

## Financial Services Compensation Scheme Levy Calculation Notes 2020/21 Final Rates

### HOW IS THE FSCS LEVY CALCULATED?

#### A. Overview

The FSCS levy is made up of two elements:

- Management expenses; and
- Compensation costs.

**Management expenses levy** – covers the costs of running the compensation scheme. The management expenses levy is made up of **base costs** (operating costs not directly related to the payment of compensation) and **specific costs** (operating costs that are directly related to the payment of compensation arising from valid claims).

The management expenses levy limit for 2020/21 was consulted on in the joint FCA/PRA consultation paper [CP20/2\\_PRA CP1/20](#) (January 2020).

**Compensation costs levy** – provides the funds to make valid compensation payments.

All participant firms are required to contribute to **base costs**. **Specific costs** and **compensation costs** are not payable by FSCS exempt firms or newly authorised firms in their first authorised year.

Since legal cutover in April 2013, firms who are dual regulated will pay FSCS Base Costs towards both their FCA and PRA fee-blocks.

For further details of the FSCS levy for 2020/21, please refer to the [FSCS website](#).

#### B. Exemptions

Firms that have submitted valid exemptions (under *FEES 6.2.1R*), are excluded from specific and compensation costs, but are still liable for their share of base cost levies.

#### C. FSCS Levy - calculation

To calculate the FSCS Base Costs levy we need to know the Total Base Costs the FSCS require to raise in 2020/21 and the total Regulatory Costs of the FSCS participants for each contribution group within both FCA and PRA. The table below lists the information used for the 2020/21 rates.

Contribution Group	Total Regulatory Cost	FSCS Base Costs to be Levied
AP00	17,539,742	382,111
A000	20,219,826	480,950
A001	77,217,676	1,781,245
A002	18,605,379	416,261
A003	20,873,218	618,598
A004	47,333,902	1,051,772
A006	376,291	9,549
A007	49,019,869	1,029,485
A009	12,218,855	260,393
A010	53,376,585	1,289,854
A013	78,071,669	1,789,865
A014	14,689,999	329,526
A018	17,779,823	404,717
A019	29,682,248	654,070
A021	15,237,930	345,731
CC01	4,827,354	196,979
CC02	42,885,858	958,894
PA00	457,300	35,698
PA01	166,329,915	7,714,699
PA03	33,875,025	1,570,192
PA04	45,733,803	2,089,572
PA06	1,975,132	90,311
PA10	10,790,023	499,528
<b>Total</b>		<b>24,000,000</b>

To calculate the specific costs levy and compensation costs levy we also need to know the total FSCS tariff data for each class and the amounts FSCS are to raise for each class. The table below details these figures for 2020/21.

Class – Tariff Base	Tariff Base	FSCS Specific Costs	FSCS Class Compensation Costs
SA01	1,144,504,802,525	12,696,993	-696,993
SB01 - RNPI	40,951,523,374	2,426,093	87,573,907
SB01 - EL	64,523,218,457	808,698	29,191,302
CLGID-1	11,055,640,897	3,394,794	14,751,548
CLGID-2 - RNPI	44,139,523,374	821,321	3,568,923
CLGID-2 - EL	67,837,218,457	273,774	1,189,641
CLII-1	8,596,180,313	18,366,624	210,490,519
CLII-2 - RNPI	112,909,342,260	2,008,849	23,022,401
CLII-2 - EL	1,147,475,424,083	669,616	7,674,134
CLII-3	9,774,211,425	1,043,298	11,956,702
CLII-4	1,289,780,566	382,638	4,385,219

<b>CLIP</b>	9,774,211,425	11,486,367	175,513,633
<b>CLHFI-1</b>	1,813,427,868	1,215,151	239,394
<b>CLHFI-2</b>	6,832,202	455,682	89,773
<b>Total</b>		<b>56,049,897</b>	<b>568,950,103</b>

**Class SA01 - Deposit Takers Risk Based Levy** - Following the publication in September 2016 of the PRA's policy statement [PS25/16](#) 'Implementing risk-based levies for the Financial Services Compensation Scheme deposits class', FSCS compensation costs levies are adjusted for the degree of risk incurred by deposit takers.

Compensation costs levies for this class were previously based solely on the proportion of protected deposits held by a firm. As required by the recast Deposit Guarantee Schemes Directive, these levies are now also adjusted for the degree of risk the firm incurs.

A firm's risk adjustment is calculated using several quantitative indicators such as: capital; leverage; liquidity; and asset quality.

A firm's aggregate risk weighting will be included on its FCA Regulatory Fees and Levies invoice. More information on the risk adjustment can be found on the [PRA Website](#) or in the PRA's [Statement of Policy](#) 'Calculating risk-based levies for the Financial Services Compensation Scheme deposits class' – paragraph 4.

## **Review of the funding of the FSCS**

Following the FCA's review of the funding of the FSCS (see the publications on this [here](#)), from 2019/20 the changes proposed to the pooling of the FSCS's compensation costs came into effect. This means that insurance and investment providers are now required to contribute to the costs of advice failures and life, pensions and investment advisers are grouped together.

Product providers will now be required to contribute approximately 25% of the levies falling to the FCA intermediation classes (General Insurance Distribution, Investment Intermediation and Home Finance Intermediation).

The FSCS Classes for 2020/21 are as follows:

SA01	Deposit acceptors
SB01	General insurance provision
SC01	Life & pensions provision
CLGID-1	General insurance distribution
CLGID-2	General insurance provision
CLII-1	Life distribution and investment intermediation
CLII-2	Life insurance provision
CLII-3	Investment provision
CLII-4	Structured deposits provision
CLIP	Investment provision claims
CLHFI-1	Home finance intermediation
CLHFI-2	Home finance provision

## Example calculation

Firm X is solo regulated by the FCA and is allocated to the A013 contribution group and in FSCS class CLII-1 (Life distribution and investment intermediation).

At the valuation date of 31 December 2019, it had annual income of £580,000 in respect of FCA fee-block A013 and £338,000 of eligible annual income in respect of FSCS class CLII-1.

Based on the annual income of £580,000 the A013 FCA regulatory cost (the FCA charge after discounts but before deductions) for 2020/21 would be £1,361.09.

The FCA regulatory cost for the minimum fee (fee-block A000) for 2020/21 is £1,151, and the FCA prudential costs (fee-block AP00) for 2020/21 would be £141.08.

*Base Costs Levy:* Base costs are calculated by reference to the share of a firm's regulatory cost as a proportion of the total regulatory costs (in each contribution group). The calculation is shown below.

<b>A000 Contribution Group</b>			
Base Costs Levy	$\frac{\text{Firm's A000 FSCS Reg. Cost} \times \text{A000 Base Costs to be raised}}{\text{Total A000 FSA Regulatory Costs}}$	$\frac{1,151 \times 480,950}{20,219,826}$	£27.38
<b>Total A000 FSCS Base Costs Levy</b>			<b>£27.38</b>

<b>A013 Contribution Group</b>			
Base Costs Levy	$\frac{\text{Firm's A013 FSCS Reg. Cost} \times \text{A013 Base Costs to be raised}}{\text{Total A013 FSA Regulatory Costs}}$	$\frac{1,361.09 \times 1,789,865}{78,071,669}$	£31.20
<b>Total A013 FSCS Base Costs Levy</b>			<b>£31.20</b>

<b>AP00 Contribution Group</b>			
Base Costs Levy	$\frac{\text{Firm's AP00 FSCS Reg. Cost} \times \text{AP00 Base Costs to be raised}}{\text{Total A013 FSA Regulatory Costs}}$	$\frac{141.08 \times 382,111}{17,539,742}$	£3.07
<b>Total AP00 FSCS Base Costs Levy</b>			<b>£3.07</b>

*Compensation and Specific Costs Levy:* The Specific and Compensation costs are calculated by reference to the share of the firm's tariff data as a proportion of the total FSCS tariff data (in each FSCS class). These calculations are shown below.

<b>CLII-1 Class: Life Distributions &amp; Investment Intermediation</b>			
Specific Costs Levy	$\frac{\text{Firm's CLII-1 tariff data} \times \text{Total FSCS CLII-1 Specific Cost}}{\text{Total CLII-1 fee tariff base}}$	$\frac{338,000 \times 18,366,624}{8,596,180,313}$	£722.17
Compensation Costs Levy	$\frac{\text{Firm's CLII-1 tariff data} \times \text{Total FSCS CLII-1 Compensation Cost}}{\text{Total CLII-1 fee tariff base}}$	$\frac{338,000 \times 210,490,519}{8,596,180,313}$	£8,276.44
<b>Total CLII-1 FSCS Levy</b>			<b>£8,998.61</b>

Therefore, the FSCS Levy total for Firm X for 2020/21 will be:

<b>FSCS Levy Type</b>	<b>Value</b>
A000 Levy (Base Costs)	£27.38
A013 Levy (Base Costs)	£31.20
AP00 Levy (Base Costs)	£3.07
CLII-1 Levy (Life Distributions & Investment Intermediation)	£8,998.61
<b>Net FSCS Levy Total</b>	<b>£9,060.26</b>