

Regulatory fees and levies: policy proposals for 2014/15

October 2013



Contents

| | |
|---|----|
| Abbreviations used in this paper | 3 |
| 1. Overview | 4 |
| 2. Consumer credit fees | 8 |
| 3. Firms carrying out investment business that hold client money or safeguard and administer safe custody assets | 21 |
| 4. Definition of income for intermediaries - clarifications | 25 |
| 5. Fees for approved reporting mechanisms (ARMS) | 28 |
| 6. Other FCA fees issues | 30 |
| 7. Money Advice Service Levies 2014/15 | 33 |
| Annexes | |
| 1. Compatibility with the general duties of the FCA | 42 |
| 2. List of questions | 46 |
| Appendix | |
| 1. Fees (consumer credit) Instrument 2014 | |
| 2. Fees (miscellaneous amendments) (No 6) Instrument 2014 | |

We are asking for comments on this Consultation Paper by 6 January 2014.

You can send them to us using the form on our website at: www.fca.org.uk/your-fca/documents/consultation-papers/cp13-14-response-form.

Or in writing to:

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We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

You can download this Consultation Paper from our website: www.fca.org.uk. Or contact our order line for paper copies: 0845 608 2372.

Abbreviations used in this paper

| | |
|-----------------|--|
| AFR | Annual funding requirement |
| ARM | Approved reporting mechanism |
| CASS | Client Assets Sourcebook – part of the FCA handbook |
| CM&A | Client money and assets |
| CMAR | Client Money and Assets Return |
| CP | Consultation paper |
| DP | Discussion paper |
| EIA | Equality impact assessment |
| FCA | Financial Conduct Authority |
| FEES | Fees manual – part of the FCA handbook |
| FSA | Financial Services Authority |
| FSCS | Financial Services Compensation Scheme |
| FSMA | Financial Services and Markets Act 2000, as amended by the Financial Services Act 2012 |
| GAAP | UK generally accepted accounting principles (GAAP) |
| MAS | Money Advice Service |
| NFP | Not-for-profit body |
| OFT | Office of Fair Trading |
| PRA | Prudential Regulation Authority |
| PS | Policy statement |
| SUP | Supervision manual - part of the FCA handbook |
| VoP | Variation of Permission |

1. Overview

Introduction

- 1.1** This consultation paper (CP) sets out our proposed policy changes to our fee and levy regimes. We are funded entirely by the fees and levies recovered from the firms we regulate – we receive no subsidies from other sources.
- 1.2** This forms part of our annual cycle of fees consultation. In October, we consult on any proposed changes to the underlying policy of the fee and levy regimes of the FCA, the Financial Ombudsman Service, the Financial Services Compensation Scheme (FSCS) and the Money Advice Service (MAS). We expect to consult on the fee rates for the forthcoming year in the following March. We do not consult on any proposals affecting the FSCS in this CP, but we do flag up the implications for the different bodies where appropriate.
- 1.3** Some of our proposals affect firms that are regulated both by ourselves and the Prudential Regulation Authority (PRA), and these are signposted in the text. The Bank of England is consulting separately on fees proposals for the PRA.

Who does this consultation affect?

- 1.4** Fees policy directly affects all firms regulated by us, but each chapter of this CP covers a different aspect of fees policy so will affect different types of firm. Table 1.1 sets out the fee-payers most likely to be affected.
- 1.5** Chapter 2 deals with our consumer credit proposals. Any firms that are considering undertaking consumer credit business after 1 April 2014 should read Chapter 2, which sets out our proposals for recovering the costs of the new consumer credit regime. These will interest firms already licensed by the Office for Fair Trading (OFT), firms holding or applying for interim permissions from us, and firms thinking of entering this market. Not-for-profit debt advice bodies, credit unions and community benefit societies will need to be aware of the concessions we are proposing for them.

Is this of interest to consumers?

- 1.6** Our proposals affect the way firms pay fees to us so, although they are not directly relevant to consumers, firms will in the long run recover their costs from their customers. So retail consumers and consumer groups may be interested in our charging structures.

- 1.7** Because we are introducing a charging structure for the new consumer credit regime, Chapter 2 may interest consumer credit customers and consumer groups active in this field.

Context

- 1.8** Further information about our approach to fees is presented in our brief guide on How we raise our fees, published in July 2013. This is available on our website: www.fca.org.uk/your-fca/documents/how-we-raise-our-fees.
- 1.9** Our fees are intended to be neutral and not to influence firms' behaviour. So they should not directly affect our objectives of consumer protection, market integrity and competition, except to the extent that they provide us with the resources we need to conduct our business and meet our objectives.
- 1.10** It is a fundamental principle of our fees policy that our fees are neutral and do not inadvertently interfere in the market or distort competition. To avoid creating unnecessary barriers to market entry, we do not recover the full costs of processing from applicants for authorisation, but share the costs with existing fee-payers, and this principle has guided our proposals for consumer credit application fees. Similarly, our proposals to introduce charges for approved reporting mechanisms (ARMs) in Chapter 5 are designed to avoid cross-subsidy.
- 1.11** Our proposals for consumer credit in Chapter 2 arise out of the government decision, announced in January 2012, to transfer the regulation of the consumer credit industry to us from the OFT. The fees will recover the costs required to implement the new regulatory regime, which we described in our recent CP on *Detailed proposals for the FCA regime for consumer credit* (CP13/10, October 2013).
- 1.12** The proposals in the other chapters reflect our experience of our current fees system. They are intended to improve the targeting of cost recovery, or to clarify aspects of the system where our engagement with firms has revealed ambiguities or misunderstandings. Chapter 8 proposes a new method for distributing the recovery of MAS costs, following consultation earlier this year.¹

FCA fees review

- 1.13** In Chapter 7 of CP13/1 (April 2013) we outlined our 'back to basics' approach to a review of how we raise fees from the industry. This included exploring whether or not we should segment the industry, while also exploring alternative ways of segmenting to using fee-blocks (as we do now). We planned at that time to issue a Discussion Paper (DP) on any fundamental alternatives in October/November 2013.

¹ FSA CP13/2: *Regulatory fees and levies: The Money Advice Service cost allocation method for 2013/14* (January 2013); FCA CP13/1: *FCA Regulated fees and levies: rates proposals 2013/14* (April 2013).

- 1.14** During summer 2013 we have engaged with stakeholders, including 13 trade bodies. We received a clear steer that any further discussion on fundamental alternatives should be done in light of the impact that they would have on fees firms would pay under them. To enable us to complete such an impact analysis, we will not publish a DP until the first quarter of 2014, which will include a discussion of the basis on which we charge application fees. We still envisage that the earliest implementation for any fundamental alternatives would be 2015/16.

Summary of our proposals

- 1.15** Each chapter covers a self-contained area of policy, so they are summarised below.
- Chapter 2 presents our proposals for consumer credit application fees, fees for dealing with validation orders (notices under section 28A(3)(a) or (b) of FSMA relating to unenforceable credit related agreements), the structure we propose to apply for periodic fees and the definitions of consumer credit income we will use as the basis for calculating fee rates, indicative periodic fee-rates to help firms with their planning, and concessions we are proposing for not-for-profit debt advice bodies, credit unions and community benefit societies.
 - Chapter 3 proposes a change in the way we group firms when setting our fees for them to more effectively target the recovery of our costs from firms carrying out investments that hold client money or safeguard and administer custody assets. This also introduces a common fee-rate for all investment intermediaries, rather than charging two rates depending on whether they hold or safeguard client money or assets, as we do now.
 - Chapter 4 clarifies and simplifies the definitions of income we use as the basis for calculating the fees of investment, home finance and general insurance intermediaries, taking account of feedback we have received from firms.
 - Chapter 5 introduces an annual fee for approved reporting mechanisms (ARMs), to ensure that our costs in dealing with them are not cross-subsidised by firms that do not use them.
 - Chapter 6 sets out some technical amendments to our fees manual, the most important of which are the introduction of electronic payments for application fees and an adjustment to the way we calculate the first year's fees for newly authorised firms.
 - Chapter 7 presents a new method for allocating MAS's costs between firms.

Equality and diversity considerations

- 1.16** We carried out an equality impact assessment (EIA) of our fees policy in 2011. It recommended replacing a headcount of employees with an income measure as the basis for calculating the fees of investment intermediaries to avoid the risk of adversely affecting people working part-time or job-sharing, who include disproportionate numbers of women, older people, people with disabilities and people from minority ethnic communities. We implemented this for 2013/14.

- 1.17** The EIA concluded that no other areas of fees policy were relevant to the equalities agenda or might influence behaviour. An EIA of fees policy we conducted earlier this year confirmed this conclusion. We took the original 2011 EIA's analysis into account when developing our fees policy on the new consumer credit regime and selecting income as the measure for fees calculations. We would welcome your comments if you believe other equality and diversity issues might arise from our proposals.

Next steps

What do you need to do next?

- 1.18** Please consider our proposals and send us your comments on the questions in this CP by 6 January 2014.

How?

- 1.19** Use the online response form on our website or write to us at the address on page 2.

What will we do?

- 1.20** We will consider your comments and publish our feedback along with our rules through a handbook notice in February or March 2014.

Table 1.1: Fee-payers likely to be affected by each chapter of this CP

| Issue | Fee-payers likely to be affected | Chapter |
|---|--|---------|
| Consumer credit fees | Any firm considering undertaking consumer credit business from 1 April 2014 onwards | 2 |
| Creating a new fee-block for firms carrying out investments that hold client money or safeguard and administer custody assets | All advisers, arrangers, dealers or brokers in fee-blocks A12 and A13 | 3 |
| Definition of income for intermediaries - clarifications | All advisers, arrangers, dealers or brokers in fee-blocks A12 and A13, corporate finance advisers in fee-block A14, home finance providers, advisers and arrangers in fee-block A18 and general insurance mediators in fee-block A19 | 4 |
| Introducing an annual fee for approved reporting mechanisms (ARMs) | All ARMs and firms using ARMs | 5 |
| Electronic payment of application fees and calculation of periodic fees for first year of authorisation | All applicants for authorisation by the FCA | 6 |
| Amendment to FCA financial penalty scheme | All authorised firms | 6 |
| Money Advice Service levies | <ul style="list-style-type: none"> Firms subject to money advice levies: authorised firms, payment institutions and electronic money issuers. Firms subject to debt advice levies – firms in fee-blocks A.1 (Deposit acceptors) and A.2 (Home finance providers and administration). | 7 |

2. Consumer credit fees

2.1 This chapter sets out our proposals for recovering our costs when the FCA consumer credit regime comes into effect from 1 April 2014. It covers:

- application fees
- the structure we, the Financial Ombudsman Service and the Money Advice Service will use for charging periodic (annual) fees, including our proposed definition of consumer credit income
- indicative periodic (annual) fee rates to help firms with business planning
- concessions for firms with social objectives

We will consult on the definitive rates for periodic fees in our consultation paper (CP) on fees in March 2014.

2.2 For further information about our approach to fees, please see our brief guide on *How we raise our fees*, published in July 2013. This is available on our website - www.fca.org.uk/your-fca/documents/how-we-raise-our-fees.

Background

2.3 We will take over the regulation of consumer credit from the Office of Fair Trading (OFT) on 1 April 2014. In preparation for this, firms that currently hold consumer credit licences issued by the OFT and want to continue trading after 1 April are required to register with us for 'interim permission.' They will then need to complete a detailed application process for authorisation to bring them into the full FCA consumer credit regime with a 'part 4A permission' under FSMA. Firms will need to apply for authorisation by specified deadlines which we will confirm with them. This process will be completed before 1 April 2016.

2.4 Firms not already licensed by the OFT that want to start trading will be able to apply to us from 1 April 2014, and if their application is granted they will be brought directly into our full regime.

2.5 Both interim permission-holders and new applicants will pay application fees when they apply and will be liable to periodic fees once they are authorised.

- 2.6** The interim permissions regime was described in detail in our consultation paper in March 2013 (FSA CP13/7 – *High-level proposals for an FCA regime for consumer credit*) and the interim permission fees confirmed in our policy statement in August 2013 (PS13/7 – *Consumer credit: interim permission fees*). Our regulatory proposals for the full consumer credit regime were outlined in FSA CP13/7 and described in more detail in our consultation paper on *Detailed proposals for the FCA regime for consumer credit* (CP13/10, October 2013).
- 2.7** Since we receive no subsidies from other sources but are funded entirely by the firms we regulate, our fees are intended to recover our costs in a way that is as fair and efficient as possible. They are not intended to influence firms' behaviour. In the case of consumer credit, there are two sets of costs to recover:
- The annual running costs of the full consumer credit regime.
 - The costs of setting up the new regime: this includes the project work undertaken since the government announced the transfer, the development of systems and procedures, etc. It also includes the costs of administering the interim regime, which are not fully recovered by the interim permission fees.
- 2.8** None of the set-up costs incurred on consumer credit up to now have been charged to firms that are already authorised by us under FSMA or other regimes, as it is an important principle that the charges should fall to the firms directly involved and should not be cross-subsidised by other types of firms. We will recover these costs through the periodic fees of consumer credit firms once those on interim permissions are fully authorised. This process will be completed by April 2016. This means that 2016/17 will be the first fee-year in which there is a full population of consumer credit firms among whom to spread the costs. To keep our fees consistent in the meantime, our fee-rate calculations will be based on our assumptions about the number of firms we expect to see authorised in 2016/17.
- 2.9** To keep consumer credit fees as straightforward as possible, we are proposing to structure both the application fees and periodic fees based on two types of firms – those with limited consumer credit permissions and those with full consumer credit permissions. The two categories are mutually exclusive, so there is no risk of firms being double-charged.

Application fees

- 2.10** When firms apply to us for authorisation under Part 4A of FSMA, they pay a fee to contribute towards the cost of processing their applications. Application fees do not cover the full processing cost. This is because existing firms benefit from the confidence and credibility that our policing of the perimeter brings to the market. So a proportion of the costs, currently running at around 40%, is recovered from existing firms through periodic fees.

- 2.11** We divide our existing application fees for most firms into three levels of complexity as an indicator of the resources we expect to put into them. The complexity of the assessment is related to the regulatory risk presented by particular business types. Where a firm applies for more than one permission, we only charge for the most complex permission. The categories are:
- Straightforward – up to £1,500
 - Moderately complex – up to £5,000
 - Complex – up to £25,000
- 2.12** Firms that are already authorised and want to extend their range of permitted activities only pay half the relevant application fee as a Variation of Permission (VoP), because we already have a great deal of information about them so have less work to do on the specific issue. Where a firm wants a permission that is contained in a fee-block that already applies to it, that firm is only required to pay an administration fee of £250 (see paragraph 2.29 below for what we mean by ‘fee-block’). They pay no fee if they want to reduce their permissions.
- 2.13** If the applicant is applying for permission to carry on activities that include PRA-authorised activities or is PRA-authorised, the application fee is split equally between the FCA and the PRA. If the applicant is applying for permission to carry on FCA-regulated activities only or is an FCA-authorised and applying to take on new FCA-regulated activities only, the whole fee is paid to the FCA.

Proposed consumer credit application fees
(Appendix 1, pages 4-10: FEES 3.2.7, FEES 3 Annex1R)

- 2.14** There will be different sets of application fees for firms seeking limited or full permissions.
- Applications for limited permission**
- 2.15** We are proposing a fee of £100 for firms applying for limited permission if their consumer credit income is up to £50,000 and £500 for larger firms. There will be no charge if they apply for further limited permissions.
- Applications for full permission**
- 2.16** Consumer credit permissions also fall under Part 4A of FSMA, so we propose to use the existing application fee structure as the model for them, with an additional category of ‘Very complex’ for credit reference agencies, whose applications we anticipate will put a higher demand on our resources. Firms applying to become consumer credit lenders will pay the appropriate fee depending on the type of business they intend to transact. For example, complex fees will be paid by payday lenders (ie ‘offering high-cost short-term credit’), logbook lenders (‘bill of sale agreements’) and home collected credit agencies. All other lenders will pay the moderately complex fee, including peer-to-peer lenders (‘operating an electronic system in relation to lending’).

2.17 Table 2.1 sets out our proposed fees for consumer credit applications in detail.

Table 2.1: proposed consumer credit application fees

| | |
|---|---------|
| Limited permission | |
| Firms with annual consumer credit income up to £50,000 | £100 |
| All other firms | £500 |
| Full authorisation | |
| Straightforward | £1,000 |
| <ul style="list-style-type: none"> • Credit broking • Providing credit information services | |
| Moderately complex | £5,000 |
| <ul style="list-style-type: none"> • Entering into a regulated credit agreement as a lender, or exercising or having the right to exercise rights and duties under a regulated credit agreement (excluding in relation to high-cost short-term credit, bill of sale loan agreements and home credit loan agreements) • Exercising or having the right to exercise the rights or duties of a lender (excluding in relation to high-cost short-term credit, bill of sale loan agreements and home credit loan agreements) • Entering into a regulated consumer hire agreement as an owner • Exercising or having the rights to exercise rights and duties under a regulated consumer hire agreement • Operating an electronic system in relation to lending • Debt collecting • Debt administration • Exercising or having the right to exercise rights and duties under a regulated credit agreement | |
| Complex | £10,000 |
| <ul style="list-style-type: none"> • Entering into a regulated credit agreement as a lender, or exercising or having the right to exercise rights and duties under a regulated credit agreement, in relation to high-cost short-term credit, bill of sale loan agreements and home credit loan agreements • Exercising or having the right to exercise the rights or duties of a lender in relation to high-cost short-term credit, bill of sale loan agreements and home credit loan agreements • Debt adjusting • Debt counselling | |
| Very complex | £15,000 |
| <ul style="list-style-type: none"> • Providing credit references | |

2.18 If a firm applies for both consumer credit permissions and other Part 4A permissions, it will pay the highest of the tariffs it is applying for as a single fee. A small minority of firms, such as banks, which are dual-regulated by the FCA and the PRA, will apply to the PRA and the fee will be divided equally between us. The Bank of England is consulting separately on the corresponding amendments to the PRA rules.

2.19 In line with our policy in relation to existing Part 4A application fees, firms already authorised by us will be charged half the relevant application fee as a VoP when they apply for consumer credit permission.

- 2.20** Because the consumer credit activities within the respective categories are not related to each other, we propose to charge each application for a consumer credit permission as a VoP, even if it falls within the same category. For example, if a high-cost short-term lender applied for a permission as a debt counsellor, the fact that it already had a 'complex' permission would not reduce our scrutiny of its application. We will however make a lower charge for 'straightforward' permissions since these are more simple to process. Our proposals are:
- Additional 'straightforward' consumer credit permission - £250;
 - Any other additional consumer credit permission – 50% of the relevant application fee.
- 2.21** As with application fees, if firms are seeking both consumer credit and non-consumer credit permissions, they pay the highest rate as a single fee. That is to say, where a firm applies for a VoP involving a number of permissions (which may involve a combination of credit related and non-credit related regulated activities across a range of complexity groups), the fee payable will be determined by the highest fee that applies to the whole application.
- 2.22** Former OFT licensees with interim permissions will be charged as new applicants and pay the full fee if they are not already FSMA-authorized because the information collected on registration for interim permission is minimal.
- 2.23** Applications for limited permission receive a relatively light level of scrutiny, reflecting the low regulatory risk they pose. Consequently, any firms with limited permissions that seek full permissions will be charged as new applicants, paying the appropriate application fee in full.
- 2.24** The OFT is responsible for consumer credit until 31 March 2014, so firms that do not already have an OFT consumer credit licence will have to apply to them for a licence before seeking interim permission from us. If any OFT applications are still undetermined by the OFT when we take over on 1 April 2014, they will not be required to seek interim permission but will be treated as new Part 4A Part 4A applications (or new VoPs if the firms are already authorised). We will charge them the appropriate application or VoP fee, but will also take into account the amount they have already paid the OFT, collecting the balance if our fee is higher than the OFT's, or making no charge if it is lower.

Q1: Do you agree with our proposals for consumer credit application fees?

Validation orders (Notices under section 28A(3)(a) and (b) of FSMA)

(Appendix 1, page 27: FEES 3.2.7(zr))

- 2.25** Under the OFT's licensing regime, validation orders provide retrospective validation for credit agreements that would otherwise be unenforceable due to unlicensed trading.
- 2.26** Under section 28A(3)(a) and (b) of FSMA, we may, by written notice, allow an agreement that is otherwise unenforceable to be enforced if we are satisfied that it is just and equitable to do so. This is a power that was introduced on 1 April 2013 and, which we anticipate needing to use after 1 April 2014. Because the term is familiar, we will continue to refer to these as validation orders in correspondence and publications, even though they are technically notices under section 28A(3)(a) or (b) of FSMA.

- 2.27** We intend to charge for applications in relation to section 28A(3)(a) or (b) notices. The OFT's charges are based on the number of agreements. We have discussed this with the OFT and concluded that our resources are likely to be determined by the number of different kinds of agreement we have to investigate – that is, agreements applying different terms and conditions. Where there are several agreements applying the same terms and conditions, we would make a single charge.
- 2.28** So we propose to base our fee on the number of types of agreement we have to review, regardless of how many people may be named in it. Our best estimate of the time staff will need to put into validation orders indicates that a fee of £3,500 per type of agreement would be appropriate. We will of course keep the fee under review as we gain experience of evaluating validation orders.

Q2: Do you agree with our proposed charge of £3,500 per type of agreement submitted for a consumer credit validation order?

Periodic fees

- 2.29** To target the recovery of our regulatory costs in the most effective way, we group fee-payers into a series of 'fee-blocks.' These enable us to link together firms with similar permissions and allocate our costs to them. We then recover our costs through periodic fees (variable annual fees), based on a metric known as a 'tariff base', which is common to all firms. Several fee-blocks use income as their tariff base.
- 2.30** The fee-rate is calculated by dividing the total amount we wish to recover from the fee-block by the total value of the tariff data reported by all of the firms in the fee-block. This provides a distribution of cost recovery within the fee-block, based on the size of the firms. Taking this year's fees for investment advisers, arrangers, dealers and brokers in fee-block A13 as an example, the 6,768 firms reported total income of £6.1 bn. Our AFR for the fee-block is £39.2m. Dividing this figure by the tariff data gives a fee-rate of £6.89 per £1,000 of income. Each firm therefore pays in proportion to its size within the fee-block.
- 2.31** To reduce the burden of fees on the smallest firms, there is a minimum fee of £1,000 and firms only pay an additional variable fee if their data takes them above a certain threshold in any particular fee-block. In fee-block A13, the threshold is £100,000 of income, so firms only pay the periodic fee in addition to the minimum if their data takes them above that level.

Proposed consumer credit fee-blocks

(Appendix 1, pages 10-15: FEES 4 Annex 1AR, FEES 4 Annex 2AR)

- 2.32** We wish to keep the consumer credit fees system as straightforward as possible, so we are proposing only two fee-blocks:
- Fee-block CC1: firms with limited consumer credit permissions
 - Fee-block CC2: firms with full consumer credit permissions

- 2.33** We are proposing to use consumer credit income as the tariff base for both fee-blocks. This is a readily available metric that all firms are familiar with, and it puts firms on an equal footing, ensuring that their fees are proportionate to their scale of business. We considered using turnover as the tariff base, but discussions with firms and their trade bodies convinced us that reporting income was simpler and more likely to be consistent.
- 2.34** Turnover and income may be largely interchangeable terms for firms which do not lend money but derive their income from fees, commissions and other charges for services. In the case of lenders, though, turnover could be interpreted as including the capital they have lent to clients and the repayments of principal, on top of their income from trading. This would have meant that we were not comparing the figures from lenders and non-lenders on a like-for-like basis. We believe we will make our intentions more clear if we avoid references to turnover. Revenue would have been a valid term, but the term income is current elsewhere in our fees manual so we are retaining it. In broad terms, our definition is the gross inflow of economic benefits, without netting off operating costs or business expenses. Capital lent out and repayments of principal are not economic benefits, but the interest due on the capital loans and any associated charges for setting up or administering the loan are economic benefits, as are charges for other consumer credit services which do not involve making loans.
- 2.35** The two fee-blocks distinguish the lowest risk firms in CC1 from the rest, but leave fee-block CC2 large and disparate compared to most of the current 'A' fee-blocks. An alternative would have been to break CC2 down into smaller fee-blocks based on risk. For example, we might have set up three fee-blocks equivalent to the straightforward, moderately complex and complex/very complex categories we are proposing for application fees. This would have reduced the extent to which lower-risk firms were contributing towards the regulatory costs of higher-risk firms, but we believe it would have made the system disproportionately complicated.
- 2.36** Businesses are becoming increasingly diverse so many will undertake a range of activities. Under our proposal, firms will report a single income figure, without having to subdivide it according to the various definitions of the separate fee-blocks. This would add a further layer of complexity to the reporting, while increasing the risk of inconsistency, accidental error and deliberate misrepresentation. In addition, the approach we are proposing allows firms to diversify their range of business without paying extra annual fees because they have moved into a second fee-block. They would pay a VoP to move between complexity categories but, because they would not be moving into a new fee-block, their fees would expand or contract with their income, and not automatically increase with the new permission.
- Indicative variable fee rates**
- 2.37** We do not yet have sufficient data on the income of consumer credit firms to calculate definitive periodic fee-rates, so we will consult on the final rates in the fees CP that we expect to publish in March 2014. Meanwhile, to help firms with their business planning, we have set out indicative fee-rates in this section, based on the data currently available. Newly authorised firms will pay a proportion of the full annual fee, depending on the month of authorisation.
- 2.38** We will base the fees on our estimates of the number of firms we expect to be authorised as at 1 April 2016 when the interim regime ends and the full population of consumer credit firms is authorised. In 2014/15, many firms will still be on interim permissions, and those that do obtain authorisation during the fee year which runs from April to March. It will pay only a proportion of the annual fee, to cover the remaining part of the year. It would not be reasonable for us to spread the full cost of recovery among this small population of firms. This means that it will not be until 2016/17 that we start to recover the full costs of our consumer credit regime.

2.39 We expect to consult on the rules that implement our minimum and variable annual fees for credit-related regulated activities in March 2014.

Indicative minimum fees

2.40 Firms below a certain threshold of income will pay a minimum fee. Above the threshold, they will pay the highest minimum plus a variable rate.

2.41 Small firms already authorised in the 'A' fee-blocks will pay the consumer credit minimum fee in addition to their 'A' block minimum fee and any applicable 'A' block variable fee. The costs of developing the consumer credit regime up to now have not been charged to existing FSMA firms and so all firms authorised for credit-related activities will need to contribute both towards the annual costs of regulation and recovery of the set-up costs.

2.42 Our working assumption at present is that the minimum fee threshold above which a firm pays variable fees would be £250,000 of consumer credit income for both consumer credit fee-blocks. We are considering banded minimum fees for both fee-blocks:

Table 2.2: Indicative minimum consumer credit fees

| Fee-block CC1 (limited permission) | |
|---|--------|
| Up to £50,000 | £250 |
| >£50,000 to £100,000 | £400 |
| >£100,000 to £250,000 | £500 |
| Fee-block CC2 (full permission) | |
| Up to £100,000 | £500 |
| >£100,000 to £250,000 | £1,000 |

Indicative variable fees

2.43 Firms whose income takes them above the minimum fee threshold will pay a variable fee in addition to the highest minimum fee. A larger firm in fee-block CC2 would therefore pay £1,000 plus the variable rate per £1,000 or part-£1000 of income above £250,000. Our latest estimates indicate the following rates for 2014/15:

Fee-block CC1 £0.23 per £1,000 or part-£1,000

Fee-block CC2 £0.30 per £1,000 or part-£1,000

Q3: Do you agree with our proposed structure for periodic (annual) fees for consumer credit firms?

**Income data proposed for fees reporting
(Appendix 1, pages 15-20: FEES 4 Annex 11BR, FEES 4 Annex 13G)**

2.44 We propose to base our fees on consumer credit income. This is known as the tariff base for the fee-blocks. As explained in paragraph 2.30, the objective is to gather data that consistently allocates the appropriate share of cost recovery to each firm. This means leaving as little scope as possible for the figures to be adjusted or interpreted, so we are looking for a wide definition of income, modified by a narrow range of deductions.

- 2.45** Because the total amount we recover from each fee-block is pre-determined, clarifying the definition does not affect the amount of money we collect, only its distribution between firms. Our concern, therefore, is to ensure that the definition is correct and unambiguous so that each firm pays its rightful share. This concept is straightforward in principle, but our experience with existing Part4A-authorized firms indicates that detailed clarification is required to ensure that the results are consistent across the population. If our definitions allow particular types of firm to understate their income, that pushes up the fees payable by the rest. The great majority of firms report their data in good faith and are anxious to comply with our requirements, but we have also found that some overstate their income, for example reporting all the income in their accounts rather than restricting the figure to their income from regulated business.
- 2.46** Our proposed definitions of consumer credit income are modelled on the definitions that already exist in Chapter 4 of our Fees Manual and we will eventually combine them. For the moment, though, we believe it is simpler to keep the consumer credit definitions separate.
- 2.47** The definitions are set out in full in Appendix I pages 15-20. These are the key features:
- Consumer credit firms will need to report their income without any deductions for business expenses such as staff and accommodation costs, etc.
 - Firms should take care that they only report income for the activities they have consumer credit permissions for – this might be less than the income in their reported accounts if they conduct other types of business.
 - To be consistent with the accounting conventions that many firms will be familiar with, we have considered the definitions of revenue under UK generally accepted accounting principles (GAAP) in preparing our proposals, but firms should adhere to whatever definitions they use in their accounts.
 - We do not want firms to go through unnecessary data collation exercises, so we are asking them to report on the basis of their latest accounts, whatever their own financial year might be. We define this as the data from the financial year ending during the calendar year before the relevant fee-year. This means that the 2014/15 fees would be based on firms' accounts for their financial year ending up to 31 December 2013.
 - Firms' accounts may not always distinguish consumer credit from other income. In these circumstances, we give guidance firms on how firms should apportion their income to the business they undertake. There needs to be an objective basis for this, and they need to be able to demonstrate corporate accountability by documenting how the methodology was developed and approved at an appropriate level in the firm.
 - We are asking firms to estimate the 'fair value' of services where they have taken business decisions not to charge or to discount their charges – for example, providing interest-free credit. The concept of fair value is common in accounting and is important in the context of fees because it ensures firms declare their income on a comparable basis
- 2.48** It is critical that our definitions are realistic, practical and properly reflect firms' consumer credit business. Firms must be able to report their information consistently. We have had extensive discussions with individual firms and trade bodies and a workshop with trade bodies. Our definitions take account of the feedback we received and we are keen to hear your comments on our proposed definition.

- 2.49** Firms may find it helpful to look through Chapter 4 of this CP, where we clarify our definition of income for a number of businesses that are already authorised by us, in light of queries raised during this year's data validation exercise. This may indicate the sorts of issues that might arise under the definition of consumer credit income.

Data reporting

(Appendix 1, pages 24-26: SUP 16 Annex 35AR)

- 2.50** We propose to collect the tariff data we need to calculate our fees as part of our standard regulatory reporting system so that firms do not have to report to us separately. In our recent CP on consumer credit (CP13/10: *Detailed proposals for the FCA regime for consumer credit*, October 2013), we set out our proposals for data reporting by consumer credit firms.
- 2.51** Because we prescribe detailed definitions for fees data reporting, to impose consistency across all firms, we need to be sure all firms are reporting to us on exactly the same basis. We therefore propose to add a single field in two of the consumer credit forms we presented in CP13/10:
- Form CCR002: to be completed by all firms with full consumer credit permissions. Smaller firms would submit the returns annually. Larger firms would submit the returns half-yearly, but would only report the fees data in the return relating to the end of their financial year.
 - Form CCR007: to be completed by all limited permission firms.
- 2.52** The fees field would ask for the total income figure calculated according to the definition required for fees reporting. We would be asking for the total figure only, not a breakdown, but firms should be ready to justify their figures if we challenge them, either as part of random testing for quality control, or because we have concerns about the results reported to us.
- 2.53** We will have to ask all firms to report their income to us annually even if they fall below the minimum fee threshold because we need the full data set to calculate the fee-rates.
- 2.54** For authorised professional firms, we would use the estimate of income from credit-related activities that will be added to their current annual questionnaire prescribed in SUP 16 Annex 9R.

Q4: Do you have any comments on our draft definitions of consumer credit income and proposals for reporting the data?

Concessions for firms with social objectives

Appendix 1, pages 7-8, 12: FEES 3 Annex1R, FEES 4 Annex 1AR)

- 2.55** IN PS13/07, we confirmed that we would maintain the exemptions the OFT already offers credit unions and bodies that, under the OFT consumer credit regime, only carry out non-commercial debt counselling. So we are not charging these organisations interim permission fees. We said that we would consult further on proposals for firms with social objectives under our full authorisation regime. We are now proposing concessions for three types of firm:
- Not-for-profit (NFP) bodies providing debt advice
 - Credit unions
 - Community benefit societies

Since these bodies would nevertheless be regulated by us, their costs would be met by the larger fee-payers – so those above the minimum fee threshold.

Not-for-profit bodies providing debt counselling, etc, services

2.56 In our FSA consultation paper, CP13/07, we acknowledged that our fees might affect the capacity of not-for-profit bodies to continue to provide free debt advice to vulnerable consumers.

2.57 To ensure this important service continues, we have decided to make not-for-profit bodies exempt from all application and periodic fees, provided they are a 'not-for-profit debt advice body' as defined in the Appendix attached to CP 13/10. A 'not for profit body' is required to apply the whole of its income and any capital for charitable or public purposes, and is prohibited from distributing any of its services among its members. It is an advice body if it has a limited permission to carry on debt counselling along with, in some cases, debt adjusting and/or providing credit information services, provided it is not associated with any other non-not-for-profit body that offers these services.

2.58 This exemption would apply only to not-for-profit debt advice bodies with the appropriate limitations. If they extended their permissions to include any other activities, then they would lose the concession, even if they continued to offer free debt counselling, etc, services. By definition, no not-for-profit body in fee-block CC2 would be eligible for this concession.

Credit unions and community benefit societies

2.59 We are proposing additional concessions for credit unions and community benefit societies. These are both industrial and provident societies conducting an industry, business or trade for the benefit of the community. We have considered offering concessions to other types of firm with social objectives, but we believe that only the Industrial and Provident Societies Act 1965 gives us the safeguards we need against potential abuse. This is because we are the registering authority under the Act, so we would remove from the register any society we found to be misrepresenting itself.

2.60 Credit unions offer basic savings and loans to their members, many of whom cannot obtain such services from mainstream banks and building societies. They are authorised by us under FSMA as deposit takers and licensed by the OFT under the Consumer Credit Act, although they have a statutory exemption from regulation for certain consumer credit activities. In recognition of the public value of their services to low income consumers, we offer the smaller credit unions discounted application and periodic fees as deposit takers. The OFT exempts them from consumer credit licence fees. We have maintained this exemption for their interim permission fees as consumer credit providers.

2.61 Community benefit societies undertake a wide range of business, but a small number are licensed for consumer credit activities. They target similar client groups to credit unions, but their services are not confined to their members. They do not receive any concessions on consumer credit fees.

2.62 In the CP on consumer credit that we published at the beginning of October 2013 (CP13/10), we set out our proposals for tackling the poor outcomes for consumers identified by the government and the OFT in the high-cost short-term credit market. This market disproportionately affects vulnerable consumers on low incomes, who are also the customers of credit unions and community benefit societies. The government is encouraging the expansion of credit unions to improve the range of socially responsible choices available to these consumers, so we are supporting these policies by offering concessions to smaller credit unions and community benefit societies. We are not proposing similar concessions for cooperative societies, which are also registered with us under the Industrial and Provident Societies Act, because we do not believe they carry out comparable consumer credit activities, but would welcome views on this.

2.63 Our proposals are:

- reduced application fees for credit unions and community benefit societies of £200 to smooth their entry to the market
- exemption from minimum fees, to give them a modest advantage while they are establishing their position

Once they go above the minimum fee threshold, (£250,000 of consumer credit income on our current working assumption), we believe a credit union or community benefit society should be able to compete with other firms on an equal basis so would then pay the minimum fee plus the variable rate. This reflects our existing approach to credit unions under FSMA, which pay the fees on the same basis as other deposit takers once their deposits reach £2m.

Q5: Do you have any comments on our proposed concessions on consumer credit fees for businesses with social objectives?

Financial Ombudsman Service

(Appendix 1, page 22: FEES 5 Annex 1R)

2.64 Firms not regulated by the FCA applying for OFT consumer credit licences currently pay a flat fee of £140 over five years as a contribution to the ombudsman service's consumer credit jurisdiction levy. They are not being charged under the interim permissions regime but will in future need to pay an annual levy.

2.65 We propose that all firms conducting consumer credit activity would be covered by the ombudsman service general levy. We propose to introduce two new fee-blocks.

2.66 Firms with limited permission will pay a small flat fee. We are not yet in a position to quote rates, but the fee might be £25-£50. However, we have decided the not-for profit debt advice bodies defined in paragraph 2.57 should not pay an ombudsman levy. As explained in CP13/10, this is because we want to balance the need for consumer protection against the need to avoid unnecessary constraints on not-for-profit bodies that provide free debt advice to vulnerable consumers.

2.67 All other firms will pay tiered fees based on consumer credit annual income. This is as defined in Appendix 1, and is the same as the figure collected by FCA to determine our regulatory fees. As the ombudsman's jurisdiction is wider than activities regulated by FCA, we sometimes collect a separate figure from firms to calculate the Ombudsman's tariffs. However, we have decided not to do that in this instance to minimise the burden of reporting on firms.

Q6: Do you have any comments on our proposed approach to the ombudsman service levy for consumer credit firms?

Money Advice Service (MAS)

Appendix 1, page 23: FEES 7 Annex 1R)

- 2.68** Applicants for OFT licences are not currently charged for MAS, although the Financial Services Act 2010, which established MAS, made provision for them to contribute towards its costs. We have not included a MAS levy with interim permissions, but firms will need to contribute towards its costs under the full regime.
- 2.69** We are proposing that the MAS levy will follow the FCA model, with two fee-blocks based on income, a minimum fee for smaller firms (perhaps £10 in line with the current regime) and tiered fees for larger firms (see Chapter 7). We expect to consult on MAS levy rates in March 2014 along with the FCA rates.

Q7: Do you have any comments on our proposed approach to the Money Advice Service levy for consumer credit firms?

3. Firms carrying out investment business that hold client money or safeguard and administer safe custody assets

(Appendix 2, pages 10-14: FEES 4 Annex1AR, FEES 4 Annex 2AR)

- 3.1** We propose to create a new fee-block (A21) for firms carrying on investment business where their permissions include safeguarding or administering assets (without arranging) and/or where they are firms holding client money and to whom the client money rules apply ('CM&A').
- 3.2** We propose to merge fee-blocks A12 ('Advisers, arrangers, dealers or brokers - holding or controlling client money or assets, or both') and A13 ('Advisers, arrangers, dealers or brokers - not holding or controlling client money or assets, or both'). The ability to hold client money or assets is the only distinction between these two fee-blocks.
- 3.3** In this chapter we set out our definition of A21 and A13, the tariff bases we would apply to them and our analysis of the impact of the changes. The tariff base is a common metric, which in our view best measures the size of the business activity and the risk it poses to our statutory objectives. The changes would take effect from 1 April 2014.

Background

- 3.4** We want to target more effectively the recovery of our costs in regulating compliance with our client money and assets rules, as set out in our Client Asset Sourcebook (CASS), while removing an anomaly in the fee-rates of fee-blocks A12 and A13.
- 3.5** We put forward similar proposals in 2010 (CP10/24, *Regulatory fees and levies: policy proposals for 2011/12*), when we were setting up our specialist CASS Unit. We decided not to proceed because the relevant data collection arrangements were not in place. This no longer applies as firms are completing a combination of the annual stratification exercise and, where applicable, the Client Money and Assets Return (CMAR) and their data has been tested.
- 3.6** At the same time, it creates an opportunity to remove an anomaly in the outcome of our fees calculations for fee-blocks A12 and A13. Firms in the A12 fee-block hold clients' money and safe custody assets, requiring greater supervisory resources than those in fee-block A13. On average they pay higher fees than firms in A13, but the headline fee-rate per £1,000 or part-£1,000 is lower. The calculation is set out below:
- **Fee-block A12:** We are recovering £44.5m of costs from only 1,899 firms. Their total income is £19.1bn, giving a fee-rate of £2.39 per £1,000 and an average fee per firm of £24,038.

- **Fee-block A13:** We are recovering £39.2m from 6,768 firms. Because the firms are on average smaller, their total income is only £6.1bn and the average fee per firm just £6,210 – but the fee-rate is higher than in A12, at £6.89 per £1,000.

This result is counter-intuitive. Some firms in fee-block A13 have pointed out that they could lower their fees by taking on the additional permission of holding client money and safe custody assets, even though they do not want it. There is no evidence that any have actually done so, but our fees are not intended to influence firms' behaviour.

- 3.7** Setting up a new fee-block clarifies our cost recovery. It ensures that firms taking on client money and assets permissions pay more than those that do not. It also removes the distinction between A12 and A13, bringing all the investment intermediaries into one fee-block, so it has the additional advantage of simplifying our cost recovery from this group of firms. We are proposing that the Money Advice Service (MAS) would follow the FCA model.

Definition of the client money and safe custody assets fee-block

- 3.8** The new fee-block A21 will apply to firms whose permissions include the safeguarding and administering of safe custody assets (without arranging) and who hold client money under the client money rules. Tariff data for A21 will be collected through the data already received through the CMAR for the majority of firms and through our annual data collection and classification exercise for small firms.
- 3.9** Our definition will not include the following types of firm from the scope of the new fee-block:
- Firms with authority to control but not hold client money, or those that only arrange the safeguarding and administering of client assets. Our work on these firms is much less resource intensive because the main risks are with the holders of safe custody assets and money, so they would be paying more than their share of cost recovery. Consequently, a number of firms now in fee-block A12 would move to the redefined A13 fee-block, but would not also fall into the new fee-block A21.
 - Firms with the ability to hold client money in relation to home finance business are excluded, as this activity is outside the scope of CASS.
 - Inwardly passporting EEA branches (holding client money and safe custody assets) are (apart from insurers) excluded from CASS in respect of their passported activities.

Tariff base for fee-block A21

- 3.10** We propose that the tariff base for A21 should be the amount of client money and/or safe custody assets held by the firm. This is consistent with our approach for other fee-blocks, where we seek to use an impact risk measure that can be applied to all firms in a specific fee-block and where the costs to firms and ourselves in collecting the data are proportionate. Tariff data for the majority of firms that will fall into A21 will be collected through the data already received through CMAR. For small firms this will be derived from the annual stratification exercise.

- 3.11** The fee would be based on the highest client money and/or safe custody asset balances a firm has reported in the year ending 31 December before the relevant fee-year – ie 31 December 2013 for the 2014/15 fee-year. We propose to set different fee-rates for client money and custody assets. We will apply the rates to each separately, then add them together to calculate a single final fee. The minimum fee threshold would be £0, so any amount of client money and safe custody assets, however small, would attract a charge, reflecting the risks associated with the actual holding of client money or safe custody assets.
- 3.12** The fee-rate for client money would be higher than for custody assets. This is because of the different risks to clients posed by the two activities, and mirrors the amount of effort expended in supervising them.

Tariff base for fee-block A13

- 3.13** There would be no change in the tariff-base for the redefined fee-block A13. Firms now in A12 and A13 would report their income for 2014/15 on the same basis as for 2013/14, subject only to the following caveats:
- Firms should take note of the clarifications we have made to the definitions of income in Chapter 4. These do not change the definitions themselves, but clarify them in light of queries raised by firms and misunderstandings revealed during data validation.
 - Firms going into A21 should exclude any income they reported previously that arose directly out of the activity of holding client money and assets.

Impact analysis

- 3.14** We have carried out an impact analysis to compare actual cost recovery in fee-blocks A12 and A13 this year, with the position that would have existed if we had already created fee-block A21. We transferred the costs of client money and assets regulation from fee-block A12 to A21, and switched the balance from A12 to A13. We then recalculated the fees, using the income data firms reported this year and the CMAR data for the year ending 31 December 2012. Evidently, next year both our cost recovery figures and the data reported by firms would be different, but the results show the shift that would have occurred if we had applied the change this year. Table 3.2 sets out the results.
- 3.15** Our impact analysis confirms that firms in A13 without client money and assets permissions would have seen either no change in their fees or a decrease, while the firms responsible for higher amounts of client money would see increases. Overall, across the two fee-blocks, 44% of firms would have seen no change, 43% would have seen a decrease and 13% would have seen an increase.

Table 3.1: Comparison of actual cost-recovery in fee-blocks A12 and A13 with modelled results for proposed fee-blocks A13 and A21, using 2013/14 figures

| | Total costs to be recovered | Fee-rate |
|---|-----------------------------|---|
| Actual results for existing fee-blocks | | |
| A12 | £44.5m | £2.39 per £k of income |
| A13 | £39.2m | £6.89 per £k of income |
| Total | £83.7m | |
| Modelled results for proposed fee-blocks | | |
| A13 | £70.6m | £2.84 per £k of income |
| A21 | £13.1m | £92.59 per £m of client money held plus £0.31 per £m of safe custody assets held |
| Total | £83.7m | |

- 3.16** We are aware that the initial modelling of these rates based on highest values of client money and custody assets held, shows that there may be large increases in fees for some firms. This is an inevitable result of moving to the new fee block with a different tariff base and we are reviewing the outcomes, looking at the spread of firms across client money and custody assets holdings, to consider appropriate rates to recover our costs.

Next steps

- 3.17** We propose to introduce the new structure from 1 April 2014. Apart from the minor caveats in paragraph 3.10, this will not involve any change in the data firms report to us. We will consult on the fee-rates for all fee-blocks in March 2014.

Q8: Do you have any comments on our proposal to create a new fee-block for firms holding client money or assets or both?

Money Advice Service (MAS)

- 3.18** As indicated in paragraph 3.7, we are proposing that the MAS levy will mirror the FCA model. We expect to consult on the MAS levy rates in March 2014 (see note *** under Table 7.6 in chapter 7).

4. Definition of income for intermediaries - clarifications

(Appendix 2: pages 16-23: FEES 4 Annex 11AR, FEES 4 Annex 12G)

4.1 This chapter sets out our proposals for clarifying our definitions and guidance on reporting income as the tariff base for the following fee-blocks:

- A.13: Advisors, arrangers, dealers or brokers
- A.14: Corporate finance advisers
- A.18: Home finance providers, advisers and arrangers
- A.19: General insurance mediation

The changes are presentational and are not intended to affect the data we are asking firms to submit to us. They arise out of feedback from firms during this year's validation exercise, misunderstandings and queries firms raised with us or we with them, and also discussions we had with consumer credit firms and their trade bodies who, being new to FCA regulation, approached our rules with fresh eyes.

4.2 As we explain in Chapter 3, we are proposing to remove fee-block A12 and merge it into A13, so we are also removing references to it.

4.3 These fee-blocks all use income as their tariff base. The tariff base is intended as an objective measure for distributing cost recovery between firms in the fee-blocks. The amount we recover is set by our annual funding requirement (AFR), so the definition does not affect the amount of money we collect. It determines the fee-rate and the fees paid by the individual firms. All firms must report their data consistently so that each pays its fair share of the fees. If our definitions allow particular types of firm to understate their income, then other types of firm will have to pick up the balance. So our objective is to set as comprehensive a definition as possible, limiting the scope for interpretation.

4.4 Nevertheless, we do ask firms to interpret their income data in two important areas:

- We require firms to estimate the 'commission equivalent' or 'fair value' of services for which they have taken business decisions to rebate or waive their normal charges. If we did not do this, our guidance would be weighted in favour of the larger firms that are able to offer customers discounts that smaller firms may not be able to afford.
- To avoid a disproportionate effort in scrutinising individual invoices to determine whether income should be reportable or not, we allow firms to apportion their income on the basis of a representative split of business.

- 4.5** In both cases, we require firms to be able to prove if challenged that their estimates are based on reasonable methodologies and that the decisions were taken at appropriate levels so that we can determine accountability for the results.
- 4.6** The main issues that arose from our discussions with the industry were:
- Several individuals said they were accustomed to interpreting income as profit, and our initial definition of income as ‘the net amount retained’ appears to confirm that, but the definition makes it clear that what we are looking for is closer in their view to the accounting concept of ‘revenue’ – ie all earnings related to the activity, before any deductions are made.
 - The firms in these fee-blocks perform comparable roles as intermediaries and as they diversify their businesses, many overlap. The same firm may, for example, be a financial adviser in fee-block A13, a home finance adviser in A18 and a general insurance adviser in A19. Firms found it confusing that we had three similar but slightly different definitions of income, for A13 and A14, and then separately for A18 and A19. It would be simpler if there was a single definition for all intermediaries, with any business-specific factors set out clearly as part of that single definition.
 - Some firms misinterpreted our guidance and over or under-reported their income. Common errors were to:
 - declare the total income reported in their accounts, rather than the subset of income from regulated activities
 - include income arising out of activities in other fee-blocks, such as fund management
 - exclude from UK business income from clients based overseas who were seeking advice or other services relating to UK products
- 4.7** In light of our discussions with firms and our own review of the definitions, we have therefore decided to consolidate, clarify and, we hope, simplify our definitions and guidance. The main features are:
- We have removed the tariff definitions for fee-blocks A18 and A19 from FEES 4 Annex 1A Part 3 and incorporated them into a single consolidated definition for all four fee-blocks in FEES 4 Annex 11AR, with guidance in FEES 4 Annex 13G. We have removed the guidance from its previous slot in Table 2 of Annex 12G, because Table 1 relates to the life insurers of fee-block A4, which are dual-regulated, making this annex a shared rule between the FCA and the PRA. It is simpler to keep the income definitions and guidance in a separate FCA annex.

- We have attempted to simplify the layout and language. In particular, some of our drafting has been influenced by the definitions of revenue and fair value under UK generally accepted accounting principles (GAAP), to bring in terms that should be more familiar to firms in the context of financial reporting, though we are not incorporating this into industry guidance that we will take into account when exercising our regulatory functions and firms should continue to use whatever conventions they normally apply in their own reporting. For further information on the reporting of revenue under UK GAAP, see the note by the Accounting Standards Board (ASB): ‘Amendment to Financial Reporting Standard 5: Reporting the Substance of Transactions’: Income Recognition – November 2003’. This is available on the website of the Financial Reporting Council.
 - We have made it clear that we are looking for the income recognised in the accounts.
 - We have explained what constitutes UK business in the context of intermediation.
 - We refer firms in groups to article 69 of the Financial Services and Markets Act 2000 (Regulated Activities Order) 2001 (Groups and joint enterprises), to clarify the circumstances in which transactions in groups should be excluded from the definition of regulatory income. If in doubt, firms should refer to the guidance in our handbook on the application of this exclusion, which is set out in PERG 2.9.
 - Our current definition of income for home finance intermediaries in fee-block A.18 instructs them to include any fees arising out of mediation activities carried out before particular activities were brought into the scope of our regulation in 2004, 2006 and 2009 respectively. We have excluded these references as obsolete because we believe fees for home finance mediation are normally paid in full at the time the transaction is completed and are not carried forward over a number of years. We would welcome views on whether this assumption is correct, or whether there are any exceptions which we should take into account.
 - Against that, payments received from parents to subsidise discounted charges should be included as income so long as they are equal to or less than the fair value reported.
- 4.8** Our proposals are not intended to change the way firms report to us, but merely to make our requirements easier to follow.
- 4.9** The definitions of income for consumer credit firms, described in Chapter 2, are closely modelled on these and in the longer term it would make sense to merge them. However, since consumer credit is new to FCA regulation, we believe it would be less confusing to keep the definitions separate for the moment.
- 4.10** We are keen to receive comments on our redrafted definitions, especially any improvements that would help firms to interpret our requirements more clearly and reduce the scope for ambiguity or misinterpretation.

Q9: Do you have any comments on our redrafted definitions of income for fee-blocks A13, A14, A18 and A19?

5.

Fees for approved reporting mechanisms (ARMs)

(Appendix 2, pages 9, 15-16: FEES 4.2.11R, FEES 4 Annex 3AR)

- 5.1** We propose that all ARMs who submit transaction reports should, from 1 April 2014, contribute towards the maintenance and administration costs of our new Axway Gateway IT system. The charge would be based on the number of reports submitted so that firms' fees are proportionate to the size of their business.
- 5.2** An ARM is a portal that we have approved as compatible with our own system for the submission of the transaction reports firms are required to submit to us. It may be a dedicated service offered at commercial rates to a number of firms, or it may be a discrete module in an individual firm's own reporting system.
- 5.3** Our FCA portal for transaction reports was over seven years old and had become uneconomic to maintain. The system was proving unreliable and as firms are required to submit reports promptly, such delays could stop them meeting this deadline and put them technically in breach of the rules. We in turn are required to share this data promptly with other Competent Authorities, so delays in submission jeopardised our own target. Following an internal review which recommended the construction of a new portal, we informed ARMs last year of our intention to develop new systems, including a new portal.
- 5.4** The new portal, known as the Axway Gateway, has highlighted the importance of ARMs to the market and has also enabled us to quantify the costs associated with them more accurately. In addition to improved reliability, the new Axway Gateway allows ARMs the option to connect to our systems via the internet, providing the opportunity for substantial savings if they discontinue their leased lines.
- 5.5** ARMs pay a £100,000 application fee under FEES 3.2.7(r) to cover processing the application and initial testing to ensure compatibility with our portal, but no further charges beyond this. Recognising that there would be ongoing costs, we consulted in October 2008 (CP08/18) on introducing an hourly charge for the testing we have to carry out when individual ARMs make changes to their systems. The charges are set out in FEES 3 Annex 7. These ad hoc charges did not address the larger issue of routine maintenance and testing, initiated by ourselves as well as the ARMs, and so we are proposing to remove them. We will apply the annual maintenance charge instead.
- 5.6** FSMA requires us to keep under review the arrangements established by an ARM, while the software that allows them to send data to the FCA requires servicing and maintenance. These costs currently come from central funding, which means that the general firm population is subsidising this activity. The new Axway Gateway was developed as part of a wider programme of IT improvements and so we do not propose to isolate the set-up costs for targeted recovery from ARMs but, since the Axway Gateway is a specific process developed for transaction reporting, ARMs should pay for its maintenance, along with our resources in monitoring and liaising with them. This comes to approximately £415,000 per year.

- 5.7** We propose to allocate these costs in proportion to each ARM's share of the market, measured by the number of transaction reports they have processed during the year ending the previous 30 September. This will enable us to set the rates in October each year, giving firms sufficient notice to factor the fees into their business planning. For 2014/15, the rate we propose is £16.87 per 100,000 transaction reports submitted. When a firm is approved to become an ARM we will require them to submit an estimation of the transactions they expect to process and calculate the costs accordingly. At the end of the first year, we will review the actual usage and adjust their following year's fee accordingly.

Q10: Do you agree with our proposed annual maintenance charge for approved reporting mechanisms (ARMs)?

6. Other FCA fees issues

6.1 In this chapter, we set out a number of technical proposals:

- Payment of application fees by credit or debit card
- Calculation of first year's fee for newly authorised firms
- Some technical clarifications to the fees manual
- Updating our financial penalty scheme

Payment of application fees by credit or debit card

(Appendix 2, pages 4-5, FEES 3.2.3 (R))

- 6.2** We currently require application fees for authorisation to be paid by banker's draft, cheque or other payable order. The new authorisation systems we are introducing will enable us to receive payments online by credit or debit card. This will improve the efficiency and effectiveness of our authorisations process, helping to keep our costs down.
- 6.3** Paper payments have to be reconciled with the electronic application forms firms have submitted, and occasionally cheques are refused by the banks even though we have accepted the application forms, causing us to follow up the payments with the applicants. We are proposing to remove the option for paper-based payment so that acceptance of the charge by the card issuer becomes the final stage before submission of a valid application. If the charge is refused, it will not be possible for the firm to submit the application. The rule will be introduced when the new system is implemented.
- 6.4** We are proposing to require all payments of application fees to be made by Maestro, Visa debit or Visa/Mastercard credit card.
- 6.5** We are inserting guidance indicating that we may accept payment by other means if circumstances outside our or a firm's control prevent the use of a credit or debit card – for example, a failure in the systems of a card issuer or ourselves, or an application from a country where there are restrictions on international card payments. We say that we expect firms to notify us in these circumstances.
- 6.6** The proposal will only apply to the FCA - regulated applicants. It will not affect payments made to the PRA by dual-regulated applicants.

Q11: Do you agree with our proposal to require application fees to be paid by credit or debit card?

Calculation of first year's fee for newly authorised firms

(Appendix 2, pages 7-8: FEES 4.2.6R)

- 6.7** When a firm becomes authorised, it is obliged to pay its periodic fee for the remainder of the fee-year. As well as the FCA fee, this includes the FOS, FSCS and MAS levies as appropriate. The total is currently calculated on a quarterly basis – so, if a firm is authorised in the first quarter (April – June) it pays the full fee, but if it is authorised in the final quarter (January – March) it pays 25%. If a firm is authorised towards the end of any quarter, that means it is paying for more than two months when it was not actually authorised. This creates a financial incentive for them to postpone the activation of their authorisation to the beginning of a quarter, causing an uneven flow of work and therefore inefficiencies for our authorisations teams.
- 6.8** To calibrate the calculation more equitably, we are proposing to replace the quarterly pro-rata payment with a formula setting out a monthly pro-rata payment. As firms will only be paying for the months that they are authorised, we believe this will simplify their business planning and our own.
- 6.9** The Bank of England is consulting separately on a similar amendment to the PRA rules.

Q12: Do you agree with our proposal to calculate the first year's periodic fee of a newly authorized firm on a monthly pro-rata basis?

Some technical clarifications to the fees manual

- 6.10** We propose to make three technical clarifications:
- We are correcting typographical errors in two rules:
 - FEES 4 Annex 1A R Part 1: the activity group 'Portfolio managers' should be prefixed with its fee-block reference 'A.7.'
 - FEES 4 Annex 2A R Part 2 (2)(b): a decimal point is missing from the definition of the upper threshold of the minimum fee for credit unions: '(b) greater than 0.5million but less than 2.0 million, in which case a minimum fee of [tbc] £540 is payable.'
 - FEES 4 Annex 4: to avoid updating each year the relevant date for calculating the fees of collective investment schemes, we are converting it to a generic reference: 'Fees are charged according to the number of funds or sub-funds operated by a firm as at 31 March 2012 preceding the relevant fee-year.'

Q13: Do you agree with our proposed technical clarifications to the fees manual?

Updating our financial penalty scheme

- 6.11** We are required under FSMA (paragraph 21 of Schedule 12A) to prepare a financial penalty scheme that sets out how we treat the revenue we receive from financial penalties that we impose on firms. We need to update our scheme to take account of the recent regulations empowering us to take enforcement action against firms that pay or receive referral fees in personal injury claims. A referral fee is where an insurer or insurance intermediary passes details of a claim to a law firm where their own policyholder was not at fault, so that a case for personal injury compensation can be made against the 'at fault' party. The regulations impose duties to us under FSMA, including the requirement for a financial penalty scheme for referral fees.
- 6.12** Rather than set up a separate scheme, which would be unnecessarily complicated, we have decided to add referral fee penalties to the existing scheme, so they are treated on exactly the same basis as other FSMA penalties. This requires a simple addition to the scheme:

'Paragraph 21 of Schedule 12A of 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 financial penalties we impose on regulated persons (firms). ...'

Q14: Do you agree with our proposed amendment to the FCA financial penalty scheme?

- 6.13** At the same time, it has been drawn to our attention that the penalty scheme should not apply to firms in the 'G' fee-blocks. Penalties are levied against these firms under regulations applying European Union Directives, so FSMA does not apply and any revenues received must be paid directly to the Treasury. We are not consulting about this because we do not have the power to include such firms in our penalty scheme. We simply have to remove the references. First, we are adding a new sentence after the one quoted in paragraph 7.9 above:

'... on regulated persons (firms). 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 HM Treasury.'

In addition, we are deleting references to these firms from the schedule at the end of the scheme:

'E. Issuers and Sponsors of securities

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.'

- 6.14** This correction has no practical impact because we have not rebated any fees from retained penalties to the firms concerned.

7. Money Advice Service Levies 2014/15

(Appendix 2, pages 24-25: FEES 7 Annex 1R)

- 7.1** In this chapter we are consulting on a new proposed method of allocating Money Advice Service costs to fee-blocks with a view to implementing it for 2014/15. The proposals include both money advice costs and debt advice costs.
- 7.2** The Money Advice Service is funded by FCA-regulated financial services firms through two levies:
- The money advice levy, which began in 2010/11
 - The debt advice levy, which began in 2012/13.
- 7.3** For 2010/11, the first year the Money Advice Service operated, we allocated its money advice costs to fee-blocks in the same proportion as we allocated our costs for that year. This was designed to be a temporary method, pending development of an alternative method to better reflect the Money Advice Service's strategic priorities. The review was deferred and in May 2012, when we confirmed the fees for the industry for 2012/13, we advised that the Money Advice Service would be collecting relevant data to review the current funding model for 2014/15.
- 7.4** At the request of the Money Advice Service, we consulted in January 2013, earlier than planned, on a new method of allocating costs. The proposal at this time was to use the data the Money Advice Service gathered on how consumers used their website, telephone advice line, printed literature and face-to-face advice services.
- 7.5** Responses to this consultation fell into two categories, reflecting the sectors that would see significant increases in their levies and those that would see significant decreases. Some respondents were concerned about the short notice for increasing levies and the short period of consultation.
- 7.6** Following these responses, the Money Advice Service met with a cross section of trade bodies and agreed on a revised approach for 2013/14 that used a mixture of the consumer usage method and the current allocation method. This approach was pending the Money Advice Service working with the industry to develop a longer-term allocation method for 2014/15 and beyond.
- 7.7** The Money Advice Service has held a number of meetings with trade bodies representing banks, building societies, insurers, financial advisers and others to discuss proposals. A preference was confirmed that separate formulas for money advice and debt advice should be maintained and new ways to allocate both money advice costs and debt advices costs were proposed.

Proposals – Money Advice Levy

- 7.8** We are now consulting on an allocation method for 2014/15 that gives a clearer link between how consumers currently use the Money Advice Service, the service’s business strategy and the firms that pay for it. For money advice we are proposing three components that will carry equal weighting. These 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 relevant costs of the different channels.
 - Mapping the Money Advice Service’s five outcomes, as set out in its 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 2013/14.
- 7.9** The first component of the proposals is to use the data the Money Advice Service gathers on how people use its website, telephone advice line, printed literature and its face-to-face advice service, weighted according to the relative cost of each channel, as a basis for allocating a third of its money advice costs across fee-blocks. This is the “usage” part of the allocation. The levels of consumer usage of these services can be quantified in terms of volumes of consumer contacts in specific subject areas.
- 7.10** Tables 7.1-7.4 at the end of this chapter set out the range of subject areas consumers use for the four channels, the proportion of total contacts each area attracts and which fee-blocks they have been mapped to. We have taken a ‘best fit’ approach to mapping the subject areas with the regulated activity based fee-blocks. Where we have mapped a subject area across more than one fee-block the data is apportioned equally between the relevant fee-blocks.
- 7.11** There are other consumer usage subject areas that the Money Advice Service collects data on. These relate to key life events such as bereavement, divorce, starting a family and losing your job. This data represents 40% of the weighted channel usage data the Money Advice Service collects. We do not believe it is possible to map this data to regulated activity driven fee-blocks.
- 7.12** The data that the Money Advice Service has provided in Tables 7.1-7.4 is based on the accumulated available data collected by the Money Advice Service up until July 2013. We will allocate 2014/15 money advice costs from data collected by the Money Advice Service for the 12 months ending 31 December 2013.
- 7.13** The second component of the money advice costs will be made up of mapping the Money Advice Service’s five outcomes (the five basic steps of money management that it seeks to encourage consumers to take) to appropriate fee blocks. The five outcomes are managing debt well, saving regularly, saving for retirement, protecting assets and making provisions for dependents.

- 7.14** Table 7.5 sets out how the mapping of the Money Advice Service's five outcomes translates allocated across fee-blocks.
- 7.15** The final component of the money advice costs will be a levy based on how we allocate our Annual Funding Requirement (AFR). The rationale for this component is that the Money Advice Service is designed to be universal, providing advice on all of issues people face, so all sectors of the financial services industry should make some contribution towards the cost of the Service.
- 7.16** Following discussion with trade associations, we propose that at this stage the most straightforward approach to weighting each of these components is an equal weighting. The Money Advice Service is clear that this should be considered again in the future when detailed data is available on outcomes.
- 7.17** Table 7.6 sets out how the mapping of consumer usage subject areas, the Money Advice Service five outcomes and the levy translates into the proportions on money advice costs allocated across fee-blocks. This table compares the proposed basis with the current one, using 2013/14 costs to illustrate the impact of the total levies that would be covered from the fee blocks if the proposed method had been adopted for 2013/14. As firms in fee-blocks A1 and A2 contribute to both the money advice levy and the debt advice levy, the overall impact is that A1 will see an overall increase of 47.3% and A2 will see an overall reduction of 24.8%.

Minimum Levy

- 7.18** Currently the minimum levy is £10 and is paid by all firms. However, firms that fall below the size thresholds that trigger the variable levy will pay the minimum fee only. We are proposing that a minimum levy continues and are proposing to keep the minimum fee at £10. We do not propose to levy a debt advice minimum fee.

Proposals – Debt Advice Levy

- 7.19** The Money Advice Service took on responsibility for the coordination and provision of debt advice from 1 April 2012. Funding for debt advice is currently allocated to firms who benefit from the provision of such advice on the basis of lending volumes reported by the Bank of England. Allocation is carried out on a 15% basis to fee-block A1 (Deposit acceptors) and 85% basis to fee-block A2 (Home finance providers and administrators) as these firms provide unsecured lending and secured lending respectively.
- 7.20** We are proposing that, for 2014/15, debt advice should still be allocated between A1 and A2 fee-blocks, but 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. This will result in the costs being shared between A1 and A2 fee-blocks, but on a different percentage basis. We will make appropriate concessions for credit unions in respect of the debt advice levy.
- 7.21** The proposal to add in write-off levels as an additional component has emerged from considerations of how to incorporate an aspect to the model that more closely reflected difficulties that can occur during the lending process. We considered using arrears data, but accessible robust data-sets that could form the basis of such a measure were unavailable.
- 7.22** Table 7.6 sets out the proposed allocations of debt advice funding to fee blocks if the proposed method had been adopted for 2013/14 as a comparison.

Consumer credit

7.23 Chapter 2 sets out our proposals for recovering our costs when the full consumer credit regime is set up from 1 April 2014 onwards. We are not charging any Money Advice Service levy during the interim permissions regime, but firms will need to contribute towards the costs of the Money Advice Service under the full regime. The Money Advice Service's initial thinking on the levy for consumer credit firms is outlined in Chapter 2 (paragraphs 2.68 – 2.69).

7.24 New firms becoming authorised from 1 April will be liable for the Money Advice Service levy. Firms with interim permissions will become liable for the Money Advice Service levy as they take up full authorisation. We will consult on the rates in our March 2014 fees consultation paper.

Q15: Do you agree that we should use the three component approach, evenly allocated, of using consumer-usage data, the five Money Advice Service outcomes and a levy based on our own allocation for 2013/14 to allocate money advice costs to fee-blocks? If not, please give your reasons and suggest an alternative.

Q16: Do you agree with how the consumer-usage data has been mapped to Money Advice Service fee blocks? If not, please give your reasons and suggest an alternative.

Q17: Do you agree with how the consumer outcomes have been mapped to Money Advice Service fee-blocks? If not, please give your reasons and suggest an alternative.

Q18: Do you agree that the debt advice costs should take account of both total lending and write off levels, on a 50% basis for each, and mapped to A1 and A2 fee-blocks? If not, please give your reasons and suggest an alternative.

Tables for consumer usage

7.25 The following tables build on Table 2.1 from CP13/2. They show the subject areas that consumers have engaged with the Money Advice Service on that can be mapped to fee-blocks.

7.26 Tables 7.1 to 7.4 relate to the four channels through which consumers can engage with the Money Advice Service:

- face-to-face
- through its website
- through printed guides
- over the phone or through webchat via its contact centre

7.27 The end of each table shows the total usage that can be allocated to fee-blocks. The usage that cannot be allocated is then set out and finally this figure is expressed as a percentage of the total costs to the Money Advice Service of providing the four channels.

7.28 Overall, 40% of the cost of service delivery across all channels cannot be allocated to fee-blocks. This cost has been distributed in line with the allocations for each channel.

Table 7.1 : Face-to-face usage

| Face-to-face | | |
|--|---------------------------|----------------------------|
| Consumer usage subject area | % of total contact | Relevant fee blocks |
| Budgeting & money management | 40.3% | 1,2 |
| Borrowing money | 8.0% | 1,2 |
| Pensions & retirement | 3.4% | 4,13 |
| Saving & investing | 3.0% | 1,4,7,13 |
| Managing debt | 3.0% | 1,2 |
| Homes & mortgages | 2.4% | 2,18 |
| Insurance | 1.6% | 3,4,19 |
| Bank accounts, cards & payments | 0.6% | 1 |
| Moving home | 0.1% | 1,18 |
| Getting financial help or advice | 0.1% | 1,2,13 |
| Automatic Enrolment / Workplace Pensions | 0.0% | 4 |
| Interest Only Mortgages | 0.0% | 2,18 |
| Total allocated | 63% | |
| Total unallocated | 37% | |
| Total unallocated as % of budget | 22% | |

Table 7.2 Website usage

| Website | | |
|---|---------------------------|----------------------------|
| Consumer usage subject area | % of total contact | Relevant fee blocks |
| Money Topics | | |
| Saving and investing | 3.50% | 1,4,7,13 |
| Borrowing money | 2.60% | 1,2 |
| Managing debt | 2.90% | 1,2 |
| Homes and mortgages | 8.90% | 2,18 |
| Insurance | 1.70% | 3,4,19 |
| Pensions and retirement | 5.00% | 4,13 |
| How to review or reduce borrowing | 0.40% | 1 |
| Bank accounts and credit or debit cards | 3.20% | 1 |
| Financial help and advice | 1.00% | 1,13 |
| Comparison tables | | |
| Credit Cards | 0.10% | 1 |
| Current Accounts | 0.30% | 1 |
| Loans | 0.10% | 1 |

| Website | | |
|------------------------------------|---------------------------|----------------------------|
| Consumer usage subject area | % of total contact | Relevant fee blocks |
| Annuities | 2.90% | 4 |
| Pension and SIPPS | 0.50% | 4,13 |
| Savings Accounts | 0.60% | 1 |
| Cash ISAs | 0.60% | 1 |
| Mortgages | 0.50% | 2,18 |
| Investments | 0.20% | 4,7,13 |
| Number of tools | | |
| Debt test | 0.90% | 1,2 |
| Loan calculator | 2.80% | 1 |
| Mortgage calculator | 8.10% | 2,18 |
| Pension calculator | 3.20% | 4,13 |
| Savings calculator | 0.80% | 1 |
| Total allocated | 50% | |
| Total unallocated | 50% | |
| Total unallocated as % of budget | 13% | |

Table 7.3 : Printed guides**Printed guides**

| | % of total contact | Relevant fee blocks |
|--|---------------------------|----------------------------|
| Everyday money | | |
| Basic bank accounts | 3.5% | 1 |
| Borrowing money | 1.0% | 1 |
| Credit cards | 0.3% | 1 |
| Credit unions | 2.3% | 1 |
| Insurance | 0.3% | 3,4,19 |
| Saving and investing | 0.6% | 1,4,7,13 |
| Your bank account | 1.3% | 1 |
| Buying a home | | |
| Dealing with your mortgage shortfall | 8.2% | 2 |
| Home purchase plans | 0.2% | 2,18 |
| Mortgages | 1.0% | 2,18 |
| Problems paying your mortgage | 30.2% | 2 |
| Sale-and-rent back schemes | 0.5% | 2,18 |
| You can afford a mortgage now, but what if...? | 2.3% | 2 |
| Pensions and retirement options | | |
| Equity release schemes | 1.6% | 2 |

Printed guides

| | % of total contact | Relevant fee blocks |
|--|---------------------------|----------------------------|
| Pensions | 0.5% | 4,13 |
| Stakeholder pensions and decision trees | 1.1% | 4,13 |
| Your pension - it's time to choose | 23.7% | 4,13 |
| Your retirement options | 2.1% | 4,13 |
| If things go wrong | | |
| Endowment mortgage compensation | 1.6% | 2 |
| Endowment mortgage complaints | 1.1% | 2 |
| Making a mortgage endowment complaint | 3.1% | 2 |
| Cymraeg | | |
| Cyfrifon banc sylfaenol (Basic bank accounts) | 0.0% | 1 |
| Problemau wrth dalu eich morgais (Problems paying your mortgage) | 0.0% | 2 |
| Total allocated | 67% | |
| Total unallocated | 33% | |
| Total unallocated as % of overall budget | 4% | |

Table 7.4 : Phone and webchat**Phone and webchat**

| Consumer usage subject area | % of total contact | Relevant fee blocks |
|--|---------------------------|----------------------------|
| Getting financial help or advice | 14.4% | 1,2,13 |
| Homes & mortgages | 12.3% | 2,18 |
| Managing debt | 11.3% | 1,2 |
| Pensions & retirement | 8.0% | 4,13 |
| Bank accounts, cards & payments | 3.8% | 1 |
| Insurance | 3.7% | 3,4,19 |
| Saving & investing | 2.8% | 1,4,7,13 |
| Borrowing money | 2.4% | 1,2 |
| Interest Only Mortgages | 0.4% | 2,18 |
| Moving home | 0.3% | 2,18 |
| Automatic Enrolment / Workplace Pensions | 0.1% | 4 |
| Total allocated | 60% | |
| Total unallocated | 40% | |
| Total unallocated as % of overall budget | 2% | |

Table 7.5 : Money advice service outcomes

| Money Advice Service outcomes | Relevant fee-block (s) |
|--------------------------------------|-------------------------------|
| Managing debt well | 1 and 2 |
| Saving regularly | 1 |
| Saving for retirement | 4, 7, 9 and 10 |
| Protecting assets | 3 |
| Making provisions for dependents | 4 |

Table 7.6: Impact of money advice and debt advice new proposed allocation method compared with 2013/14

| Fee-block | 2013/14 Allocation £m | Proposed 2014/15 Allocation £m using Usage/levy/outcomes | | | Proposed Allocation 2014/15 under new proposals £m | Movement |
|---|------------------------------|---|-------------|------------------|---|-----------------|
| | | Usage | Levy | Out comes | | |
| Money advice levy: | | | | | | |
| A.0 Minimum fee | 0.2 | 0.0 | 0.2 | 0.0 | 0.2 | 0.0% |
| A.1 Deposit acceptors | 14.2 | 5.0 | 2.2 | 4.3 | 11.5 | -19.2% |
| A.2 Home finance providers and administrators | 4.3 | 5.8 | 0.6 | 1.4 | 7.8 | 83.6% |
| A.3 Insurers - general | 2.7 | 0.1 | 0.8 | 2.9 | 3.8 | 41.1% |
| A.4 Insurers - life | 5.2 | 1.1 | 1.4 | 3.6 | 6.0 | 14.9% |
| A.5 Managing Agents at Lloyd's | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | -91.7% |
| A.6 The Society of Lloyd's | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | -86.6% |
| A.7 Portfolio managers | 3.6 | 0.1 | 1.5 | 0.7 | 2.4 | -34.5% |
| A.9 Operators, Trustees and Depositories of collective investment schemes etc | 0.9 | 0.0 | 0.4 | 0.7 | 1.1 | 33.7% |
| A.10 Firms dealing as principal | 3.5 | 0.0 | 1.8 | 0.7 | 2.5 | -27.2% |
| A.12 Advisory arrangers, dealers or brokers (holding or controlling client money or assets, or both) | 1.8 | N/A | N/A | N/A | N/A | N/A |
| A.13 Advisory arrangers, dealers or brokers (not holding or controlling client money or assets, or both) | 2.7 | 1.2 | 3.2 | 0.0 | 4.4 | 63.0% |

| Fee-block | 2013/14 Allocation £m | Proposed 2014/15 Allocation £m using Usage/levy/outcomes | | | Proposed Allocation 2014/15 under new proposals £m | Movement |
|--|------------------------------|---|-------------|-------------|---|-----------------|
| A.14 Corporate finance advisors | 0.5 | 0.0 | 0.5 | 0.0 | 0.5 | -8.5% |
| A.18 Home finance providers, advisers and arrangers | 1.0 | 0.8 | 0.6 | 0.0 | 1.4 | 38.1% |
| A.19 General insurance mediation | 2.1 | 0.1 | 1.0 | 0.0 | 1.1 | -48.5% |
| G. Firms covered by payment Services Regulations 2009 (PSRs) and Electronic Money Regulations 2011 (EMRs) | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 | 45.2% |
| TOTAL | 42.9 | 14.3 | 14.3 | 14.3 | 42.9 | 0.0% |

| Debt advice levy: | 2013/14 Allocation £m based on 15% A.1 and 85% A.2 | Proposed Allocation 2014/15 based on 50% Lending | Proposed Allocation 2014/15 based on 50% Write Offs | Proposed Allocation 2014/15 under new proposals £m | Movement |
|--|---|---|--|---|-----------------|
| A.1 Deposit acceptors | 5.2 | 1.9 | 15.2 | 17.1 | 230.0% |
| A.2 Home finance providers and administrators | 29.3 | 15.3 | 2.1 | 17.4 | -40.6% |
| TOTAL | 34.5 | 17.2 | 17.2 | 34.5 | 0.0% |

*Figures may not sum due to rounding.

** As firms in fee-blocks A1 and A2 contribute to both levies the overall impact on each of these blocks is as follows – A1 sees an overall increase of 47.3% and A2 sees an overall reduction of 24.8%.

*** From 1 April 2014 fee-block A12 will no longer exist, so Table 7.6 illustrates the impact of our proposal to add costs that would have been allocated to A12 to A13. A new fee-block, A21, will be introduced to take account of firms that hold or control client assets or money or both and an allocation of money advice costs will be made to this fee-block in the levy column, in a proportion to mirror our allocation.

7.29 We will consult on the definitive rates for the Money Advice Service fees for 2014/15 in our consultation paper on fees in March 2014. Table 7.6 gives an indication of what the proposals would look like compared with 2013/14.

Annex 1

Compatibility with our general duties

1. This annex explains why we believe our proposals for consultation on our policies for regulatory fees and levies for 2014/15 for the FCA, the ombudsman service and Money Advice Service are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA). Under section 138I of FSMA, the FCA, the ombudsman service and the Money Advice Service are exempt from the requirement to carry out and publish a cost benefit analysis for such proposals.
2. When consulting on new rules, we are required by section 138I(2)(d) FSMA to explain why we believe the proposed rules are compatible with our strategic objective, advance one or more of our operational objectives, and have regard to the regulatory principles in s.3B FSMA. S.1B(4) requires us to explain why they are compatible with our duty to carry out our general functions (which include rule-making) in a way that promotes effective competition in the interests of consumers. S.138K(2) of FSMA requires us to state our opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.
3. This annex includes our assessment of the equality and diversity implications of these proposals.

Our objectives and regulatory principles

4. Our fees raise the funding we need each year to undertake our responsibilities under FSMA. They are not intended to directly influence the way we carry out these responsibilities. Our three operational objectives are:
 - Delivering consumer protection – securing an appropriate degree of protection for consumers.
 - Enhancing market integrity – protecting and enhancing the integrity of the UK financial system.
 - Building competitive markets – promoting effective competition in the interests of consumers.
5. The ombudsman service levy recovers the resources it needs to meet its statutory function of providing a scheme for the quick and informal resolution of disputes between financial services firms and its customers. The Money Advice Service levy raises the resources it needs to meet its statutory objectives of enhancing the understanding and knowledge of members of the public of financial matters, including the UK financial system, and enhance the ability of members of the public to manage their own financial affairs.

6. When we amend the policies that underpin our fees and levy framework, we seek to avoid any impact on our strategic objectives. Our fees and levies are intended to be neutral, recovering the finance we need without influencing firms' behaviour or affecting markets. In preparing the proposals set out in this consultation, our concern has been to ensure that our fees system conforms with the regulatory principles set out in s.3B FSMA:

The need to use our resources in the most efficient and economic way

- We endeavour to minimise the costs of our fees system to ourselves and firms, running it in the most efficient and economic way possible. In Chapter 7, we propose to introduce electronic charging for application fees and to calculate the first year's fees for newly authorised firms on a monthly basis. These will help us manage the workflows of our authorisation teams more efficiently.

The principle that a burden or restriction should be proportionate to the benefits

- We aim to distribute the recovery of costs proportionately across firms. If we become aware of any imbalances in our existing regime we rectify them, and we take care to avoid them when developing new proposals.
- In Chapter 3, we correct an anomaly we have detected in the current fees structure, which might encourage firms to take up additional permissions they do not need to reduce their fees, passing the costs to other firms.
- In Chapter 5 we improve the targeting of cost recovery by introducing a fee for approved reporting mechanisms (ARMs) to ensure our costs are borne by the firms that use the service.
- In Chapter 4, we clarify our definitions of the income data from which certain firms' fees are calculated to improve the consistency and accuracy of reporting by firms. We have incorporated the lessons learned into our definitions of income for consumer credit fees from 1 April 2014 in Chapter 2.
- We have kept our consumer credit application fees proportionate by basing them on the permissions applied for, as an indicator of the complexity of the work we anticipate undertaking in processing them (Chapter 2).

The principle that we should exercise our functions as transparently as possible

- When consulting on fees policy, we attempt to be as transparent as possible about the thinking behind all of our proposals.

The responsibilities of senior management

- To minimise the complexity of the calculations involved, our guidance on reporting income in Chapters 2 and 4 allows firms to use estimates and to apportion income in proportion to their wider business, provided evidence can be provided if requested that the methodology has been agreed and reviewed at an appropriate level within the organisation.

7. We do not believe that any of the proposals in this CP impact on the following regulatory principles:
- The desirability of sustainable growth in the economy of the UK in the medium or long term.
 - The general principle that consumers should take responsibility for their decisions.
 - The desirability of publishing information relating to persons.

Compatibility with the duty to promote effective competition in the interests of consumers

8. We aim to minimise any negative impact our fees framework might have on competition. Our proposal in Chapter 2 to base the fees of consumer credit firms on income is intended to avoid any competitive distortion between firms in one or more credit consumer markets, by ensuring their fees are directly related to their scale of business.

Expected effect on mutual societies

9. We do not expect most of the proposals in this paper to have a significant impact on mutual societies, but in Chapter 2 we present concessions on consumer credit fees for credit unions and community benefit societies, which will support their capacity to improve the range of socially responsible credit choices available to borrowers on low incomes.

Equality and diversity

10. We are required under the Equality Act 2010 to 'have due regard' to the need to eliminate discrimination and to promote equality of opportunity in carrying out our policies, services and functions. As part of this, we conduct an equality impact assessment (EIA) to ensure that the equality and diversity implications of any new policy proposals are considered.
11. We carried out an EIA of our fees policy in 2011. Introducing an income measure for intermediary fee-blocks in 2013/14 completed the implementation of its recommendations and in Chapter 2 we applied this recommendation to our proposals for the annual fees of the consumer credit firms being brought into scope from 2014/15.
12. The EIA concluded that no other areas of fees policy were relevant to the equalities agenda or might influence behaviour. This position on fees policy is not being changed by the proposals in this CP. We believe the proposals in this CP do not raise equality or diversity questions.
13. We would welcome any comments on any equality and diversity issues you believe may arise from our proposals.

Annex 2

List of questions

- Q1:** Do you agree with our proposals for consumer credit application fees?
- Q2:** Do you agree with our proposed charge of £3,500 per type of agreement submitted for a consumer credit validation order?
- Q3:** Do you agree with our proposed structure for periodic (annual) fees for consumer credit firms?
- Q4:** Do you have any comments on our draft definitions of consumer credit income and proposals for reporting the data?
- Q5:** Do you have any comments on our proposed concessions on consumer credit fees for businesses with social objectives?
- Q6:** Do you have any comments on our proposed approach to the ombudsman service levy for consumer credit firms?
- Q7:** Do you have any comments on our proposed approach to the Money Advice Service levy for consumer credit firms?
- Q8:** Do you have any comments on our proposal to create a new fee-block for firms holding client money or assets or both?
- Q9:** Do you have any comments on our redrafted definitions of income for fee-blocks A13, A14, A18 and A19?
- Q10:** Do you agree with our proposed annual maintenance charge for approved reporting mechanisms (ARMs)?
- Q11:** Do you agree with our proposal to require application fees to be paid by credit or debit card?
- Q12:** Do you agree with our proposal to calculate the first year's periodic fee of a newly authorized firm on a monthly pro-rata basis?

- Q13:** Do you agree with our proposed technical clarifications to the FCA fees manual?
- Q14:** Do you agree with our proposed amendment to the FCA financial penalty scheme?
- Q15:** Do you agree that we should use the three component approach, evenly allocated, of using consumer-usage data, the five Money Advice Service outcomes and a levy based on our own allocation for 2013/14 to allocate money advice costs to fee-blocks? If not, please give your reasons and suggest an alternative.
- Q16:** Do you agree with how the consumer-usage data has been mapped to Money Advice Service fee blocks? If not, please give your reasons and suggest an alternative.
- Q17:** Do you agree with how the consumer outcomes have been mapped to Money Advice Service fee-blocks? If not, please give your reasons and suggest an alternative.
- Q18:** Do you agree that the debt advice costs should take account of both total lending and write off levels, on a 50% basis for each, and mapped to A1 and A2 fee-blocks? If not, please give your reasons and suggest an alternative.

Appendix 1

Fees (consumer credit) Instrument 2014

FEES (CONSUMER CREDIT) INSTRUMENT 2014

Powers exercised by the Financial Conduct Authority

- 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 [*date*].

Amendments to the Handbook

- D. The modules of the FCA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2)

| (1) | (2) |
|--------------------------|---------|
| Glossary of definitions | Annex A |
| Fees manual (FEES) | Annex B |
| Supervision manual (SUP) | Annex C |

Citation

- E. This instrument may be cited as the Fees (Consumer Credit) Instrument 2014.

By order of the Board of the Financial Conduct Authority
[date]

Editor's note: this instrument is drafted on the assumption that the following draft instruments will be made prior to the making of this instrument and in substantially the same form as their draft form insofar as it is material to this instrument: (i) the Fees (Miscellaneous Amendments) (No 7) Instrument 2014 and (ii) the Consumer Credit (High-Level Standards and Interim Regime) Instrument 2013 (as appended to FCA CP13/10).

Annex A

Amendments to the Glossary of definitions

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

relevant business (1) (in *DISP* and *FEES*) that part of a *firm*'s business which it conducts with *consumers* and which is subject to the jurisdiction of the *Financial Ombudsman Service* as provided for in *DISP* 2.3 (To which activities does the Compulsory Jurisdiction apply?); ~~*DISP* 2.4 (To which activities does the Consumer Credit Jurisdiction apply?)~~ and *DISP* 2.5 (To which activities does the Voluntary Jurisdiction apply?), measured by reference to the appropriate tariff-base for each *industry block*.

...

...

Annex B

Amendments to the Fees manual (FEES)

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

3 Application, Notification and Vetting Fees

3.1 Introduction

...

3.1.6 G Applications for *Part 4A permission* (and exercises of *Treaty rights*) other than in respect of credit-related regulated activities are categorised by the *appropriate regulator* for the purpose of fee raising as straightforward, ~~complex~~, moderately complex and complex and straightforward as identified in *FEES 3 Annex 1 R*. This differentiation is based on the *permitted activities* sought and does not reflect the *appropriate regulator's* risk assessment of the applicant (or *Treaty firm*).

...

3.1.9 G Application fees for applications for and variations of *Part 4A permission* in respect of *credit-related regulated activities* are also set out in *FEES 3 Annex 1R*. Applications for *Part 4A permission* in respect of *credit-related regulated activities* are categorised by the *appropriate regulator* for the purposes of fee raising as straightforward, moderately complex and complex as identified in *FEES 3 Annex 1R* unless the application is for a limited permissions.

...

3.2.7 R Table of application, notification and vetting fees payable to the *FCA*

| (1) Fee payer | (2) Fee payable | Due date |
|---|---|--|
| ... | ... | ... |
| <u>(aa) A person who made an application under section 24A of the Consumer Credit Act 1974 which meets the conditions of article 31 (Applications for a standard licensee where no determination made</u> | <u>As (a) above less any amount paid to the Office of Fair Trading in relation to the relevant application.</u> | <u>Within 30 days of the date of the invoice</u> |

| | | |
|--|---|-----|
| <p>before 1 April 2014) of the Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) (No.2) Order 2013 (the “relevant application”)</p> | | |
| ... | ... | ... |
| <p>(p) A <i>firm</i> applying for a variation of its <i>Part 4A permission</i> whose fee is not payable pursuant to subparagraph (ga) of this table</p> | <p>(1) Unless (2), (2A), (3), (3A) or (3B), applies, if the proposed new business of the <i>firm</i> would fall within one or more activity groups specified in Part 1 of FEES 4 Annex 1AR or Part 1 of FEES 4 Annex 1BR not applicable before the application, the fee is 50% of the highest of the tariffs set out in FEES 3 Annex 1R which apply to that application;</p> <p>(2) Subject to (2A) below, if the <i>firm’s</i> application includes an application for a <i>Part 4A permission</i> to carry on a new <i>credit-related regulated activity</i>, the fee is 50% of the highest of the tariffs set out in FEES 3 Annex 1R that would be payable under (1) above or, if higher, 50% of the highest of the tariffs set out in FEES 3 Annex 1R that would be payable in relation to the new <i>credit-related regulated activity</i>.</p> <p>(2A) If the applicant exclusively applies for</p> | ... |

| | | |
|---|--|---|
| | <p><u>a Part 4A permission to carry on a credit-related regulated activity that is specified in Part 3 of FEES 3 Annex 1AR in the straightforward category (or if it exclusively applies for a number of such permissions), the fee is £250</u></p> <p>...</p> <p><u>(3A) If the applicant had a limited permission prior to the application to vary its Part 4A permission, 100% of the highest of the tariffs set out in FEES 3 Annex 1R which apply to that application;</u></p> <p><u>(3B) If the applicant has a limited permission and its application exclusively relates to another limited permission, the fee is 0.</u></p> <p>(4) ...</p> | |
| <p><u>(pa) A person who made an application under section 30(1) of the Consumer Credit Act 1974 which meets the conditions of article 33 (Variations at request of licensee where no determination made before 1 April 2014) of the Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) (No.2)</u></p> | <p><u>As (a) above less any amount paid to the Office of Fair Trading in relation to the relevant variation application</u></p> | <p><u>Within 30 days of the date of the invoice</u></p> |

| | | |
|--|---|--|
| <u>Order 2013 (the “relevant variation application”)</u> | | |
| ... | | |
| <u>(zr) Applicant for FCA permission for an agreement to be enforced under section 28A(3)(a) and/or 28A(3)(b) of the Act</u> | <u>£3,500 per type of agreement specified in the application.</u> <u>Where there are a number of agreements of the same type, only one fee is payable in respect of those agreements. A number of agreements are of the same type when those agreements are entered into on the same terms and conditions.</u> | <u>On or before the date the application is made</u> |

...

3 Annex 1R Authorisation fees payable

Part 1 – Authorisation fees payable

For *PRA-authorised persons* and *persons* seeking to become *PRA-authorised persons*, the amount payable to the *PRA* is 50% of the amount payable under Part 1 and the amount payable to the *FCA* is 50% of the amount payable under Part 1. The amount payable to the *PRA* above is collected by the *FCA* as agent of the *PRA*.

For *FCA-authorised persons* and *persons* seeking to become *FCA-authorised persons*, the amount payable to the *FCA* is the amount payable under Part 1. No amount is payable to the *PRA*.

The table below sets out the following:

(1) fees for applications by *credit unions* and other societies registered or deemed registered under section 1(2)(b) of the Industrial and Provident Society Act 1965;

(2) application fees in respect of the complexity groupings that relate to *regulated activities* that are not *credit-related regulated activities*; and

(3) application fees in respect of the complexity groupings that relate to *credit-related regulated activities*.

| Application type (see Part 2) | Amount payable |
|-------------------------------|----------------|
|-------------------------------|----------------|

| | |
|---|---|
| <u>(1) Credit unions and other societies registered or deemed registered under section 1(2)(b) of the Industrial and Provident Society Act 1965</u> | |
| (a) <i>Credit unions</i> – registration of a common bond | 200 |
| <u>(aa) Credit unions or other societies registered or deemed registered under section 1(2)(b) of the Industrial and Provident Society Act 1965 – where application is for a Part 4A permission limited to permission to carry on credit-related regulated activities</u> | <u>200</u> |
| (b) <i>Version 1 credit unions</i> – authorisation <u>(other than where (aa) applies)</u> | 300 |
| (c) <i>Version 2 credit unions</i> – authorisation <u>(other than where (aa) applies)</u> | 1,800 |
| <u>(2) Complexity groupings not relating to credit-related regulated activities – see Part 2</u> | |
| (d) Straightforward | 1,500 (unless otherwise specified in Part 2) |
| ... | ... |
| <u>(3) Complexity groupings relating to credit-related regulated activities – see Part 3</u> | |
| <u>(g) Limited permission</u> | <u>500 unless the application is for limited permission as a not-for-profit debt advice body, in which case the amount payable is 0</u> |
| <u>(h) Straightforward</u> | <u>1,000</u> |
| <u>(i) Moderately complex</u> | <u>5,000</u> |
| <u>(j) Complex</u> | <u>10,000</u> |
| <u>(k) Very complex</u> | <u>15,000</u> |

Part 2 – Complexity Groupings not relating to credit-related regulated activities
Straightforward Cases

...

Part 3 – Complexity Groupings relating to credit-related regulated activities

Straightforward cases

| <u>Activity grouping</u> | <u>Description</u> |
|--------------------------|---|
| <u>CC.1</u> | <u>Credit broking</u> <u>Providing credit information services</u> |

Moderately complex cases

| <u>Activity grouping</u> | <u>Description</u> |
|--------------------------|---|
| <u>CC.2</u> | <u>Debt administration</u> <u>Debt collecting</u> <u>Entering into a regulated consumer hire agreement as owner</u> <u>Entering into a regulated credit agreement as lender (excluding in relation to high-cost short-term credit, bill of sale loan agreements and home credit loan agreements)</u> <u>Exercising, or having the rights to exercise, the owner's rights and duties under a regulated consumer hire agreement</u> <u>Exercising, or having the right to exercise, the lender's rights and duties under a regulated credit agreement (excluding in relation to high-cost short-term credit, bill of sale loan agreements and home credit loan agreements)</u> <u>Operating an electronic system in relation to lending</u> |

Complex cases

| <u>Activity grouping</u> | <u>Description</u> |
|--------------------------|-----------------------|
| <u>CC.2</u> | <u>Debt adjusting</u> |

| | |
|--|--|
| | <p><u>Debt counselling</u></p> <p><u>Entering into a regulated credit agreement as lender in relation to high-cost short-term credit, bill of sale loan agreements and home credit loan agreements</u></p> <p><u>Exercising, or having the right to exercise, the lender's rights and duties under a regulated credit agreement in relation to high-cost short-term credit, bill of sale loan agreements and home credit loan agreements</u></p> |
|--|--|

Very complex cases

| | |
|------|------------------------------------|
| CC.2 | <u>Providing credit references</u> |
|------|------------------------------------|

...

4 Periodic fees

...

Background

- 4.1.3 G Most of the detail of the periodic fees that are payable by *firms* is set out in *FEES 4 Annex 1A to 11BR*. *FEES 4 Annex 12G* and (in respect of the FCA only) *FEES 4 Annex 13G* provide guidance on the calculation of certain tariffs. Most of the provisions of the Annexes will vary from one *fee year* to another. Accordingly fresh *FEES 4 Annexes* will come into force, following consultation, for each *fee year*.

...

Modifications for persons becoming subject to periodic fees during the course of a *fee year*

...

- 4.2.7 R A *firm* (other than an *AIFM qualifier*, *ICVC* or *UCITS qualifier*) which becomes authorised or registered or whose *permission* and/or *payment service* activities are extended, during the course of the *fee year* must pay a fee which is calculated by:
- ...
- (2) calculating the amount for each of the applicable tariffs which is the higher of:
- (a) any applicable minimum fee specified in relation to a particular tariff in *FEES 4 Annex 2AR* or *FEES 4 Annex 2BR* (but note, for

the avoidance of doubt, these are not the A.0, CC.0 or PA.0 minimum fees set out in Part 2 of *FEES* 4 Annex 2AR and Part 2 of *FEES* 4 Annex 2BR); and

...

...

- (4) working out whether an A.0, CC.0 or a PA.0 minimum fee is payable under Part 2 of *FEES* 4 Annex 2AR or Part 2 of *FEES* 4 Annex 2BR (except that ~~that~~ the minimum fee is not payable again by a *firm* whose *permission* is extended if the fee was already payable before the extension);

...

...

4.3 Periodic fee payable by firms (other than AIFM qualifiers, ICVCs and UCITS qualifiers)

...

- 4.3.3 R The periodic fee referred to in *FEES* 4.3.1R is (except in relation to the *Society*, *fee-paying payment services providers* and *fee-paying electronic money issuers*) calculated as follows:

...

- (4) work out whether an A.0, CC.0 or PA.0 minimum fee is payable under Part 2 of *FEES* 4 Annex 2AR and Part 2 of *FEES* Annex 2BR and if so how much (except that that minimum fee is not payable again by a *firm* whose *permission* is extended if the fee was already payable before the extension);

...

...

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

| | |
|--|--|
| Part 1 | |
| This table shows how the <i>FCA</i> links the <i>regulated activities</i> for which a <i>firm</i> has <i>permission</i> to activity groups (fee-blocks). A <i>firm</i> can use the table to identify which fee-blocks it falls into based on its <i>permission</i> . | |
| Activity group | Fee payer falls into the activity group if |
| ... | ... |

| | |
|---|---|
| B. Benchmark administrators | ... |
| <u>CC1. Credit-related regulated activities with limited permission</u> | <u>it carries on credit-related regulated activities; and</u> <u>it has a limited permission; and</u> <u>it is not a not-for-profit debt advice body.</u> |
| <u>CC2. Credit-related regulated activities</u> | <u>it carries on credit-related regulated activities; and</u> <u>it does not have a limited permission; and</u> <u>it is not a not-for-profit debt advice body.</u> |

...

| | |
|--|--|
| Part 2 | |
| This table sets out the activity groups (fee blocks) in relation to (i) the minimum fee fees payable to the <i>FCA</i> and (ii) the prudential fee payable to the <i>FCA</i> | |
| Activity group | Fee payer falls into the fee-block if |
| A.0 <i>FCA</i> minimum fee | ... |
| <u>CC.0 consumer credit minimum fee</u> | <u>(1) it is in fee block CC.1 or CC.2; and</u> <u>(2) it is not a credit union or other society registered or deemed registered under section 1(2)(b) of the Industrial and Provident Society Act 1965 with annual income (as defined in FEES 4 Annex 11BR) of less than or equal to £250,000.</u> |
| AP.0 <i>FCA</i> prudential fee | <u>(1) it is an <i>FCA</i> authorised person other than an <i>FCA</i> authorised person exclusively carrying on credit-related regulated activities; and</u> <u>(2) the periodic fee it pays to the <i>FCA</i> is not limited to the A.0 minimum fee.</u> |

...

| |
|---|
| 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 <i>FCA</i> measures the amount of business conducted by a <i>firm</i> for the purposes of calculating the annual periodic fees payable to the <i>FCA</i> by that <i>firm</i> . |

| Activity group | Tariff base |
|---|---|
| ... | ... |
| B. Benchmark administrator | ... |
| <u>CC1. Credit-related regulated activities with limited permission</u> | <u>Annual income as defined in FEES 4 Annex 11BR.</u> |
| <u>CC2. Credit-related regulated activities</u> | <u>Annual income as defined in FEES 4 Annex 11BR.</u> |

...

| Activity group | Tariff base |
|----------------|--|
| A.0 | ... |
| <u>CC.0</u> | <u>Annual income as defined in FEES 4 Annex 11BR</u> |
| ... | |

| Activity group | Tariff base |
|------------------------------------|-------------|
| ... | ... |
| B. <i>Benchmark administrators</i> | ... |

| | |
|---|--|
| <u>CC1. Credit-related regulated activities with limited permission</u> | <u>Annual income for the financial year ended in the calendar year ending 31 December.</u> |
| <u>CC2. Credit-related regulated activities</u> | <u>Annual income for the financial year ended in the calendar year ending 31 December.</u> |

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

| | | |
|--|---|--|
| 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 | | |
| ... | | |
| Activity group | Fee payable | |
| ... | | |
| B. MTF operators | ... | |
| <u>CC1. Credit-related regulated activities with limited permission</u> | <u>Band Width (£ thousands of annual income (AI))</u> | <u>Fee (£/£ thousand or part £ thousand of AI)</u> |
| | > [...] | [tbc] |
| <u>CC2. Credit-related regulated activities</u> | <u>Band Width (£ thousands of annual income (AI))</u> | <u>Fee (£/£ thousand or part £ thousand of AI)</u> |
| | > [...] | [tbc] |

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 | | |
| A.0 | ... | |
| ... | | |
| <u>CC.0</u> | <u>Firms in fee block CC.1</u> | £[...] |
| | <u>Firms in fee block CC.2 with annual income up to and including £100,000</u> | £[...] |
| | <u>Firms in fee block CC.2 with annual income exceeding £100,000</u> | £[...] |

After FEES 4 Annex 11AR insert the following new Annex 11BR. The text is not underlined.

4
Annex
11BR

Definition of annual income for the purposes of calculating fees in fee blocks CC1 and CC2

| |
|--|
| Annual income definition for <i>credit related regulated activities</i> |
| <p>“Annual income” is the gross inflow of economic benefits (ie cash, receivables and other assets) recognised in the <i>firm’s</i> accounts during the reporting year in respect of, or in relation to, the provision in the <i>UK</i> of the <i>regulated activities</i> specified in <i>FEES</i> 4 Annex 1AR Part 1 as belonging to fee-blocks CC1 or CC2 as applicable.</p> <p>The figure should be reported without netting off the operating costs or business expenses, but including:</p> <p>(a) all interest received on loans, brokerages, <i>commissions</i>, <i>fees</i>, and other related income (for example, administration <i>charges</i>, <i>overrides</i>, profit shares etc) due to the <i>firm</i> in respect of, or in relation to, the provision in the <i>UK</i> of the <i>credit-related regulated activities</i> specified in <i>FEES</i> 4 Annex 1AR Part 1 as belonging to fee-blocks CC1 and CC2 and which the <i>firm</i> has not rebated to <i>clients</i> or passed on to other <i>authorised firms</i> (for example, where there is a commission chain).</p> <p>Plus:</p> <p>(b) any ongoing <i>commission</i> from previous business received by the <i>firm</i> during the reporting year.</p> <p>Plus:</p> |

(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.

Guidance on the interpretation of this definition is presented in Table 2 of *FEES 4 Annex 13G*.

After *FEES 4 Annex 12G* insert the following new *Annex 13G*. The text is not underlined.

4
Annex
13G

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

The following tables set out *guidance* on how a *firm* should calculate certain tariffs that relate to fee-blocks containing only *FCA-regulated activities*.

Table 1

The following table sets out *guidance* on how a *firm* should calculate tariffs for fee blocks A.13, A.14, A.18 and A.19.

Table 2

The following table sets out *guidance* on how a *firm* 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

- | | |
|-----|--|
| (1) | <i>Firms</i> should report the total income from the <i>credit-related regulated activities</i> for which they have <i>permission</i> . |
| (2) | <i>Firms</i> should only include revenue streams that relate to <i>regulated activities</i> which are carried on 'in the <i>United Kingdom</i> '. In many cases, it will be quite straightforward to identify where an activity is carried on. But when there is a cross-border element, for example because a client is outside the <i>United Kingdom</i> or because some other element of the activity happens outside the <i>United Kingdom</i> , the question may arise as to where the activity is carried on. <i>PERG 2.4</i> describes the legislation that is relevant to this question. |

| | |
|------------------|--|
| Reporting period | |
| (3) | The “reporting year” is the <i>firm’s</i> financial year end during the calendar year prior to the <i>FCA fee year</i> . This <i>fee year</i> starts on 1 April. This is specified in part 5 of <i>FEES 4 Annex 1AR</i> . |
| (4) | The income that should be included is the income that was recognised in the accounts of the relevant reporting year. This means that some income due may not be reported until the following year because it has not yet been recognised in the accounts, while other income may be carried forward from previous years. |
| Fair value | |
| (5) | <p>The <i>firm</i> should report a “fair value” price for any services for which it has made a business decision not to charge to <i>clients</i>.</p> <p>We consider fair value to refer to the amount at which goods or services could be exchanged in an arm’s length transaction between informed and willing parties, other than in a forced or liquidation sale.</p> <p>Some examples where fair value may be relevant in the context of consumer credit are:</p> <p>(i) “Imputed interest”: where a loan has been provided interest-free or at a discounted rate, the charge should be rounded up to the prevailing rate normally chargeable to a <i>client</i> with a similar credit rating;</p> <p>(ii) “<i>Commission-equivalent</i>” or “<i>fee-equivalent</i>”: where a <i>firm</i> has foregone or discounted its normal <i>commission</i> or <i>fee</i>, it should report the amount it would otherwise have charged for providing equivalent <i>credit-related regulated activity</i>.</p> |
| Inclusions | |
| (6) | Annual income should include: |
| (a) | all amounts due to the <i>firm</i> arising out of <i>credit-related regulated activities</i> for which the <i>firm</i> holds <i>permission</i> , including regular <i>charges</i> and instalments due to the <i>firm</i> during the reporting year; |
| (b) | any income a <i>firm</i> has received in relation to a product it has provided (such as where it has entered into a <i>regulated credit agreement</i> as lender) where the mediation activity has been carried on by another <i>firm</i> ; |
| (c) | income received in relation to the provision of current account overdrafts interest charges, arrangement fees and charges of credit cards by merchants; |
| (d) | interchange charges for the use of credit cards by merchants; |
| (e) | any payment from a <i>parent</i> to facilitate the discounting or forgoing of |

| | | |
|-----------------------|---|--|
| | | any amounts that would otherwise be charged in full to a <i>client</i> , to the extent that the payment exceeds the “fair value” price reported in accordance with paragraph (5) above; |
| | (f) | earnings from those who will become its <i>appointed representatives</i> immediately after authorisation; and |
| | (g) | administrative charges and any interest from income related to its <i>credit-related regulated activities</i> . |
| Prohibited deductions | | |
| (7) | Deductions should not be made for: | |
| | (a) | bad debts; |
| | (b) | customer benefits such as cash rewards, complimentary travel insurance, air miles vouchers etc; |
| | (c) | items such as general business expenses (eg employees’ salaries and overheads); |
| | (d) | finances or penalties levied against the <i>firm</i> ; |
| | (e) | commission a <i>firm</i> pays to another party to arrange a transaction with a <i>client</i> unless it receives a <i>fee</i> in respect of the same transaction; |
| | (f) | the difference (if positive) between the fee payable by a <i>firm</i> to another party for arranging a transaction and the amount payable to the <i>firm</i> by the end <i>client</i> in respect of that transaction (here, the firm must net any excess payable by the end <i>client</i> to zero); |
| | (g) | where the <i>firm</i> is a <i>lender</i> , interest payments by the <i>firm</i> made in respect of money borrowed in circumstances where the money is borrowed for the purpose of being lent to others in the course of carrying on a <i>credit-related regulated activity</i>); and |
| | (h) | payments to <i>clients</i> made by way of redress. |
| Exclusions | | |
| (8) | The following should be excluded from the calculation of annual income: | |
| | (a) | (i) repayments of principal lent by the <i>firm</i> in the course of it carrying on a <i>credit-related regulated activity</i> and (ii) sums received by the <i>firm</i> in exchange for the rights to principal owed to the <i>firm</i> where the principal was lent by the <i>firm</i> in the course of carrying on a <i>credit-related regulated activity</i> and where the rights are not sold at a premium to the value of the principal outstanding, should not be included. |
| | (b) | To avoid double-counting, amounts which have been passed on to other |

| | |
|--|--|
| | <p><i>firms</i> carrying on <i>credit-related regulated activities</i> may be excluded from the calculation of annual income. Transfers of income to other <i>firms</i> may be particularly common within <i>groups</i> where, to present a single interface to <i>clients</i>, all amounts due to the <i>group</i> may be collected by one <i>firm</i> for subsequent redistribution to other <i>firms</i> within the <i>group</i>. It is for <i>groups</i> themselves to decide the most convenient way to report such annual income ie whether the <i>firm</i> which receives the full amount should declare that full amount, or whether each <i>firm</i> in the <i>group</i> should report its separate distribution.</p> |
| (c) | Any payment from a <i>parent</i> to facilitate the discounting or forgoing of any amount that would otherwise be charged in full to a <i>client</i> should be excluded to the extent that the payment does not exceed or equal the “fair value” price reported in accordance with paragraph (6) above. |
| (d) | Rebates to <i>customers</i> and <i>fees</i> or <i>commissions</i> passed onto other <i>firms</i> should be excluded. |
| (e) | <i>Authorised professional firms</i> should exclude the income from <i>non-mainstream regulated activities</i> . They may estimate the proportion of their business that is derived from those activities and split the income from individual invoices accordingly. |
| (f) | For the avoidance of doubt, income relating to operating current accounts and debit card transactions should be excluded except where the income relates to the provision of overdrafts (see paragraph (6)(c) above). |
| (g) | For the avoidance of doubt, income relating to or in respect of an activity is not part of annual income for the purposes of the definition in <i>FEES 4 Annex 11AR</i> to the extent that the activity benefits from the exclusion in article 69 of the Financial Services and Markets Act 2000 (Regulated Activities Order) 2001 (Groups and joint enterprises). <i>Firms</i> should refer to the <i>guidance</i> on the application of this exclusion is contained in <i>PERG 2.9</i> . |
| Apportioning annual income | |
| Where a <i>firm</i> cannot separate its income on the basis of <i>credit-related regulated activities</i> , it may apportion the income on the basis of the proportionate split of business that the <i>firm</i> otherwise undertakes. For instance: | |
| (1) | where a firm receives interchange charges from retailers taking credit and debit card purchases, and it is unable to distinguish between the two, it may apportion them in accordance with the overall volume of credit and debit card business. |
| (2) | If a <i>firm</i> receives annual income from a platform-based business it may report this in line with a wider breakdown of its activities. |

| | |
|-----|---|
| (3) | A <i>firm</i> may allocate ongoing <i>commission</i> from previous business on the basis of the type of <i>firm</i> it receives the <i>commission</i> from. This avoids tracking back legacy business which may no longer match the provider's current business model. |
| (4) | If a <i>firm</i> has invested income from <i>credit-related regulated activities</i> , then any interest received should be reported as income, in proportion to the volume of business relating to <i>credit-related regulated activities</i> it undertakes to avoid tracking back old payments. |
| (5) | <i>Firms'</i> systems ought to be able to distinguish <i>UK</i> from non- <i>UK</i> business to establish which conduct of business regime it was conducted under. However, if, a <i>firm</i> has a mix of business and its systems do not relate the figures back to the income streams from <i>credit-related regulated activities</i> , then it may make a proportionate split as described above, calculating its regulated <i>UK</i> income on the basis of the overall split between <i>UK</i> and non- <i>UK</i> income. |
| (6) | An <i>authorised professional firm</i> may estimate the proportion of its business that is derived from <i>regulated activity</i> and split its income for individual invoices accordingly. |
| (7) | It is for individual <i>firms</i> to determine how they should calculate the appropriate split of income. The <i>FCA</i> is not prescriptive about the methodology. It requires only that: |
| (a) | the approach should be proportionate - the <i>FCA</i> is looking for <i>firms</i> to make their best efforts to estimate the split; |
| (b) | the <i>firm</i> must be able on request to provide a sound and clearly expressed rationale for its approach - for example, if all invoices were analysed over a particular period, the <i>firm</i> should be able to justify the period as representative of its business across the year; |
| (c) | the methodology should be objective - for example, based on random sampling of invoices or random stratified sampling; and |
| (d) | the <i>firm</i> must on request be able to provide an audit trail which demonstrates that the choice of methodology was properly considered at an appropriate level or in the appropriate forums within the <i>firm</i> , and the decision periodically reviewed at the same level or in an equivalent forum. |

5 Financial Ombudsman Service Funding

5.1 Application

...

5.1.1-A G Whilst no rule made by the *FCA* in this chapter applies to ~~licensees~~ subject to

~~the *Consumer Credit Jurisdiction* or to *VJ participants*, some of the *guidance* may do. The application of rules made by the *FOS Ltd* in this chapter is set out in *FEES 5.5A* and described in *FEES 5.1.2AG*.~~

...

- 5.1.8 G ~~This chapter also explains the way that the *Consumer Credit Jurisdiction* will be funded by a combination of contributions collected by the Office of Fair Trading which are paid to *FOS Ltd* and case fees invoiced and collected directly by the *FOS Ltd* from *licensees*. [deleted]~~

5.2 Introduction

...

- 5.2.1 G Paragraph 9 of Schedule 17 to the *Act* (The Ombudsman Scheme) requires the *FOS Ltd* to adopt an *annual budget* which has been approved by the *FCA*. The *annual budget* must distinguish between the costs of operating the *Compulsory Jurisdiction*, ~~the *Consumer Credit Jurisdiction*~~ and the *Voluntary Jurisdiction*.

...

- 5.2.2A G ~~Section 234A(1) of the *Act* (Funding by consumer credit licensees etc.) enables *FOS Ltd* from time to time and with the approval of the *FCA* to determine a sum which is to be raised by way of contributions under that section to cover the costs of:~~

- ~~(1) the establishment of the *Financial Ombudsman Service* so far as it relates to the *Consumer Credit Jurisdiction*;~~
- ~~(2) its operation in relation to the *Consumer Credit Jurisdiction*; and~~
- ~~(3) a component to cover the costs of collection of the contributions to that sum (collection costs). [deleted]~~

- 5.2.2B G ~~*FOS Ltd* must notify the Office of Fair Trading of every determination made under section 234A(1) and the Office of Fair Trading must give a general notice of every determination so notified. The Office of Fair Trading may by general notice impose requirements on~~

- ~~(1) licensees under standard licences which cover to any extent the carrying on of a type of business specified in an order made under section 226A(2)(e) of the *Act*; or~~
- ~~(2) persons who make applications for:

 - ~~(a) standard licences covering to any extent business of such a type; or~~
 - ~~(b) the renewal of standard licences on terms covering to any extent the carrying on of a business of such a type;~~~~

to pay contributions to the Office of Fair Trading for the purpose of raising sums determined by *FOS Ltd* in accordance with the provisions of section 234A(6) and (7) of the *Act*. ~~[deleted]~~

...

- 5.2.3A G Paragraph 16C of Schedule 17 to the *Act* enables *FOS Ltd* to require *licensees* subject to the *Consumer Credit Jurisdiction* and any other respondents to a complaint to pay specified fees to it in respect of complaints closed by the *Financial Ombudsman Service*.

...

5 Annual General Levy Payable in Relation to the Compulsory Jurisdiction

Annex 1R

...

| Industry block | Tariff base | General levy payable by firm |
|--|--|---|
| ... | ... | ... |
| <u>19 – Credit-related regulated activities with limited permission</u> | <u>For not-for-profit debt advice bodies, a flat fee</u> | <u>Levy of £[...]</u> |
| | <u>For all other firms with limited permission, a flat fee</u> | <u>Levy of £[...]</u> |
| <u>20 – Credit-related regulated activities without limited permission</u> | <u>Annual income as defined in FEES 4 Annex 11BR</u> | <u>£[...] per £[...] of annual income</u> |

...

7 CFEB levies for the period from 1 April 2013 to 31 March 2014

Annex 1R

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

| Activity group | <i>CFEB levy</i> payable |
|----------------|--------------------------|
| ... | |

| | | |
|-------------|---|---|
| G.11 | Flat fee (£) | 10 |
| <u>CC.1</u> | <u>Minimum fee</u> | [...] |
| | <u>Band Width (£ thousands of annual income (AI))</u> | <u>Fee (£/£ thousand or part £ thousand of AI</u> |
| | [...] | [...] |
| <u>CC.2</u> | <u>Minimum fee</u> | [...] |
| | <u>Band Width (£ thousands of annual income (AI))</u> | <u>Fee (£/£ thousand or part £ thousand of AI</u> |
| | [...] | [...] |

...

...

After FEES TP 8 insert the following new FEES TP 9. The text is not underlined.

TP 9 Transitional Provisions relating to FEES 4.2.7BR for firms carrying on credit related regulated activities

| (1) | (2) Material to which the transitional provision applies | (3) | (4) Transitional provision | (5) Transitional provision: dates in force | (6) Handbook provision: coming into force |
|-----|--|-----|--|--|---|
| 9.1 | <i>FEES</i> 4.2.7BR(2)(b) | R | Insert a new paragraph after (5)(c) as follows: “(5)(ca): paragraph (5)(c) does not apply to a <i>firm’s credit-related regulated activities.</i> ” | From 1 April 2014 until 1 April 2016 | [1 April 2014] |

Annex C

Amendments to the Supervision manual (SUP)

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

16 Annex 35AR

...

**CCR002 Consumer Credit data
Volumes**

| | A | B | C | D |
|---|---------------|----------|-----------------|--------------------|
| Activities | Fee Mechanism | Revenue | Total Customers | Total Transactions |
| Lending | | | | |
| 1 Debt purchasing | | | | |
| Hire purchase/conditional sale | | | | |
| 2 agreements | | | | |
| 3 Home credit loan agreements | | | | |
| 4 Bill of sale loan agreements | | | | |
| 5 Pawnbroking | | | | |
| 6 High cost short term credit | | | | |
| 7 Running-account credit | | | | |
| 8 Other lending | | | | |
| 9 Credit Broking | | | | |
| 10 Debt Management Activity | | | | |
| 11 All other credit-related activity | | | | |
| 12 <u>Total annual income as defined in Table 2 of FEES 4 Annex 11AR for the purpose of FCA fees reporting</u> | <u>A</u> | | | |
| | | | | |

...

**CCR007 Consumer Credit Data: key data for credit firms
with limited permission****A**

| | | |
|----------|--|----------------------|
| 1 | Revenue from credit-related regulated activities | <input type="text"/> |
| 2 | Total revenue (including from activities other than credit-related regulated activities) | <input type="text"/> |
| 3 | Number of transactions involving credit-related regulated activities in reporting period | <input type="text"/> |
| 4 | Number of complaints related to credit-related activities received in period | <input type="text"/> |
| 5 | Credit-related regulated activity carried on in relation to the greatest number of customers in reporting period | <input type="text"/> |
| 6 | Total annual income as defined in Table 2 of <i>FEES</i> 4 Annex 11AR for the purpose of <i>FCA</i> fees reporting | <input type="text"/> |

Appendix 2

Fees (miscellaneous amends) (No 6)

Instrument 2014

FEES (MISCELLANEOUS AMENDMENTS) (NO 7) INSTRUMENT 2014

Powers exercised by the Financial Conduct Authority

- 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) paragraph 23 (Fees) of Part 3 (Penalties and Fees) of Schedule 1ZA (The Financial Conduct Authority); and
 - (e) 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 [date] except FEES 3.2.3R and FEES 3.2.3AG which come into force on [date].

Amendments to the Handbook

- D. The modules of the FCA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2)

| (1) | (2) |
|--------------------------|---------|
| Glossary of definitions | Annex A |
| Fees manual (FEES) | Annex B |
| Supervision manual (SUP) | Annex C |

Citation

- E. This instrument may be cited as the Fees (Miscellaneous Amendments) (No 7) Instrument 2014.

By order of the Board of the Financial Conduct Authority
[date]

Annex A

Amendments to the Glossary of definitions

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

*client
money* ...

- (2A) (in FEES, CASS 6, CASS 7, CASS 7A and CASS 10 and, in so far as it relates to matters covered by CASS 6, CASS 7, COBS, GENPRU or IPRU(INV)), subject to the *client money rules*, *money* of any currency:
- (a) that a *firm* receives or holds for, or on behalf of, a client in the course of, or in connection with, its *MiFID business*; and/or
 - (b) which, in the course of carrying on *designated investment business* that is not *MiFID business*, a *firm* holds in respect of any *investment agreement* entered into, or to be entered into, with or for a *client*, or which a *firm* treats as *client money* in accordance with the *client money rules*.

...

*client
money
rules* ...

- (2) (in CASS 3, CASS 6, CASS 7, CASS 7A, ~~UPRU~~, ~~and~~ COBS, and FEES) CASS 7.1 to 7.8

Annex B

Amendments to the Fees manual (FEES)

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

3 Application, Notification and Vetting Fees

3.2 Obligation to pay fees

...

Method of payment

3.2.3 R

- (1) Unless ~~(2) or (3)~~ FEES 3.2.3AG applies, the sum payable under *FEES 3.2.1R* must be paid ~~by bankers draft, cheque or other payable order~~ as follows:
- (a) in relation to fees for applications for a *Part 4A permission* or a variation of a *Part 4A permission* by *PRA-authorised persons* or persons whose application if granted would result in them becoming a *PRA-authorised person* by bankers draft, cheque or other payable order or by Maestro, Visa Debit or credit card (Visa/Mastercard only); and
 - (b) in relation to all other fees specified in *FEES 3*, by Maestro, Visa Debit or credit card (Visa/Mastercard only).
- (1A) Payments by credit card must include an additional 2% of the sum paid.
- (2) ~~The *FCA* does not specify a method of payment for a *person* seeking to:~~ [deleted]
- (a) ~~become a *recognised body* or a *designated professional body*;~~
~~or~~
 - (b) ~~be added to the list of *designated investment exchanges* or *accredited bodies*.~~
- (3) ~~The sum payable under *FEES 3.2.1 R* by a *firm* applying for a variation of its *Part 4A permission* (*FEES 3.2.7 R(p)* and, if applicable, *FEES 3.2.7A R(c)*) must be paid by any of the methods described in (1) or by Maestro, Visa Debit or credit card (Visa/Mastercard only). Any payment by a permitted credit card must include an additional 2% of the sum paid.~~ [deleted]

3.2.3A G (1) If the fee payer (as specified in column (1) of FEES 3.2.7R) is unable to make a payment by credit or debit card, the FCA would not expect that fee payer to not pay but to instead pay the sum payable under FEES 3.2.1R by bankers draft, cheque or other payable order.

(2) If (1) applies to a fee payer, that fee payer would be expected to notify the FCA of these circumstances in advance of making its payment (and in any event no less than 7 days before the date on which payment is due) unless such notification is impossible in the circumstances, e.g. there is a sudden technological failure.

3.2.4 G ~~The FCA expects that a person seeking to become a recognised body or a designated professional body or to be added to the list of designated investment exchanges or accredited bodies will generally pay their respective fees by electronic transfer. [deleted]~~

...

3.2.7 R **Table of application, notification and vetting fees payable to the FCA**

| (1) Fee payer | (2) Fee payable | Due date |
|--|--|----------|
| ... | ... | ... |
| (p) A firm applying for a variation of its Part 4A permission whose fee is not payable pursuant to subparagraph (ga) of this table | (1) Unless (2) or (3) applies, if the proposed new business of the firm would fall within one or more activity groups specified in Part 1 of FEES 4 Annex 1AR or Part 1 of FEES 4 Annex 1BR not applicable before the application, the fee is 50% of the highest of the tariffs set out in FEES 3 Annex 1R which apply to that application; (2) If the only change is that the A.12 activity group tariff applied to the firm's business before the | ... |

| | | |
|-----|--|--|
| | variation and the A.13 activity group will apply after variation, no fee is payable ... | |
| ... | | |

...

3 Annex Authorisation fees payable 1R

| ... | |
|--|--|
| Part 2 – Complexity Groupings Straightforward Cases | |
| Straightforward Cases | |
| Activity grouping | Description |
| ... | |
| A.12 | Advisory arrangers, dealers or brokers (holding or controlling client money and/or assets) |
| A.13 | Advisory only firms and advisory <u>Advisors, arrangers, dealers or brokers (not holding or controlling client money and/or assets)</u> |
| ... | |

...

Delete the following Annex in its entirety. The deleted text is not shown.

3 Annex ~~Fees where changes are made to firms transaction reporting requirements and the FCA is asked to check that these systems remain compatible with the FCA systems~~ [deleted] 7R

...

4 Periodic fees

...

Background

- 4.1.3 G Most of the detail of the periodic fees that are payable by *firms* is set out in *FEES* Annex 1A to 11. *FEES* 4 Annex 12G and (in respect of the *FCA* only) *FEES* 4 Annex 13G ~~provides~~ provide guidance on the calculation of certain tariffs. Most of the provisions of the Annexes will vary from one *fee*

year to another. Accordingly fresh FEES 4 Annexes will come into force, following consultation, for each *fee year*.

...

4.2 Obligation to pay periodic fees

...

Modifications for persons becoming subject to periodic fees during the course of a fee year

- 4.2.6 R (1) Unless (2) applies, ~~if for the *fee year* during which the event, as described in column 4 of the table in FEES 4.2.11R and/or FEES 4.2.11AR, giving rise to, or giving rise to an increase in, the fee payable in FEES 4.2.1R, occurs on or after 1 July of the relevant *fee year*, the periodic fee required under FEES 4.2.1R is modified for:~~
- (a) *firms* (other than *AIFM qualifiers*, *ICVCs* and *UCITs qualifiers*), in accordance with FEES 4.2.7R and 4.2.8R;
 - (b) ~~for~~ all other fee payers in column (1) of the table in FEES 4.2.11R or FEES 4.2.11AR, in accordance with the ~~table below~~ formula set out below.

| Period in which event (in column 4 of the table in FEES 4.2.11R or FEES 4.2.11AR) occurs | Proportion of periodic fee payable |
|---|---|
|---|---|

~~Fees payable to the FCA~~

| | |
|---|-----------------|
| 1 April to 30 June inclusive | 100% |
| 1 July to 30 September inclusive | 75% |
| 1 October to 31 December inclusive | 50% |
| 1 January to 31 March inclusive | 25% |

~~Fees payable to the PRA for *fee year* 2013/2014~~

| | |
|---|-----------------|
| 1 April to 30 June inclusive | 100% |
| 1 July to 30 September inclusive | 75% |
| 1 October to 31 December inclusive | 50% |
| 1 January to 28 February inclusive | 25% |

Formula for the calculation of fees payable under FEES 4.2.6R(1)

- (1) calculate the number of calendar months between and including:

(i) the calendar month in which the event described in column 4 of the table in FEES 4.2.11R and/or FEES 4.2.11AR occurred; and

(ii) the last month of the relevant *fee year*;

(2) divide the number of calendar months calculated in (1) by 12;

(3) multiply the total fee payable for the relevant *fee year* by the number calculated in (2).

...

4.2.7 R A *firm* (other than an *AIFM qualifier*, *ICVC*, or *UCITS qualifier*) which becomes authorised or registered, or whose *permission* and/or *payment service* activities are extended, during the course of the *fee year* must pay a fee which is calculated by:

(1) identifying each of the tariffs set out in Part 1 of *FEES 4 Annex 2AR*, Part 1 of *FEES 4 Annex 2BR* and/or Part 1 of *FEES 4 Annex 11 R* as appropriate for the relevant *fee year* that apply to the *firm* only after the *permission* is received or extended or *payment service* activities are authorised or registered or extended or *electronic money* issuance activities are authorised or registered under the *Electronic Money Regulations*, ~~but ignoring:~~

(a) ~~The A.13 activity group if, before the variation, the A.12 activity group applied to the *firm's* business; or~~

(b) ~~The A.12 activity group if, before the variation, the A.13 activity group applied the *firm's* business;~~

...

(6) modifying the result for the *FCA* and, if applicable, the *PRA* as ~~indicated by the table in accordance with the formula set out in FEES 4.2.6R~~ (except that *FEES 4 Annex 10R* (Periodic fees for MTF operators) deals with a ~~firm~~ *firm* that receives *permission* for operating a *multilateral trading facility* or has its *permission* extended to include this activity during the course of the relevant *fee year* and *FEES 4.2.6R* does not apply).

...

4.2.11 R Table of periodic fees payable to the *FCA*

| | | | |
|-------------|---------------|------------|---|
| 1 Fee payer | 2 Fee payable | 3 Due date | 4 Events occurring during the period leading to the modified periodic |
|-------------|---------------|------------|---|

| | | | |
|---|-------------------------|--|-----------------------|
| | | | fee |
| ... | | | |
| <i>A small registered UK AIFM</i> | ... | ... | ... |
| <u>Operators of approved reporting mechanisms</u> | <u>FEES 4 Annex 3AR</u> | <u>Within 30 days of the date of the invoice</u> | <u>Not applicable</u> |

...

4.3 Periodic fee payable by firms (other than AIFM qualifiers, ICVCs and UCITS qualifiers)

...

- 4.3.2 G (1) The amount payable by each *firm* will depend upon the category (or categories) of *regulated activities* or *payment services* it is engaged in (fee-blocks) and whether it is issuing *electronic money*, and on the amount of business it conducts in each category (tariff base). The fee-blocks and tariffs are identified in *FEES 4 Annex 1AR* in respect of the *FCA* and *FEES 4 Annex 1BR* in respect of the *PRA* (and guidance on calculating certain of the tariffs is at *FEES 4 Annex 12G* and (in respect of the *FCA* only) *FEES 4 Annex 13G*), while *FEES 4 Annex 2AR* in respect of the *FCA* and *FEES 4 Annex 2BR* in respect of the *PRA* set out the tariff rates for the relevant *fee year*. In case of *firms* that provide *payment services* and/or issue *electronic money*, the relevant fee blocks, tariffs and rates are set out in *FEES 4 Annex 11R*.

...

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

| | |
|--|--|
| Part 1 | |
| This table shows how the <i>FCA</i> links the <i>regulated activities</i> for which a <i>firm</i> has <i>permission</i> to activity groups (fee-blocks). A <i>firm</i> can use the table to identify which fee-blocks it falls into based on its <i>permission</i> . | |
| Activity group | Fee payer falls into the activity group if |
| ... | ... |
| <u>A.7 Portfolio managers</u> | ... |

| | |
|---|--|
| ... | |
| <p>A.12 Advisors, arrangers, dealers or brokers (holding or controlling client money or assets, or both)</p> | <p>Its permission includes:</p> <p>(a) includes one or more of the following, in relation to one or more <i>designated investments</i>:</p> <p><i>dealing in investments as agent;</i></p> <p><i>arranging (bringing about) deals in investments;</i></p> <p><i>making arrangements with a view to transactions in investments;</i></p> <p><i>dealing as principal in investments where the activity is carried on as a matched principal broker, oil market participant, energy market participant or local;</i></p> <p><i>advising on investments (except pension transfers and pension opt-outs);</i></p> <p><i>advising on pension transfers and pension opt-outs;</i></p> <p><i>advising on syndicate participation at Lloyds;</i></p> <p>(b) BUT NONE of the following:</p> <p><i>effecting contracts of insurance; or</i></p> <p><i>carrying out contracts of insurance;</i></p> <p>AND</p> <p>(c) CAN HAVE one or more of the following:</p> <p><i>safeguarding and administering of assets;</i></p> <p><i>arranging safeguarding and administration of assets;</i></p> <p>the ability to hold or control <i>client money</i>, or both:</p> <p>—that is, there is no <i>requirement</i> which prohibits the <i>firm</i> from doing this;</p> <p>And</p> <p>—provided that the <i>client money</i> in question does not arise from an agreement under which <i>commission</i> is rebated to a <i>client</i>;</p> <p>AND</p> <p>(d) PROVIDED the fee payer is not any of the following:</p> <p><i>a corporate finance advisory firm;</i></p> <p><i>a firm for whom all of the applicable activities above are otherwise limited to carrying out corporate finance business</i></p> <p><i>a firm whose activities are limited to carrying out venture capital business;</i></p> <p><i>a firm whose activities are limited to acting as an operator of a regulated collective investment scheme;</i></p> |

| | |
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| | <p>a firm whose activities are limited to carrying out trustee activities;</p> <p>a service company.</p> |
| <p>A.13 Advisors, arrangers, dealers or brokers (not holding or controlling client money or assets, or both)</p> | <p>(1) it is an <i>authorised professional firm</i> and ALL the <i>regulated activities</i> in its <i>permission</i> are limited to non-mainstream regulated activities (a firm falling within this category is a <i>class (1) firm</i>);</p> <p>(2) its <i>permission</i>:</p> <p>(a) includes one or more of the following, in relation to one or more <i>designated investments</i>:</p> <p><i>dealing in investments as agent;</i></p> <p><i>arranging (bringing about) deals in investments;</i></p> <p><i>making arrangements with a view to transactions in investments;</i></p> <p><i>dealing as principal in investments</i> where the activity is carried on as a matched principal broker, <i>oil market participant</i>, energy market participant or <i>local</i>;</p> <p><i>advising in investments</i> (except <i>pension transfers</i> and <i>pension opt-outs</i>);</p> <p><i>giving basic advice on a stakeholder product;</i></p> <p><i>advising on pension transfers and pension opt-outs;</i></p> <p><i>advising on syndicate participation at Lloyds;</i></p> <p>(b) BUT NONE of the following:</p> <p><i>effecting contracts of insurance; or</i></p> <p><i>carrying out contracts of insurance;</i></p> <p><i>safeguarding and administration of assets;</i></p> <p><i>arranging safeguarding and administration of asserts;</i></p> <p>AND</p> <p>(c) MUST EITHER, in connection with its <i>designated investment business</i>:</p> <p>have a <i>requirement</i> that prohibits the <i>firm</i> from holding or controlling <i>client money</i>, or both;</p> <p>OR</p> <p>if it does not have such a <i>requirement</i>, only holds or controls <i>client money</i> (or both), arising from an agreement under which <i>commission</i> is rebated to a <i>client</i>;</p> <p>AND</p> <p>(d) (c) PROVIDED the fee payer is not any of the following:</p> |

| | |
|---|---|
| | <p>a <i>corporate finance advisory firm</i>;</p> <p>a <i>firm</i> for whom all of the applicable activities above are otherwise limited to carrying out <i>corporate finance business</i></p> <p>a <i>firm</i> whose activities are limited to carrying out <i>venture capital business</i>;</p> <p>a <i>firm</i> whose activities are limited to acting as an operator of a <i>regulated collective investment scheme</i>;</p> <p>a <i>firm</i> whose activities are limited to carrying out <i>trustee</i> activities;</p> <p>a <i>service company</i>.</p> <p>A <i>firm</i> falling within (2) and not (1) is a <i>class 2 firm</i>.</p> |
| ... | |
| A.19 | ... |
| <u>A.21 Firms holding client money or assets, or both</u> | <p>(1) It is a <i>firm</i> to which the <i>client money rules</i> apply</p> <p><u>AND/OR</u></p> <p>(2) Its <i>permissions</i> includes <i>safeguarding and administration of assets (without arranging)</i></p> <p><u>UNLESS</u></p> <p><u>CASS does not apply to that <i>firm</i> in accordance with CASS 1.2</u></p> |

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| <p>Part 3</p> <p>This table indicates the tariff base for each fee-block set out in Part 1.</p> <p>The tariff base in this Part is the means by which the <i>FCA</i> measures the amount of business conducted by a <i>firm</i> for the purposes of calculating the annual periodic fees payable to the <i>FCA</i> by that <i>firm</i>.</p> | |
| ... | |
| A.7 | <p>...</p> <p>Notes on FuM</p> <p>...</p> <p>(b) Assets managed by the <i>firm</i> on a discretionary basis exclude the <i>firm's</i> own assets. Assets managed on a non-discretionary basis, being assets that the <i>firm</i> has a contractual duty to keep under continuous review but in respect of which prior specific consent of the <i>client</i> must be obtained for proposed transactions, are also excluded as this activity is covered in those charged to fees in activity groups A.12 and</p> |

| | |
|-------------|--|
| | <u>activity group A.13.</u> |
| | |
| A.12 | ANNUAL INCOME: Annual income as defined in FEES 4 Annex 11AR |
| ... | |
| A.18 | Delete the existing text in this fee block in its entirety. Insert the following new text. The new text is not underlined. Annual income as defined in FEES 4 Annex 11AR |
| A.19 | Delete the existing text in this fee block in its entirety. Insert the following new text. The new text is not underlined. Annual income as defined in FEES 4 Annex 11AR |
| <u>A.21</u> | <u>CLIENT MONEY/ASSETS HELD:</u> A value in pound sterling equal to: <u>Highest total amount of <i>client money</i> held by the <i>firm</i> during the 12 months ending 31 December before the relevant <i>fee year</i></u> <u>PLUS</u> <u>Highest total value of <i>safe custody assets</i> held by the <i>firm</i> during the 12 months ending 31 December before the relevant <i>fee year</i></u> |

...

| | |
|---|---|
| Part 5 | |
| This table indicates the valuation date for each fee-block. A <i>firm</i> can calculate its tariff data in respect of fees payable to the <i>FCA</i> by applying the tariff bases set out in Part 3 with reference to the valuation dates show in this table. | |
| Activity group | Valuation Date |
| ... | |
| A.12 | Annual income for the financial year ended in the calendar year ending 31 December. |
| ... | |
| A.19 | ... |
| <u>A.21</u> | <u>In respect of <i>client money</i>, the highest amount of <i>client money</i> held over the 12 months ending 31 December before the</u> |

| | |
|-----|---|
| | <u>relevant fee year</u> <u>In respect of safe custody assets, the highest amount of safe custody assets held over the 12 months ending 31 December before the relevant fee year</u> |
| ... | |

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

| | | |
|--|---|--|
| 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 | | |
| ... | | |
| Activity group | Fee payable | |
| ... | ... | |
| A.12 | <u>Band Width (£ thousands of annual income (AI))</u> | <u>Fee (£/£ thousand or part £ thousand of AI)</u> |
| | ≥ 100 | 2.39 |
| ... | | |
| A.19 | ... | |
| <u>A.21</u> | <u>Client money</u> | |
| | <u>Band Width (£ client money (CM) held)</u> | <u>Fee (£/£ millions or part £ million of CM)</u> |
| | [tbc] | [tbc] |
| | <u>PLUS</u> | |
| | <u>Safe custody assets</u> | |
| | <u>Band Width (£ safe custody assets (CA) held)</u> | <u>Fee (£/£ millions or part £ million of CA)</u> |
| | [tbc] | [tbc] |
| ... | | |

| | | |
|---|-----|---|
| Part 2 | | |
| This table shows the tariff rates applicable to each of the fee blocks set out in Part 2 of <i>FEES 4 Annex 1AR</i> | | |
| A.0 | (1) | £1,000 unless: |
| | (a) | ... |
| | ... | |
| | (2) | The conditions referred to in (1)(a) are that the <i>credit union</i> has a tariff base (Modified Eligible Liabilities) of: |
| | (a) | ... |
| | (b) | greater than 0.5 million but less than 20 <u>2.0</u> million, in which case a minimum fee of the <u>£540</u> is payable |
| | ... | |

| | |
|--|---|
| Part 3 | |
| This table shows the modifications to fee tariffs that apply in respect of the <i>FCA</i> to <i>incoming EEA firms</i> and <i>incoming Treaty firms</i> which have established branches in the <i>UK</i> | |
| Activity group | Percentage deducted from the tariff base payable under Part 1 applicable to the <i>firm</i> |
| ... | |
| A.12 | 10% |
| ... | |

...

4 Annex 3AR Fees for approved reporting mechanisms

| | |
|--|--|
| <u>This table shows the fees payable by <i>approved reporting mechanisms</i> for the administration and maintenance costs of the <i>FCA</i> transaction reporting system</u> | |
| <u>Fee type</u> | <u>Fee amount</u> |
| <u>Transaction charge</u> | <u>Fee (£/ 100,000 transaction reports processed during the calendar year ending the 30 September before the current <i>fee year</i> or part 100,000 transactions reports processed during the calendar year ending the 30 September before the current <i>fee year</i>)</u> |

| | |
|--|--------------|
| | <u>16.87</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 to 31 March 2014

| | | |
|--|--|--|
| Part 1 | | |
| Periodic fees payable | | |
| | | |
| <p>Fees are charged according to the number of funds or <i>sub-funds</i> operated by a <i>firm</i> as at 31 March 2012 <u>preceding the relevant fee year</u>. Where a new <i>collective investment scheme</i> becomes authorised during a year <u>fee year</u>, fees are charged according to the number of funds or <i>sub-funds</i> operated by a <i>firm</i> as at the date of authorisation. Where more than one fund or <i>sub-fund</i> is operated, the number of funds (not including the <i>umbrella</i> or parent fund) produces a 'fund factor' in accordance with the table above, which is then applied to a basic fee to produce one total fee per <i>operator</i>. Fund factors are applied per <i>operator</i> rather than per <i>scheme</i> so that the fees relate to the number of funds rather than the number of <i>schemes</i>. This means that, for example, an authorised fund manager of three <i>schemes</i> pays the same as an <i>operator</i> or <i>authorised fund manager</i> of one <i>scheme</i> with three <i>sub-funds</i> (as only the <i>sub-funds</i> are counted).</p> <p>...</p> | | |

...

4 Annex 11AR Definition of annual income for the purposes of calculating fees in fee blocks A.12, A.13, and A.14, A.18 and A.19

| |
|---------------------------------|
| Annual income definition |
|---------------------------------|

General definition for all relevant fee-blocks

“Annual income” for a particular fee block (the “relevant fee block”) is ~~an amount equal to the net amount retained by the firm of all income due to the firm~~ the gross inflow of economic benefits (i.e. cash, receivables and other assets) recognised in the firm’s accounts during the reporting year in respect of, or in relation to, the provision in the UK of the *regulated activities* specified in FEES 4 Annex 1AR Part 1 as belonging to the relevant fee block. ~~fee blocks A.12, A.13 and A.14.~~

For the purposes of calculating annual income, “net amount retained” means:

The figure should be reported for the relevant fee block without netting off the operating costs or business expenses, but including:

(a) all brokerages, *commissions, fees*, and other related income (for example, administration *charges*, overrides, profit shares etc) due to the *firm* in respect of, or in relation to, the provision in the UK of the *regulated activities* specified in FEES 4 Annex 1AR Part 1 as belonging to ~~fee blocks A.12, A.13 and A.14~~ the relevant fee block and which the *firm* has not rebated to *clients* or passed on to other *authorised firms* (for example, where there is a commission chain).

PLUS:

(b) any ongoing *commission* from previous business received by the *firm* during the reporting year.

PLUS:

(c) ~~the “commission equivalent” of any relevant business. In this instance, the “commission equivalent”~~ “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 not to charge to waive or discount its charges.

Where the relevant fee-block is fee-block A.18

For the purposes of calculating annual income for fee-block A.18, also include the following:

(d) for any home finance mediation activity carried out by the firm for which it receives payment from the lender or provider on a basis other than that in (a), the value of all new mortgage advances and amounts provided under other home finance transactions resulting from that activity multiplied by 0.004;

PLUS:

(e) if the firm is a home finance provider, the value of all new mortgage advances and amounts provided under other home finance transactions which are regulated mortgage contracts, home purchase plans, home reversion plans or regulated sale and rent back mediation activity, multiplied by 0.004m.

PLUS:

(f) for firms whose permission includes administering regulated mortgage contracts, but not entering into a regulated mortgage contract and firms whose permission includes administering a home finance transaction but not entering

into a home finance transaction, and in either case whose permission does not include advising on a home finance transaction, the relevant amounts are multiplied by 0.15.

Where the relevant fee-block is fee-block A.19

For the purposes of calculating annual income for fee-block A.19, also include the following:

(g) in relation to any activities set out in (a) for any insurance mediation activity carried out by the firm for which it receives payment from the insurer on a basis other than that in (a), the amount of premiums receivable on its contracts of insurance multiplied by 0.07;

PLUS:

(h) if the firm is an insurer in relation to the activities set out in (a), the amount of premiums receivable on its contracts of insurance multiplied by 0.7, excluding those contracts of insurance which:

- result from insurance mediation activity by another firm, where payment has been made by the insurer to the firm under (a); or
- are not general insurance contracts or pure protection contracts.

AND

(i) for the purposes of calculating annual income for fee-block A.19:

- the provision in the UK of the regulated activities specified in FEES 4 Annex 1AR Part 1 as belonging to the relevant fee block includes the provision of activities that would have been insurance mediation activity in relation to general insurance contracts or pure protection contracts if they had been carried on after 13 January 2005 or, in relation to connected travel insurance contracts, from 1 January 2009;
- a reference to a "firm" includes a reference to any person, including a connected travel insurance intermediary, who carried on activities which would be insurance mediation activity (in respect of general insurance contracts or pure protection contracts) if they had been carried on after 13 January 2005 or, in relation to connected travel insurance contracts, from 1 January 2009.

Guidance on the interpretation of this definition is presented in FEES 4 Annex 13G.

4 Annex 12G Guidance on the calculation of tariffs set out in FEES 4 Annex 1AR Part 3 and FEES 4 Annex 1BR Part 3

~~The following tables set out guidance on how a firm should calculate relevant tariffs.~~

The following table sets out guidance on how a firm should calculate tariffs for

fee-block A.4.

~~Table 1: Fee block A.4~~

Adjusted Gross Premium Income and Mathematical reserves – calculation of new regular premium business

....

Delete Table 2 of FEES 4 Annex 12G in its entirety. The deleted text is not shown.

After FEES 4 Annex 12G insert the following new Annex. The text is not underlined.

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. | |
| 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 FEES 4 Annex 1AR, 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. |
| (2) | To avoid any doubt, the <i>firm</i> should exclude from the calculation of its annual income any <i>regulated activities</i> belonging to fee-blocks A.13, A.14, A.18 and A.19 where the performance of such <i>regulated activities</i> arises directly from the carrying out of the <i>regulated activity</i> of <i>managing investments</i> belonging to fee-block A.7. |
| (3) | <i>Firms</i> should only include revenue streams that relate to <i>regulated activities</i> which are carried on 'in the <i>United Kingdom</i> '. In many cases, it will be quite straightforward to identify where an activity is carried on. But when there is a cross-border element, for example because a client is outside the <i>United Kingdom</i> or because some other element of the activity happens outside the <i>United Kingdom</i> , the question may arise as to where the activity is carried on. PERG 2.4 generally and PERG 4.11 regarding activities relating to <i>regulated mortgage contracts</i> , PERG 5.12 regarding activities relating to <i>insurance mediation activities</i> and PERG 14.6 regarding <i>home reversion plans</i> and <i>home purchase plans</i> describe the legislation that is relevant to |

| | |
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| | <p>this question and gives the <i>FCA</i>'s views on various scenarios.</p> |
| Reporting period | |
| (4) | <p>The “reporting year” is the <i>firm</i>'s financial year end during the calendar year prior to the <i>FCA fee year</i>. This <i>fee year</i> starts on 1 April. This is specified in part 5 of <i>FEES 4 Annex 1AR</i>.</p> |
| (5) | <p>The income that should be included is the income that was recognised in the accounts of the relevant reporting year. This means that some income due may not be reported until the following year because it has not yet been recognised in the accounts, while other income may be carried forward from previous years.</p> |
| Fair value | |
| (6) | <p>The <i>firm</i> should report a “fair value” price for any services for which it has made a business decision not to charge to <i>clients</i>.</p> <p>We consider fair value to refer to the amount at which goods or services could be exchanged in an arm's length transaction between informed and willing parties, other than in a forced or liquidation sale.</p> <p>For example, where a <i>firm</i> has forgone or discounted its normal <i>commission</i> or <i>fee</i>, it should report the amount it would have otherwise have charged for providing equivalent activities. In the case of <i>home finance mediation</i> in fee-block A.18 and <i>general insurance intermediation</i> in fee-block A.19, instead of asking for <i>firms</i> to estimate fair value, certain ratios are prescribed in <i>FEES 4 Annex 11BR</i> where the <i>client</i> is not charged directly for the service provided.</p> |
| Inclusions | |
| (7) | Annual income should include: |
| (a) | <p>all amounts due to the <i>firm</i> arising out of the <i>regulated activities</i> referred to in the relevant fee block for which the <i>firm</i> holds <i>permission</i>, including regular <i>charges</i> and instalments due to the <i>firm</i> during the reporting year;</p> |
| (b) | <p>any income a <i>firm</i> has received in relation to a product it has provided (such as where it has entered into a <i>home finance transaction</i> as lender, plan provider or home purchase provider or where it has entered into <i>general insurance contracts</i> or <i>pure protection contracts</i> as insurer) where the mediation activity (such as <i>home finance mediation activity</i> or <i>insurance mediation activity</i>) has been carried on by another <i>firm</i>;</p> |
| (c) | <p>any payment from a <i>parent</i> to facilitate the discounting or forgoing of any amounts that would otherwise be charged in full to a <i>client</i>, to the extent that the payment exceeds the “fair value” price reported in</p> |

| | | |
|-----------------------|---|--|
| | | accordance with paragraph (6) above; |
| | (d) | earnings from those who will become its <i>appointed representatives</i> immediately after authorisation; |
| | (e) | administrative charges and any interest from income related to the <i>regulated activities</i> specified in the relevant fee block. |
| (8) | Additional inclusions in respect of fee-block A.18: | |
| | (a) | a <i>firm</i> must include in paragraph (a) any survey and booking fees due to it in respect of <i>home finance mediation activity</i> . |
| Prohibited deductions | | |
| (9) | Deductions should not be made for: | |
| | (a) | bad debts; |
| | (b) | customer benefits such as cash rewards, complimentary travel insurance, air miles vouchers etc.; |
| | (c) | items such as general business expenses (e.g. employees' salaries and overheads); |
| | (d) | finances or penalties levied against the <i>firm</i> ; |
| | (e) | commission a <i>firm</i> pays another party to arrange a transaction with a <i>client</i> unless it receives a <i>fee</i> in respect of the same transaction; |
| | (f) | the difference (if positive) between the fee payable by a <i>firm</i> to another party for arranging a transaction and the amount payable to the <i>firm</i> by the end <i>client</i> in respect of that transaction (here, the <i>firm</i> must net any excess payable by the end <i>client</i> to zero); |
| | (g) | payments made to <i>clients</i> by way of redress. |
| Exclusions | | |
| 10 | The following should be excluded from the calculation of annual income. | |

| | | |
|---|-----|---|
| | (a) | To avoid double-counting, amounts which have been passed on to other <i>firms</i> may be excluded from the calculation of annual income. Transfers of income to other <i>firms</i> may be especially common within <i>groups</i> where, to present a single interface to <i>clients</i> , all amounts due to the <i>group</i> may be collected by one <i>firm</i> for subsequent redistribution to other <i>firms</i> within the <i>group</i> . It is for <i>groups</i> themselves to decide the most convenient way to report such annual income - i.e. whether the <i>firm</i> which receives the full amount should declare that full amount, or whether each <i>firm</i> in the <i>group</i> should report its separate distribution. |
| | (b) | Any payment from a <i>parent</i> to facilitate the discounting or forgoing of any amount that would otherwise be charged in full to a <i>client</i> should be excluded to the extent that the payment does not exceed or equal the “fair value” price reported in accordance with paragraph (6) above. |
| | (c) | Rebates to <i>customers</i> and <i>fees</i> or <i>commissions</i> passed onto other <i>firms</i> should be excluded. |
| | (d) | <i>Authorised professional firms</i> should exclude the income from <i>non-mainstream regulated activities</i> . They may estimate the proportion of their business that is derived from those activities and split the income from individual invoices accordingly. |
| | (e) | For the avoidance of doubt, income relating to or in respect of an activity is not part of annual income for the purposes of the definition in <i>FEES</i> 4 Annex 11AR to the extent that the activity benefits from the exclusion in article 69 of the Financial Services and Markets Act 2000 (Regulated Activities Order) 2001 (Groups and joint enterprises). <i>Firms</i> should refer to the <i>guidance</i> on the application of this exclusion is contained in <i>PERG</i> 2.9. |
| Apportioning annual income | | |
| Where a <i>firm</i> cannot separate its income on the basis of activities, it may apportion the income on the basis of the proportionate split of business that the <i>firm</i> otherwise undertakes. For instance: | | |
| | (1) | If a <i>firm</i> receives annual income from a platform-based business it may report this in line with a wider breakdown of its activities. |
| | (2) | A <i>firm</i> providing corporate finance advice which does not maintain records of the split between <i>regulated activities</i> and non-regulated activities for individual cases may calculate that regulated business accounts for a certain proportion of its business overall and apply that as a multiplier across its income. |
| | (3) | A <i>firm</i> may allocate ongoing <i>commission</i> from previous business on the basis of the type of <i>firm</i> it receives the <i>commission</i> from. This avoids |

| | |
|-----|--|
| | tracking back legacy business which may no longer match the provider's current business model. |
| (4) | An <i>authorised professional firm</i> may estimate the proportion of its business that is derived from <i>regulated activity</i> and split its income for individual invoices accordingly. |
| (5) | If a <i>firm</i> has invested income from <i>regulated activities</i> , then any interest received should be reported as income, in proportion to the volume of regulated business it undertakes to avoid tracking back old payments. |
| (6) | <i>Firms'</i> systems ought to be able to distinguish <i>UK</i> from non- <i>UK</i> business to establish which conduct of business regime it was conducted under. If, however, they do not relate the figures back to income streams for the specific <i>regulated activities</i> in a particular fee-block then the <i>firm</i> may make a proportionate split as described above, calculating its regulated <i>UK</i> income on the basis of the overall split between <i>UK</i> and overseas income. |
| (7) | It is for individual <i>firms</i> to determine how they should calculate the appropriate split of income. The <i>FCA</i> is not prescriptive about the methodology. It requires only that: |
| (a) | the approach should be proportionate - the <i>FCA</i> is looking for <i>firms</i> to make their best efforts to estimate the split; |
| (b) | the <i>firm</i> must be able on request to provide a sound and clearly expressed rationale for its approach - for example, if all invoices were analysed over a particular period, the <i>firm</i> should be able to justify the period as representative of its business across the year; |
| (c) | the methodology should be objective - for example, based on random sampling of invoices or random stratified sampling; |
| (d) | the <i>firm</i> must on request be able to provide an audit trail which demonstrates that the choice of methodology was properly considered at an appropriate level or in the appropriate forums within the <i>firm</i> , and the decision periodically reviewed at the same level or in an equivalent forum. |

...

7 Annex 1R CFE levies for the period from 1 April 2013 to 31 March 2014

| | |
|---|--------------------------|
| This table shows the <i>CFEB levies</i> applicable to each activity group (fee-block) | |
| Activity group | <i>CFEB levy</i> payable |
| ... | |

| | | |
|-------------|--|---|
| A.12 | Band Width (£ thousands of annual income (AI)) | Fee (£/£ thousand or part £ thousand of AI) |
| | ≥100 | 0.1 |
| | For a <i>professional firm</i> in A.12 the fee is calculated as above less 10% | |
| ... | | |
| G.11 | ... | |
| <u>A.21</u> | <u>Band Width (£ client money (CM) held)</u> | <u>Fee (£/£ millions or part £ million of CM)</u> |
| | [tbc] | [tbc] |
| | <u>PLUS</u> | |
| | <u>Safe custody assets</u> | |
| | <u>Band Width (£ safe custody assets) (CA) held</u> | <u>Fee (£/£ millions or part £ million of CA)</u> |
| | [tbc] | [tbc] |
| ... | | |

Annex C

Amendments to the Supervision manual (SUP)

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

16 Annex 18AR Retail Mediation Activities Return ('RMAR')

...

SECTION J: data required for calculation of fees

Part 1

| | FCA Annual Regulated Income (£s) | FOS Relevant Annual Income (£s) | FSCS Annual Eligible Income (£s) |
|------------------------------------|---|--|---|
| Home Finance Mediation | <u>Annual income calculated for the purposes of FEES</u> 4 Annex 1AR, Part 3, fee block A.18 | ... | ... |
| Non-investment insurance mediation | <u>Annual income calculated for the purposes of FEES</u> 4 Annex 1AR, Part 3, fee block A.19 | ... | ... |
| Life and pension intermediation | Annual income as defined in Part 2 for the financial year ended in the calendar year ending 31 December 2012 in respect of fee blocks A.12 and A.13 <u>Annual income calculated for the purposes of FEES</u> 4 Annex 1AR, Part | ... | ... |

| | | | |
|----------------------------------|--|-----|-----|
| | <u>3, fee block A.13</u> | | |
| Investment intermediation | Annual income as defined in Part 2 for the financial year ended in the calendar year ending 31 December 2012 in respect of fee blocks A.12 and A.13 <u>Annual income calculated for the purposes of FEES 4 Annex 1AR, Part 3, fee block A.13</u> | ... | ... |

Delete Part 2 in its entirety. Deleted text is not shown.

16 Annex 18BG Notes for completion of the Retail Mediation Activities Return ('RMAR')

...

Section J: data required for calculation of fees

...

| | |
|-----------------------------------|--|
| Data for fees calculations | <i>Firms</i> will need to report data for the purposes of calculating <i>FCA</i> , <i>FOS</i> , and <i>FSCS</i> levies. |
| FCA | The relevant information required is the tariff data set out in <i>FEES</i> 4 Annex 1R Part 3 under fee-blocks A.12 , A.13, A.18 and A19. Note that <i>firms</i> are required to report tariff data information relating to all business falling within fee-blocks A.12/A.13/A.18/A.19 and not simply that relating to retail investments. |
| ... | ... |

...

The *guidance* in the following table sets out the *rules* which relate to the data required in Section J of *SUP* 16 Annex 18AR.

| | | | |
|--|------------|------------|-------------|
| | FCA | FOS | FSCS |
|--|------------|------------|-------------|

| | Annual Regulated Income (£s) | Relevant Annual Income (£s) | Annual Eligible Income (£s) |
|---------------------------------------|--|-----------------------------------|-----------------------------------|
| Home finance Mediation | <u>FEES 4 Annex 1AR</u> <u>Part 3 fee block</u> <u>A18</u> <u>FEES 4 Annex</u> <u>11AR, 13G</u> | ... | ... |
| Non-investment insurance mediation | <u>FEES 4 Annex 1AR</u> <u>Part 3 fee block A19</u> <u>FEES 4 Annex</u> <u>11AR, 13G</u> | ... | ... |
| Life and pensions mediation | <u>FEES 4 Annex</u> <u>11AR, 12G</u> <u>FEES 4 Annex</u> <u>11AR, 13G</u> | ... | ... |
| Investment mediation | <u>FEES 4 Annex</u> <u>11AR, 12G</u> <u>FEES 4 Annex</u> <u>11AR, 13G</u> | ... | ... |

Financial Conduct Authority



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