets</i>) (CA) held	Fee (£/£ millions or part £ million of CA)
	more <u>less</u> than £100 billion <u>10 million</u>	{tbe} <u>0.062</u>
	an amount equal to or greater than £10 million and less than or equal to £100 billion	{tbe} <u>0.047</u>
	less <u>more</u> than £10 million <u>100 billion</u>	{tbe} <u>0.031</u>
G.3	Minimum fee (£)	10
	£ thousands or part £ thousand of Relevant Income	Fee (£/£thousand or part £ thousand of Relevant Income)
	>100	0.027 <u>0.0246</u>
G.4	Flat fee (£)	10
G.10	Minimum fee (£)	10
	£ million or part £m of average outstanding electronic money (AOEM)	Fee (£/£m or part £m of AOEM)
	> 5.0	8.38 <u>7.90</u>
G.11	Flat fee (£)	10

CC.1	Minimum fee	{tbc} £10
	Band Width (£ thousands of annual income (AI))	Fee (£/£ thousand or part £ thousand of AI)
	{tbc}	{tbc}
CC.2	Minimum fee	{tbc} £10
	Band Width (£ thousands of annual income (AI))	Fee (£/£ thousand or part £ thousand of AI)
	{tbc} ≥ 250	{tbc} 0.37
...		
...		

...

Appendix 1 Unauthorised Mutuals Registration Fees Rules

...

App 1 Annex 1R Periodic fees payable for the period 1 April ~~2013~~ 2014 to 31 March ~~2014~~ 2015

Part 1

Periodic fee payable by Registered Societies (on 30 June ~~2013~~ 2014)

This fee is not payable by a *credit union*.

Transaction	Total assets (£'000s)	Amount payable (£)
Periodic fee	0 - 50	55
	> 50 to 100	110
	> 100 to 250	180
	> 250 to 1,000	235
	> 1,000	425

...

Financial Conduct Authority



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