

# CP12/3<sup>★★</sup>

Financial Services Authority

## Regulated fees and levies:

Rates proposals 2012/13



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# Contents

Abbreviations used in this paper	5
1 Overview	9
<b>Section I: – Fees timetable proposed FSA periodic fee rates and revised application fee rates 2012/13</b>	
2 Outline 2012/13 business plan	25
3 Fees timetable and invoicing arrangements	29
4 FSA annual funding requirement (AFR) 2012/13	33
5 Allocating the 2012/13 AFR to fee-blocks	37
6 Periodic fees for authorised firms	41
7 Applying financial penalties 2012/13	49
8 Periodic fees for other bodies	53
<b>Section II: – Further fees policy proposals 2012/13</b>	
9 Special project fees for Solvency II	65
10 Other policy proposals for consultation:	71
• Payment services providers and electronic money issuers – notifications of agents	
• Regulatory reporting – changes to the RMAR-J	
• Restructuring special project fees – revised hourly rates	
• Policy clarification – valuing derivatives in fund management	

**Section III – Funding the Financial Services Compensation Scheme 2012/13**

11	Financial Services Compensation Scheme (FSCS) – management expenses levy limit 2012/13	79
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**Section IV – Funding the Financial Ombudsman Service general levy 2012/13**

12	Financial Ombudsman Service general levy 2012/13	91
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**Section V – Funding the Money Advice Service 2012/13**

13	Money Advice Service levies 2012/13	103
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**Section VI – Feedback on policy proposals in CP11/21**

14	Feedback on policy proposals –	117
	<ul style="list-style-type: none"> <li>• Financial penalty scheme</li> <li>• UK Listing Authority</li> <li>• Regulated Covered Bonds Regulations 2008</li> <li>• Modified tariff base for electronic money issuers</li> </ul>	

<b>Annex 1:</b>	Compatibility statement and cost benefit analysis
<b>Annex 2</b>	Revised Financial Penalty Scheme under the Financial Services and Markets Act 2000
<b>Annex 3:</b>	List of consultation questions
<b>Annex 4:</b>	Location of fees and levy rules and guidance in the FSA Handbook
<b>Annex 5:</b>	FOS general levy – overview of industry blocks 2012/13
<b>Annex 6:</b>	List of non-confidential respondents to Chapters 3 – 6 of CP11/21
<b>Appendix 1:</b>	Draft rules and guidance for consultation response by 29 February 2012
<b>Appendix 2:</b>	Draft rules and guidance for consultation response by 2 April 2012
<b>Appendix 3:</b>	Draft rules unauthorised mutuals response by 2 April 2012

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The Financial Services Authority invites comments on the proposals made in this Consultation Paper.

Some of the proposals require comments by **29 February 2012** and others by **2 April 2012**. We indicate clearly in the paper which deadlines apply to which proposals. Ideally, we would appreciate responses by email to [CP12\\_03@fsa.gov.uk](mailto:CP12_03@fsa.gov.uk).

**Alternatively, please send comments on Section I, II and VI in writing to:**

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Finance – Fees Policy  
Financial Services Authority  
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Canary Wharf  
London E14 5HS  
**Fax:** 020 7066 5597

**Comments on Sections III, IV and V should be sent in writing to:**

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Consumer Affairs  
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London E14 5HS  
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It is the FSA's policy to make all responses to formal consultation available for public inspection unless the respondent requests otherwise. A standard confidentiality statement in an email message will not be regarded as a request for non-disclosure.

A confidential response may be requested from us 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 Tribunal.

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Copies of this Consultation Paper are available to download from our website – [www.fsa.gov.uk](http://www.fsa.gov.uk). Alternatively, paper copies can be obtained by calling the FSA order line: 0845 608 2372.



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# Abbreviations used in this paper

<b>AEMIs</b>	Authorised Electronic money institutions
<b>AFR</b>	Annual funding requirement
<b>APIs</b>	Authorised Payment institutions
<b>BP</b>	Business Plan
<b>BU</b>	Business unit
<b>CBU</b>	Consumer Business Unit
<b>COB</b>	Conduct of business
<b>CFEB</b>	Consumer Financial Education Body
<b>CP</b>	Consultation Paper
<b>CPMA</b>	Consumer Protection & Markets Authority
<b>CRO</b>	Conduct Risk Outlook
<b>CRAs</b>	Credit Rating Agencies
<b>EMRs</b>	Electronic Money Regulations 2011
<b>ESMA</b>	European Securities and Markets Authority
<b>ESAs</b>	European Supervisory Authorities
<b>EU</b>	European Union
<b>FCA</b>	Financial Conduct Authority
<b>FEES</b>	Fees sourcebook

<b>FOS</b>	Financial Ombudsman Service
<b>FSCS</b>	Financial Services Compensation Scheme
<b>IMAP</b>	Internal model approval process
<b>MARD</b>	Making a Real Difference
<b>MELL</b>	Management expenses levy limit
<b>MLAR</b>	Mortgage Lending and Administration Return
<b>MMR</b>	Mortgage Market Reviews
<b>MPR</b>	Mutuals Public Register
<b>ORA</b>	Ongoing Regulatory Activities
<b>PPI</b>	Payment Protection Insurance
<b>PS</b>	Policy Statement
<b>PBU</b>	Prudential Business Unit
<b>PRA</b>	Prudential Regulatory Authority
<b>PRO</b>	Prudential Risk Outlook
<b>PSRs</b>	Payment Services Regulations 2009
<b>RDR</b>	Retail Distribution Review
<b>RMAR</b>	Retail Mediation Activities Return
<b>2EMD</b>	Second Electronic Money Directive
<b>SII</b>	Solvency II
<b>SPF</b>	Special Project Fees
<b>SDD</b>	Specified deposit-taking default

# 1

## Overview

- 1.1 Each year we consult on:
- 1) proposed policy changes to the fee and levy regimes;
  - 2) the allocation of our Annual Funding Requirement (AFR) between fee blocks;
  - 3) our fee rates for the forthcoming financial year<sup>1</sup>;
  - 4) the Financial Services Compensation Scheme (FSCS) management expenses levy limit;
  - 5) the Financial Ombudsman Service (FOS) general levy for the forthcoming financial year and its allocation to industry blocks; and
  - 6) the Money Advice Service<sup>2</sup> levy for the forthcoming financial year.
- 1.2 This Consultation Paper (CP) is relevant to all authorised firms and other bodies that pay fees to us and levies to the FSCS, the FOS and the Money Advice Service, as well as to potential applicants for Financial Services Authority (FSA) authorisation and listing by the UK Listing Authority.
- 1.3 We split the annual consultation into two phases. In October we consult on any proposed changes to the underlying policy for the FSA, the FSCS, the FOS and the Money Advice Service fees and levies – (1) above. In the following January or February we consult on the proposed changes to (2), (3), (4), (5) (6) and any additional policy proposals under (1).
- 1.4 This CP coincides with the publication of the FSCS and FOS budgets for 2012/13.<sup>3</sup> This CP includes an outline of our Business Plan for the FSA, which will enable firms to see the annual funding requirement and the related fees in the context of our key priorities for the coming year. The Bank of England will publish the Financial Policy Committee's *Financial Stability Report* covering prudential risks and we will publish our *Retail Conduct Risk*

1 These also include fees recovering our regulatory costs under the Money Laundering Regulations 2007, the Regulated Covered Bonds Regulations 2008, the Payment Services Regulations 2009 and the Electronic Money Regulations 2011.

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

3 [www.fscs.org.uk/industry/publications/](http://www.fscs.org.uk/industry/publications/)  
[www.financial-ombudsman.rg.uk/publications/pdf/plan-budget-2012-13.pdf](http://www.financial-ombudsman.rg.uk/publications/pdf/plan-budget-2012-13.pdf)

*Outlook* covering conduct risks. These will be published before our annual *Business Plan* (BP) in March 2012.

- 1.5 This CP primarily sets out consultation proposals on the fees and levy rates we intend to raise for the FSA, the FSCS, the FOS and the Money Advice Service in 2012/13. We make a fees calculator available for firms on our website so fee-payers can assess the impact of the fee and levy proposals, and see what these mean for their 2012/13<sup>4</sup> regulatory charges before receiving our single invoice for regulatory fees and levies. Potential applicants for authorisation can also see the amounts they would be liable to pay in 2012/13. This will make the implications for firms of proposed and final fees and levies clearer, and help firms in planning their budgets for the year ahead.

## Structure of this paper

- 1.6 In this chapter we set out a summary of key proposals in this CP, a timetable for consultation and next steps.
- 1.7 There are six sections in this CP:
- **Section I** – Chapter 2 sets out an outline of our Business Plan for 2012/13. Chapter 3 details the timetable of administrative arrangements for paying fees in 2012/13. Chapters 4 to 8 describe how we have determined our AFR for 2012/13 and our proposals to recover this from fee-payers. There are also details of how financial penalties are returned to the industry.
  - **Section II** – Chapters 9 and 10 explain further FSA fees policy proposals.
  - **Section III** – Chapter 11 consults on the proposed 2012/13 FSCS management expenses levy limit (MELL).
  - **Section IV** – Chapter 12 consults on the proposed 2012/13 tariff rates for the general levy of the FOS.
  - **Section V** – Chapter 13 consults on the proposed 2012/13 levies for the Money Advice Service.
  - **Section VI** – Chapter 14 provides feedback on a number of policy proposals on which we consulted in CP11/21, published in October 2011.
- 1.8 Our Handbook rules and guidance on fees can be found in the Fees manual (FEES) and its structure can be found in Annex 3 of this CP for ease of reference. Additional background material to proposals in this CP – in particular on fee-raising arrangements and regulatory fees and levies – are included in our Consolidated Policy Statement (PS11/7), published in May 2011.

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<sup>4</sup> The amounts shown will include any applicable discounts and deductions made for financial penalties forecast to be collected up to 31 March 2012. Penalty deductions will be finalised in May 2012, once all penalties in 2011/12 have been received.

- 1.9 The appendices set out the draft rules we intend to implement in 2012/13 to give effect to the proposals in this CP.

## Summary of key proposals

### Regulatory fees and levies rates: overall change from last year

- 1.10 We expect that the proposals we are making for fees and levies – considered together with the compensation costs that the FSCS is likely to include as part of its levy – mean that the industry, as a whole, will pay broadly 11.8% more than in 2011/12.
- 1.11 Table 1.1 shows how we expect anticipated changes in the FSA, the FSCS, the FOS and the Money Advice Service fees and levies to affect the total amount of money those organisations will need to raise from fee-payers next year. At individual fee-payers level, however, there will be wide variations around the average increase. More detailed information can be found in the chapters indicated in the table and we summarise in this chapter the position for each organisation.

**Table 1.1 – Comparing 2012/13 FSA, FSCS, FOS and Money Advice Service fees and levies against 2011/12**

Cash impact on firms of fees and levies	2012/13 (£m)	2011/12 (£m)	Increase/ (Decrease) (£m)	Increase/ (Decrease) (%)	Refer to:
FSA – Annual Funding Requirement (AFR)	578.4	500.5	77.9	15.6%	Chapter 4 and 5
Financial penalty discounts	(58.7)	(86.2)	(27.5)	(31.9%)	Chapter 7
FSA fees	519.7	414.3	105.4	25.4%	Chapter 6 and 8
FSCS – total	581.7	578.3	3.4m	0.6%	Chapter 11
FOS – general levy and contingency fund	17.7	42.7	(25.0)	(58.5%)	Chapter 12
Money Advice Service					
Money advice	46.3	43.7	2.6	5.9%	Chapter 13
Debt advice	40.5	N/A	N/A	N/A	
Money Advice Service total	86.8	43.7	43.1	98.6%	
<b>Net cash cost to firms</b>	<b>1,205.9</b>	<b>1,079.0</b>	<b>126.9</b>	<b>11.8%</b>	

**Note:** This table is intended to show how much firms have actually paid out in a financial year for each organisation's fees and levies and the overall combined impact of all four. We compare the total amounts firms pay (as invoiced) in 2011/12 with the total amounts that, on current estimates, they will pay in 2012/13.

The FSCS figure is made up of the 2012/13 indicative levy of £221m and the specific deposit default (SDD) expenses, associated with the 2008 bank defaults of £360.7m for 2011/12. The SDD interest costs are invoiced in July following the financial year to which they relate, for payment by 1 September, and are reflected in the cash impact on firms for that year (i.e. the year they are invoiced). For example, interest costs for 1 April 2011 to 31 March 2012 will be invoiced in July 2012. See Chapter 11 for information about the 2012/13 SDD costs.

## FSA

### Core work programme

- 1.12** Our planned work programme for 2012/13 continues to focus our resources on delivering three core elements of our regulatory approach:
- our intensive and intrusive approach to on-the-ground supervision, both prudential and conduct;
  - our credible deterrence agenda; and
  - the considerable resources dedicated to the shaping and implementing EU and domestic policy and regulations.
- 1.13** This core work programme contains no significant discretionary initiatives and will be accomplished without increasing headcount.

### Ongoing Regulatory Activity (ORA)

- 1.14** Our ORA for 2012/13 is £543.5m, an increase of 10.5% from 2011/12 (£492.0m). Our core work programme represents £521.1m, an increase of 5.9%. Following a two-year salary freeze this includes a provision to award our staff salary increases up to a maximum of 3.5% of our total payroll. These awards will not be universally applied but will be targeted to ensure that we incentivise and retain those people whose skills, experience and contribution justify an award.
- 1.15** In addition ORA includes £22.4m for IS infrastructure investment. We are improving the technology platforms that underpin our key regulatory systems that will be inherited by the Financial Conduct Authority (FCA). This includes modernising our technology infrastructure and IS capability which will also support the new regulatory systems being designed for conduct regulation under the FCA's expanded role.

## Implementing regulatory reform

- 1.16** Under our regulatory reform implementation programme we continue to work with the Bank of England and the Treasury to design and implement the regulatory and operating models for the new authorities and prepare for the transition to the new structure. As part of this preparation, we plan to shift to a new internal structure in April 2012 that will begin to reflect the shape of the new authorities – the Prudential Regulatory Authority (PRA) and the FCA.
- 1.17** Activity under this reform programme is expected to intensify in 2012/13 as we approach the legal cut-over to the PRA and FCA from the end of 2012, by which time the relevant legislation is anticipated to have received Royal Assent. This is reflected in our 2012/13 budget of £32.5m for this change programme, which represents a significant increase of £21.6m (198%) over 2011/12 (£10.9m). The budget includes programme team, property transition, IT, training and other staff costs.
- 1.18** Our regulatory reform costs for creating and transitioning to the PRA and FCA for 2012/13 are in line with the forecast made by the government on the transitional costs for the authorities of £130m to £175m.
- 1.19** We provide an outline of our 2012/13 key areas of activity in Chapter 2, ahead of our full Business Plan, which will be published in March.

## AFR allocation to fee-blocks and impact on fees

- 1.20** The main focus of our AFR is therefore the budget to carry out our activities in the forthcoming year. Our AFR for 2012/13 is £578.4m (£500.5m in 2011/12), which is an increase of 15.6%. The full breakdown of the AFR is set out in Chapter 4.

### *Financial penalty discounts*

- 1.21** Taking into account the overall impact of the anticipated financial penalties discounts<sup>5</sup>, this equates to an increase in chargeable fees of 25.4% (decrease of 1.7% in 2011/12). Financial penalties from enforcement action, which are rebated to fee-payers through the financial penalties discount, are forecast to be lower than last year. In the 2011/12 financial year, these financial penalties were worth £86.2m, equating to a reduction of approximately 16.8% across the fee-blocks. Our current forecast of the financial penalties we will receive by the end of March 2012 is £58.7m. This forecast figure is 31.9% lower than last year.
- 1.22** Following our October 2011 consultation on our financial penalty scheme, the distribution of financial penalties for 2012/13 will be better aligned to the fee-blocks that have been allocated enforcement costs – so firms that are paying for enforcement activity receive a greater share of the discounts. This will, however, mean that the distribution of financial penalties discounts across fee-blocks will not be as evenly spread as previously. We provide

<sup>5</sup> Financial penalties are received by us as a result of enforcement action. These must be applied to the benefit of firms, which we do through applying discounts to firms' periodic fees in the year following receipt of the financial penalty.

feedback on the responses received to this consultation in Chapter 14 and publish the revised financial penalty scheme in Annex 2, on which the 2012/13 financial penalty discounts have been calculated. Table 7.1 in Chapter 7 sets out the anticipated distribution of financial penalty discounts for 2012/13.

### *Minimum fee*

- 1.23** The main periodic minimum fee for 2012/13 is proposed to remain unchanged from the 2011/12 level of £1,000. Taking into account the anticipated financial penalties discount, the amount firms may actually pay in terms of the minimum fee in 2012/13 could be lower at £987 (£832 in 2011/12). The minimum fee is paid by almost all authorised firms in the 'A' fee-blocks and 42% of these firms only pay the minimum fee.

### *Allocation of AFR across fee-blocks*

- 1.24** In Chapter 5 we set out the allocation of our AFR across the fee-blocks and the year-on-year movements that will be reflected in the variable periodic fees for firms that have permission to carry out the regulated activities covered by the fee-blocks. We comment on the fee-blocks where the year-on-year increase is substantially above the overall 15.6% increase in the AFR. The 'A' fee-blocks account for the recovery of 94% of our AFR.
- 1.25** The 2012/13 AFR allocations across the 'A' fee-blocks mainly reflect the focus of our intensive and intrusive approach to on-the-ground supervision, both prudential and conduct, and the allocation of enforcement costs, which are largely based on activity data.
- 1.26** The focus of our supervisory approach translates to above average year-on-year increases in the following fee-blocks: A.1 Deposit acceptors (25.2% increase); A.3 Insurers general (36.7% increase); A.4 Insurers – life (37.3% increase); and A.10 Firms dealing as principal (43.7% increase). In the case of A.10, this increase also reflects the impact of higher enforcement activity, focusing on systems and controls in this sector.
- 1.27** Fees to recover these allocated costs are based on the size of the business undertaken by individual firms. Therefore these costs will be primarily recovered from the largest systemically important firms covered by these fee-blocks. In the case of the A.1 fee-block, recovery will be further weighted to higher-impact firms. Small credit unions (as deposit acceptors) and friendly societies (as insurers) will continue to pay only the reduced minimum fees they paid in 2011/12.
- 1.28** A 32.4% increase in the allocation to the A.7 Fund managers fee-block reflects increased enforcement activity, focusing on significant influence functions, systems and controls and market abuse in this sector.
- 1.29** Fee-blocks that show a year-on-year decrease significantly in contrast to the average increase are A.14 Advisers, dealers and brokers that hold client money/assets (-19.0%) and

A.14 Corporate finance advisers (-35.9%). This reflects the reduction in enforcement activity for 2012/13 following the significant increase in these sectors in 2011/12.

- 1.30 Chapter 5 also sets out where the year-on-year movements in fee-blocks, other than the 'A' fee-blocks, are substantially above the average increase in the AFR.

### *Movements in firm population and tariff data*

- 1.31 The AFR allocated to the 'A' fee-blocks is recovered in direct proportion to the size of permitted business firms undertake in these fee-blocks (straight line recovery). The only exception to this is the A.1 fee-block, where we apply a premium of 25% and 65% to the fee rates for medium-high and high-impact firms respectively. Therefore the fees firms pay should change broadly in line with the year-on-year changes in the allocations set out in Chapter 5.
- 1.32 However, when calculating the estimated draft 2012/13 fee rates, we used the latest data on firm populations and tariff data (measures of size of permitted business undertaken by firms in fee-blocks), which are necessarily different from those used to calculate the final 2011/12 fee rates. Therefore, a year-on-year comparison of 2011/12 actual fee rates with the 2012/13 draft fee rates will reflect these differences as well as the year-on-year movements in the fee-block allocations. These firm-driven variations are set out in Chapter 6.
- 1.33 The periodic fees for the remaining fee-blocks are discussed in Chapter 8.

## **FSCS**

- 1.34 We are consulting on the proposed 2012/13 FSCS management expense levy limit (MELL) set at £1bn, in line with the preceding three years. The MELL consists of:
- FSCS management expenses (total expenses excluding Specified Deposit Default expenses) of £65.2m.
  - Illustrative costs of £376.1m for specific deposit-taking default (SDD) expenses, relating to the loans advanced by the Bank of England in 2008 to fund defaults by deposit takers. The current arrangements for the loans, provided by the Treasury to fund compensation payments, will be reviewed from 1 April 2012. The ongoing terms for 2012/13 are therefore still to be agreed with the Treasury. The 2012/13 SDD costs include an illustrative cost of £374.9m for interest, based on the interest rates applied in 2011/12 (12-month LIBOR + 30 basis points), which may change.
  - Contingency reserve of £558.7m that allows the FSCS to levy additional funds without formal consultation.

- 1.35 The compensation costs levy, the amount levied to pay claims, is determined by the FSCS and is not consulted on. For further detail on compensation costs please refer to the FSCS's plan and budget published on its website: [www.fscs.org.uk](http://www.fscs.org.uk).
- 1.36 Further details on the FSCS's management expenses are set out in Chapter 11.

## Financial Ombudsman Service (FOS)

- 1.37 We are consulting on the 2012/13 tariff rate for firms in the compulsory jurisdiction (CJ). The CJ levy is payable by all firms authorised or registered by the FSA.<sup>6</sup> The FOS's 2012/13 budget is based on a general levy of £17.7m, a level held since 2009/10.
- 1.38 The FOS budget forecast for 2012/13 is £191.2m, compared to £119.7m for 2011/12, of which £187m is for the compulsory jurisdiction. The FOS is proposing to meet the additional funding through a proposed supplementary case fee for cases involving the mis-sale of PPI.
- 1.39 The FOS is proposing a supplementary PPI case fee of £350, in addition to the standard £500 case fee, payable after the first 25 PPI mis-sales cases per firm/year. The FOS is proposing a freeze on standard case fees at £500 and three free cases per firm will be retained. The FOS also proposes to continue to hold £30m in reserves.
- 1.40 For 2012/13, the distribution of the CJ levy has increased for: industry block 1 (deposit acceptors) from 39.1% to 49.2%; industry block 2 (general insurance) from 12.3% to 15.1%; and block 16 (mortgage intermediaries) from 1.5% to 2%, reflecting the increased use of FOS resources devoted to these cases.
- 1.41 The FOS is currently consulting separately on its draft budget and corporate plan.
- 1.42 Further details are set out in Chapter 12.

## Money Advice Service

- 1.43 The Money Advice Service's total annual funding requirement for 2012/13 is £86.8m. This is a substantial increase on the £43.7m allocated for 2011/12. For 2012/13, we are proposing two separate levies, £46.3m for delivering money advice and £40.5m for coordinating of debt advice.
- 1.44 The government have requested the Money Advice Service take over responsibility for funding face-to-face debt advice services in England and Wales from April 2012 and develop a more effective and efficient model for providing debt advice. Research undertaken by the Money Advice Service shows household debt is 15% unsecured and 85% secured. We are proposing to use this split as the basis for allocating the £40.5m debt

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<sup>6</sup> Unless the firm have notified us they do not deal with retail customers and are exempt.

advice funding requirement between fee blocks A.1 (deposit acceptors) and A.2 (home finance providers and administrators). This approach targets the recovery costs to the lenders who are beneficiaries of the debt advice.

- 1.45** Consistent with 2011/12, funding for money advice will come from levies raised from FSMA-authorized firms, payment institutions and electronic money issuers, through an allocation and recovery framework that mirrors the fee block structure used to allocate our annual funding requirement in 2010/11. We are proposing a 5.7% increase in the levy for money advice across fee blocks A1 to A19.

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Fee-payers should be aware that the final FSA fee rates for 2012/13 – which will be finalised by our Board at its May 2012 meeting – could vary materially from those in this paper (Chapters 6 and 8). This is because we will not have complete data until the end of March 2012 on actual costs for 2011/12 and actual fee-block populations, fee income and fee tariff data. The Money Advice Service (both money advice and debt advice) levy rates are calculated on the same basis as our fee rates and therefore the levy rates finalised in May could also vary from those in this paper (Chapter 13).

Fee-payers should also note that estimates referred to in Chapter 11 are budgeted and reforecast costs for the FSCS, which are expected to be incurred in the respective financial year. The estimates are based on assumptions of claims volumes and amounts. While these are forecast according to the best available information at the time, actual numbers of claims can be volatile and unforeseeable. The actual amount raised by the overall FSCS levy also depends on any amounts carried forward from the previous financial year and the value of recoveries made by the FSCS. The FSCS levy figures in this paper are indicative only and may change significantly when they are finalised in March 2012.

In addition, the FSCS levy is recovered from firms partly using a tariff base measure of size, or it is linked to their individual FSA periodic fees. Similar to the FSA, the data that is used to calculate these levy rates could change before the levy rates are finalised in March and therefore the final levy rates could vary significantly from that set out in this paper.

The FOS general levy is calculated using ‘industry blocks’, which are similar (but not identical) to the FSA ‘fee-blocks’. Each industry block has a minimum levy and, in most cases, the levy then increases in proportion to the amount of ‘relevant business’ (i.e. business done with private individuals) each firm does. The proportion is called ‘tariff rate’. Similar to the FSA, the data that is used to calculate these levy rates could change before the levy rates are finalised in May and therefore the final levy rates could vary significantly from that set out in this paper (Chapter 12).

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## Solvency II (SII) Special Project Fees (SPFs)

- 1.46 In 2012/13 we propose to continue to levy two separate SII SPFs:
- The **Internal Model Approval Process (IMAP) SPF**, which will continue to recover the costs of developing and implementing the framework relating to our internal model approval process (IMAP). It will also recover our processing costs of submissions from internal model firms. The estimated amount to be recovered under this SPF in 2012/13 is £6.4m (£9.2m in 2011/12), a decrease of 30%.
  - The **non-IMAP SPF**, which will continue to recover the other costs we are incurring to implement SII. These include the costs of staff recruitment, staff training, revised supervisory processes (other than IMAP) and developing and putting in place the technology required to support SII reporting and supervisors. The estimated amount to be recovered under this SPF in 2012/13 is £19.5m (£17.6m in 2011/12) an increase of 11%.
- 1.47 The total estimated SII SPF budget to be recovered from firms in 2012/13 is £25.9m (£26.8m in 2011/12) an overall decrease of 3.4%. Further details are set out in Chapter 9.

## Other policy proposals for consultation

- 1.48 In Chapter 10, we present four other proposals for consultation:
- **Payment services providers and electronic money issuers** – modifications to the way we charge application fees and periodic fees, to recover our costs in processing the large numbers of notifications we are receiving to register agents and avoid cross-subsidy.
  - **Regulatory reporting changes to Part J of the Retail Mediation Activities Return (RMAR)** – to allow firms to report their annual regulated income if this is adopted as the tariff base for fee-blocks A.12, A.13 and A.14, as proposed in CP11/21.
  - **Restructuring Special Project Fees (SPFs)** – existing hourly rates were set in 2008 when this SPF was introduced. We propose to update these rates in line with those we currently use for internal project accounting purposes.
  - **Valuing derivatives in fund management** – to clarify how fund managers in fee-block A.7 should calculate the value of derivatives for overlay portfolios, reducing the risk of inconsistent reporting.

## Consultation periods

- 1.49 We indicate the relevant closing date for responses alongside each proposal in all chapters. To help fee-payers identify the proposals most relevant to them, Table 1.2 sets out which fee-payers are likely to be affected by the proposals in this CP and the deadline for submitting responses.

- 1.50** A fees calculator will be available on our website to help firms calculate the impact of the proposals in this CP on their fees. The fees calculator also takes into account the FSCS, the FOS and the Money Advice Service money service levies, where they apply. The fees calculator will not include the new Money Advice Service debt advice levies and firms should refer to Chapter 13 paragraph 13.45 and the levy rates set out in the draft instrument in Appendix 2.

### **Next steps**

- 1.51** In light of consultation responses and subject to FSA Board approval, we set out when the proposals in this CP will be finalised through made rules in Table 1.2.
- 1.52** We plan to publish Policy Statements, including feedback on the responses to the consultation, in the same month the final rules are approved by the FSA Board or shortly thereafter.
- 1.53** Fee-payers will be invoiced from March 2012 for ‘on-account’ payments (see Chapter 3) and other firms will be invoiced from June onwards, on the basis of the new fees, levies and policy changes.
- 1.54** In Table 1.3, we set out when the fees policy proposals in CP11/21 (published in October 2011) have already been finalised and feedback provided. We also set out when this will be done for the remaining proposals.

### **CONSUMERS**

This CP contains no material of direct relevance to retail financial services consumers or consumers groups, although, indirectly, part of our fees is met by financial services consumers.

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**Table 1.2: Summary of deadlines for responses to this CP and when proposals and rules will be finalised**

Issue	Fee-payers likely to be affected	Reference	Deadline for responses	Rules finalised
<b>FSA</b>				
Periodic fee rates	Authorised firms.	Chapter 6	<b>2 April 2012</b>	May 2012
	All fee-payers except authorised firms.	Chapter 8	<b>29 February 2012 and 2 April 2012</b>	March 2012 and May 2012
Solvency II – Special Project Fee	Firms in fee-blocks A.3 (General insurers) and A.4 (Life insurers) affected by Solvency II Directive and in addition fee-block A.6 (The Society of Lloyd's).	Chapter 9	<b>2 April 2012</b>	May 2012
Payment services and electronic money – notifications of agents	Large payment services providers in fee-block G.3 and electronic money issuers in fee-block G.10	Chapter 10	<b>2 April 2012</b>	May 2012
Changes to Part J of the Retail Mediation Activities Return (RMAR)	Financial advisers, dealers and brokers in fee-blocks A.12, A.13 and A.14 who complete the RMAR	Chapter 10	<b>29 February 2012</b>	March 2012
Valuing derivatives in fund management	Fund managers in fee-block A.7	Chapter 10	<b>2 April 2012</b>	May 2012
<b>FSCS</b>				
Management expenses levy limit	Firms subject to the FSCS.	Chapter 11	<b>29 February 2012</b>	March 2012
<b>Ombudsman service</b>				
General levy	Firms subject to the FOS.	Chapter 12	<b>2 April 2011</b>	May 2012
<b>Money Advice Service</b>				
Levies	Firms subject to the Money Advice Service levies	Chapter 13	<b>2 April 2012</b>	May 2012

**Table 1.3: For CP11/21 – summary of when proposals and rules have been/will be finalised**

Issue	Fee-payers likely to be affected	CP11/21 – chapter	Rules finalised
Modification of tariff base for proprietary traders and certain intermediaries	Fee-payers in the following fee-blocks: A.10 Firms dealing as principal; A.12 Advisory arrangers, dealers or brokers (holding client money/assets); A.13 Advisory arrangers, dealers or brokers (not holding client money/assets); and A.14 Corporate finance advisers.	2	March 2012 and feedback published. Note: proposals relating to A.10 are scheduled to come into effect for 2012/13 and for A.12, A.13 and A.14 to come into effect for 2013/14.
Financial penalty scheme	All firms authorised under FSMA in the 'A' fee-blocks and operators of multi-lateral trading facilities in fee-block B.	3	Revised financial penalty policy (no rules) and feedback published in this CP.
UK Listing Authority – revision of certain fees	Fee-payers under the E fee-block: an issuer of securities who as been admitted to the <i>official list</i> (as defined in section 74 of FSMA); or a sponsor (as defined in section 88 of FSMA).	4	Feedback included in this CP and rules for revised application and vetting fees to be finalised in March 2012 and the revised periodic fee tariff base to be finalised in May 2012.
Regulated Covered Bonds Regulations 2008 – revised fees regime	Existing and potential new entrants to the G.15 fee-block (proposed) which represents every issuer of a <i>regulated covered bond</i> . Fee-payers under fee-block A.1 – Deposit acceptors.	5	Feedback included in this CP and rules for revised application fees and new material change fee to be finalised in March 2012 and the revised periodic fee structure rules to be finalised in May 2012.
Modified tariff base for electronic money issuers and payment services providers	Electronic money issuers and payment services providers	6	Feedback included in this CP and rules finalised May 2012.

Fees for insurance business transfers	Fee-payers under fee-blocks: A.3 Insurers – general; and A.4 Insurers – life.	7	January 2012 and feedback published in the January Handbook Notice.
Policy clarifications: Northern Ireland credit unions Fees and the FSA's suspension powers	Primarily Northern Ireland credit unions. All authorised firms.	8	Not applicable
Complaints Reporting – administration fee	All firms authorised under FSMA, except those which have been granted an exemption from the Dispute Resolution: Complaints (DISP) sourcebook	9	January 2012 and feedback published in the January Handbook Notice.

## Section I

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# Fees timetable proposed FSA periodic fee rates and revised application fee rates 2012/13



# 2

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## Outline 2012/13 Business Plan

### Introduction

- 2.1 In this section, we outline the main elements of our planned work programme for 2012/13. This is not funded by the taxpayer, but by fees we raise from the firms we regulate. The programme is driven by our statutory objectives, the risks being faced by the firms and markets we regulate, and the consumers who use them.
- 2.2 The Bank of England will publish the Financial Policy Committee's *Financial Stability Report* covering prudential risks and we will publish our *Retail Conduct Risk Outlook* covering conduct risks. These will be published ahead of the publication of our annual *Business Plan* (BP) in March 2012, which will then provide more detail about the work we are planning. This will also include more detail on our preparations for restructuring regulation set out in the Financial Services Bill, which is being considered by Parliament this year.

### Overview

- 2.3 The 2012/13 plan and budget includes preparing the new regulatory structure to implement the legal cut-over to the new regulatory bodies – the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) – from the end of 2012, by which time the relevant legislation is anticipated to have received Royal Assent.
- 2.4 However, we will mainly continue to focus our resources on delivering the three core elements of our regulatory approach:
- our intensive and intrusive approach to on-the-ground supervision, both prudential and conduct;

- our credible deterrence agenda; and
- the considerable resources dedicated to shaping and implementing EU and domestic policy and regulations.

## **Preparing for regulatory reform**

- 2.5 Within the budget there are direct costs from implementing the regulatory reform programme. We are continuing to work with the Bank of England and the Treasury to design and implement the regulatory and operating models for the new authorities and to prepare for the transition to the new structure. As part of this preparation, we plan to shift to a new internal structure in April 2012 that will begin to reflect the shape of the new authorities.

## **Intensive and intrusive supervision**

- 2.6 Our intensive approach includes analysing firms' business models, capital and liquidity, recovery and resolution planning. It also involves assessing firms' management, governance and culture, including the key individuals involved. In light of these assessments, supervisors make judgements about the priority risks facing the firm and the actions they should take to control or reduce those risks.
- 2.7 We will increasingly apply our intensive approach to conduct supervision through a more thematic approach to assessing firm's risks. This will involve us intervening at an earlier stage in consumer protection issues, for example where there are issues around product design and sales practices.

## **Credible deterrence**

- 2.8 Our credible deterrence philosophy means we actively pursue criminal prosecutions where appropriate, alongside regulatory and civil action. It also means we will actively seek redress and compensation for consumers who have suffered detriment as a result of the actions.
- 2.9 We will focus our enforcement powers on reducing market abuse, insider dealing and financial crime, tackling systems and controls and governance failings, and on consumer protection issues such as mis-selling and unauthorised business.

## **Key international and domestic policy work**

- 2.10 In these areas we will focus on providing support to the Treasury in negotiating EU legislative proposals, including Solvency II, Basel III/Capital Requirements Directive IV (CRD IV) and the Markets in Financial Instruments Directive (MiFID).

- 2.11** We are also committed to delivering our domestic priorities, such as the Retail Distribution Review (RDR), the Mortgage Market Review (MMR) and the Client Assets' regime, as well as establishing a procedure to implement the Independent Commission on Banking (ICB) proposals and ongoing Financial Policy Committee (FPC) recommendations.
- 2.12** Another key priority will be to maintain and build our credibility and authority with the wider EU regulatory architecture, including the new European Supervisory Authorities<sup>7</sup>, to increase UK influence in developing international standards.

### **Key operational workstreams**

- 2.13** We will invest in ensuring that we have an effective operational platform to support the delivery of our statutory objectives. This includes attracting, retaining and developing our staff, maintaining and developing our infrastructure, ensuring our buildings and systems are fit for purpose, and good financial management to deliver value to stakeholders.
- 2.14** We continue to invest in technology, including our own IS infrastructure platforms, which will be inherited by the FCA and will also support the new regulatory systems being designed for conduct regulation under the FCA's expanded role. These include new online systems for firms, sophisticated modelling techniques and markets' monitoring data, as well as identifying future requirements for data collection.
- 2.15** We are very mindful of the current economic backdrop and of the cost to firms of increasing fees. In Chapter 4 we set out the breakdown of our Annual Funding Requirement to deliver our 2012/13 Business Plan.

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<sup>7</sup> Including the European Banking Authority (EBA), European Securities and Markets Authority (ESMA), and European Insurance and Occupational Pension Authority (EIOPA)



# 3

## Fees timetable and invoicing arrangements

- 3.1** This chapter explains our timetable for invoicing and payment collection during the year. It also highlights the key dates firms should be aware of regarding our funding arrangements, to help them meet their responsibilities for regulatory fees and levies.
- 3.2** We are responsible for the administrative arrangements for invoicing, data collection and payment regarding FSA fees, as well as the FSCS levies, the FOS levies (but not case fees) and the Money Advice Service levies.

### **Fees timetable**

- 3.3** Table 3.1 shows the indicative timetable for 2012/13 FSA periodic fees and the FSCS, the FOS and the Money Advice Service levies payable to us.

### **Tariff data collection**

- 3.4** Each fee-payer's invoice is calculated using the fee tariff data for all the fee-blocks to which the fee-payer belongs, and also according to its permission to conduct-regulated activities. Some firms submit their tariff data in Section J of the Retail Mediation Activities Return (RMAR) and the Mortgage Lending and Administration Return (MLAR).
- 3.5** Where we do not have the information we need to charge FSA fees and levies for the ombudsman service, the FSCS and the Money Advice Service, we write to firms to request it. The data we collect for FSA periodic fees is used for Money Advice Service levies. Tariff data requests are sent to firms in January and, for 2012/13 fees and levies, must be completed and returned by 28 February 2012. Where firms do not return their tariff data, we bill them for fees and levies using an estimated figure and we charge a £250 administrative fee.

## Variation/cancellation of Part IV permission

- 3.6 Firms are allocated to FSA fee-blocks based on the regulated activities they have in their permission. A periodic fee is payable for each fee-block that a firm falls into, whether or not it actually carries out the activities concerned. We do not refund periodic fees if a firm applies to reduce the scope of its Part IV permission<sup>7</sup>, or cancel it altogether, once a new fee period has started (in this case, 1 April 2012 to 31 March 2013). So any firm that wishes to vary its permission to narrow its scope, or cancel it altogether, must submit its written application to us so that we receive it before 1 April 2012 – otherwise the firm will be liable for 2012/13 periodic fees on the basis of its previous scope of permission.

**Table 3.1: Fees timetable for 2012/13 FSA periodic fees and FSCS, ombudsman service and CFEB levies**

Date (2012)	Event	Description	Action needed by firms	Reference in this paper
Throughout the year	Tariff data collection exercise	Firms that submit the Retail Mediation Activities Return (RMAR) and/or the Mortgage Lending and Administration Return (MLAR) must report their fee tariff data once yearly in Section J of those returns.	Check the relevant help texts <sup>8</sup> for the date when Section J data must be submitted in the RMAR/MLAR. The exact date for submission depends on the date when the firm's accounting year ends. When required, complete Section J on the RMAR/MLAR with the tariff data and submit by the due date. For FOS and FSCS levies, mortgage firms and insurance mediation firms can submit tailored income figures on Section J or (if applicable) exemption forms. <sup>9</sup> Exemption forms must be received before 31 March 2012 to be valid for 2012/13 fees.	Paragraph 3.4 and 3.5
January	Tariff data collection exercise	We contact all relevant fee-payers with a written request for their tariff data on which FSA, FSCS, ombudsman service and CFEB fees/levies are based.	Complete and return tariff data sheets by 28 February 2012. Late returns of tariff data attract an administrative fee.	Paragraph 3.4 and 3.5

<sup>8</sup> The RMAR and MLAR help texts on Section J (fees) are available at: [www.fsa.gov.uk/Pages/Doing/Regulated>Returns/IRR/packs](http://www.fsa.gov.uk/Pages/Doing/Regulated>Returns/IRR/packs)

<sup>9</sup> The forms for reporting ombudsman service and FSCS exemptions are available on our website at: <http://www.fsa.gov.uk/Pages/Doing/Regulated/Fees/Tariff/Notes/>

Date (2012)	Event	Description	Action needed by firms	Reference in this paper
January to March	Applications to vary or cancel Part IV permissions	Firms that want to vary or cancel their permission must apply now if they do not wish to be liable for the full 2012/13 periodic fees. Firms that apply to cancel after 31 March 2012 will be liable for fees and levies for the full 2012/13 financial year.	<ul style="list-style-type: none"> <li>Written applications to vary or cancel permissions must be received before 1 April 2012.</li> </ul>	Paragraph 3.6
April	'On account' fee due from higher fee-payers	Firms that paid us periodic fees of more than £50,000 in 2011/12 must pay us 50% of that amount 'on account', towards their 2012/13 fees and levies. On the same basis, firms must pay 50% of their CFEB levies and 100% of the FOS levies (excluding the special reserve FOS levy charged in 2011/12).	<ul style="list-style-type: none"> <li>Pay 'on account' invoices no later than 30 April 2012.</li> <li>Late or non-payment attracts an administrative fee and interest.</li> <li>Firms that apply from 1 April 2012 to increase the scope of their permission may be liable for an additional periodic fee in 2012/13.</li> </ul>	Paragraph 3.8
June onwards	Invoicing for all other firms	We issue invoices to all firms who do not make 'on account' payments.	<ul style="list-style-type: none"> <li>Pay invoices within 30 days of receiving them.</li> <li>Late or non-payment attracts an administrative fee and interest.</li> </ul>	Paragraph 3.9
August	Balance due from 'on account' fee-payers	We will invoice 'on account' firms for the remainder of their 2012/13 periodic fees.	<ul style="list-style-type: none"> <li>Pay invoices by 1 September 2012.</li> <li>Late or non-payment attracts an administrative fee and interest.</li> </ul>	Paragraph 3.8

## New joiners

- 3.7** A firm applying for FSA authorisation during the financial year is liable to pay regulatory fees and levies for the full year, pro-rated according to the quarter in which authorisation begins. A firm seeking to increase the scope of its Part IV permission generally pays fees for any additional fee-blocks it falls within as a result of the variation of permission. No periodic fees are payable where the variation of permission means the firm does not enter any new fee-blocks.

### **'On account' fee-payers**

- 3.8 Firms that paid us £50,000 or more in FSA fees in 2011/12 must, by 30 April 2012, pay 50% of their total 2011/12 FSA/Money Advice Service fees/levies and 100% of their 2011/12 FOS levies excluding the special reserve FOS levy that was charged in 2011/12. This payment is treated as an 'on account' payment against their 2012/13 fees, which are finalised in May 2012. By 1 September 2012 they must pay the balance of their 2011/12 FSA/Money Advice Service fees/levies and FOS levies<sup>10</sup> and 100% of their FSCS levy.

### **Other fee-payers**

- 3.9 We start invoicing firms who paid FSA fees of less than £50,000 in 2011/12 for the full amount of their 2012/13 fees in June 2012. Firms have 30 days from the date of the invoice in which to pay.

### **Late payment**

- 3.10 If a firm does not pay its FSA periodic fee and FSCS/FOS/Money Advice Service levies by the due date, we will levy a £250 surcharge and, from the due date, start to charge interest on any unpaid fee amount at 5% per annum above the Bank of England's repo rate. Where we do not receive payment, we are able to take civil and/or regulatory action against the firm to recover the debt. We also take action to cancel the permissions of firms who do not pay their fees and levies and, as a result, they are no longer entitled to conduct-regulated activities.

### **Paying regulatory fees and levies by instalments**

- 3.11 In response to industry feedback, we facilitated a market solution for firms so that they could pay regulatory fees and levies in instalments. We explained that an instalment payment system would be uneconomical for us to administer, as any systems costs and bad debts would, directly or indirectly, have to be met by firms through regulatory fees. In addition, administering credit arrangements is not part of our statutory function, and we considered that providing credit to fee payers was likely to be cheaper when done by an organisation whose core activity is financing.
- 3.12 Following discussion with several potential credit providers, Premium Credit Limited was chosen by the industry as the company that offered a competitive product and one that would be made available to all authorised firms. The industry also chose to negotiate a three-year deal with Premium Credit Limited, as this provided the opportunity to secure enhanced payment terms. We are independent of this arrangement and have no contract in place with Premium Credit Limited.

<sup>10</sup> This is the balance if the final ombudsman levy rates are different from the draft rates that on-account invoices will be based on. If the final levy rates are less, then a credit will be given.

# 4

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## FSA Annual Funding Requirement (AFR) 2012/13

- 4.1 In this chapter, we explain the factors determining how our AFR for 2012/13 has been calculated. The AFR is the amount of money that we need to raise to fund our regulatory activities. The key regulatory activities for the coming year are set out in an outline of our annual Business Plan in Chapter 2, which will be published in March.
- 4.2 The main focus of our AFR is the budget to carry out this work programme.

### 2012/13 AFR

- 4.3 Table 4.1 shows the calculation of our £578.4m AFR for 2012/13. The background to the variances over 2011/12 is as follows:
- **Core work programme:** An increase of £29.1m (5.9%). Following a two-year salary freeze, this includes a provision to award our staff salary increases up to a maximum of 3.5% of our total payroll. These awards will not be universally applied, but will be targeted to ensure that we incentivise and retain those people whose skills, experience and contribution justify an award.
  - **IS infrastructure investment:** An additional £22.4m, including depreciation costs. We are improving the technology platforms that underpin our key regulatory systems that will be inherited by the FCA. This includes modernising our technology infrastructure and IS capability, which will also support the new regulatory systems being designed for conduct regulation under the FCA's expanded role.

- **Under spend in previous years:** In contrast to a year ago, we do not anticipate a significant under spend in 2011/12. We are therefore unable to commit to a release of reserves this year.
- **Recovery of scope change costs:** An increase of £0.8m (50%). We will continue to self-fund our scope change projects until their supervisory requirements are established. These projects are identified separately and the cost of the changes is collected in arrears. This year we plan to collect £2.4m, mainly due to the final collection for implementing the new regulatory framework that applies to credit unions in Northern Ireland. On 31 March 2012, regulatory responsibility will transfer from the Department of Enterprise, Trade and Investment in Northern Ireland (DETI), to the FSA.
- **Regulatory reform implementation:** An increase of £21.6m (198%). This is a significant increase as this activity is expected to intensify in 2012/13. This includes programme team, property transition, IT, training and other staff costs. Our regulatory reform costs for creating and transitioning to the PRA and FCA for 2012/13 are in line with the forecast made by the government on the transitional costs for the authorities of £130m to £175m.

- 4.4 Our core work programme and IS infrastructure investment make up our Ongoing Regulatory Activities (ORA) budget, which for 2012/13 is £543.5m an increase of 10.5% over 2011/12 (£492.0m). The addition of the scope change costs and regulatory reform implementation costs brings our AFR for 2012/13 to £578.4m – an increase of 15.6% over 2011/12 (£500.5m). Taking into account the overall impact of the anticipated financial penalties discount, this equates to an increase in chargeable fees of 25.4% (a decrease of 1.7% in 2011/12).
- 4.5 Financial penalties from enforcement action rebated to fee-payers through the financial penalties discount are forecast to be lower than last year. In the 2011/12 financial year, these financial penalties were worth £86.2m, equating to a reduction of approximately 16.8% across the fee-blocks. Our current forecast of the financial penalties we will receive by the end of March 2012 is £58.7m. This forecast figure is 31.9% lower than last year.
- 4.6 The distribution of the financial penalty discount is given in Chapter 7.

**Table 4.1: Comparison of the budgeted AFR for 2012/13 with the final AFR for 2011/12**

AFR Calculation	2012/13 Budgeted (£m)	2011/12 Actual (£m)	Variance	
			(£m)	%
Core work programme	521.1	492.0	29.1	5.9%
IS Infrastructure Investment	22.4	0	22.4	N/A
<b>Ongoing Regulatory Activity (ORA)</b>	<b>543.5</b>	<b>492.0</b>	<b>51.5</b>	<b>10.5%</b>
Under spend in previous year	0	(9.0)	9.0	N/A
Recovery of scope change costs	2.4	1.6	0.8	50.0%
Regulatory Reform Implementation	32.5	10.9	21.6	198.2%
Making a Real Difference (MARD)	0	5.0	-5.0	N/A
<b>AFR Total</b>	<b>578.4</b>	<b>500.5</b>	<b>77.9</b>	<b>*</b>
<i>% year on year change in AFR</i>	<i>*15.6%</i>	<i>10.1%</i>		
<b>Financial penalty discount</b>	<b>58.7</b>	<b>86.2</b>	<b>-27.5</b>	<b>-31.9%</b>
<i>% year on year change in chargeable fees taking account of financial penalties discount</i>	<i>25.4%</i>	<i>-1.7%</i>		



# 5

## Allocating the 2012/13 AFR to fee-blocks

5.1 In this chapter we:

- set out the allocation of the 2012/13 AFR across the various fee-blocks that fee-payers are placed in depending on the regulatory permitted business they have permission to undertake;
- compare the year-on-year movement against the 2011/12 allocation for each fee-block;
- highlight where the year-on-year movements in fee-blocks are substantially above or below the average overall movement in the AFR, providing a high-level basis for those exceptions; and
- define the two ways we allocate costs to fee-blocks – direct and indirect.

### Comparison with 2012/13 AFR allocation

5.2 As stated in Chapter 4, we propose to raise an AFR of £578.4m in 2012/13, which is 15.6% higher than 2011/12. Table 5.1 sets out the allocation of our 2012/13 AFR by fee-block and compares it to that of 2011/12.

5.3 The 2012/13 AFR allocations across the ‘A’ fee-blocks mainly reflect the focus of our intensive and intrusive approach to on-the-ground supervision, both prudential and conduct, and the allocation of enforcement costs, which is largely based on activity data. The focus of our supervisory approach translates to significant above average year-on-year increases for:

- **A.1 Deposit acceptors** – Increase of £35.6m to £176.9m (25.2%).
- **A.3 Insurers general** – Increase of £10.7m to £40.1m (36.7%).

- **A.4 Insurers life** – Increase of £16.6m to £61.1m (37.3%).
- **A.10 Firms dealing as principal in investments** – Increase of £15m to £49.6m (44%). This increase also includes the impact of higher enforcement activity focusing on systems and controls in this sector.

**5.4** Fees to recover these allocated costs are based on the size of the business undertaken by individual firms. Therefore, these costs will be primarily recovered from the largest systemically important firms covered by these fee-blocks. In the case of the A.1 fee-block, recovery will be further weighted to higher-impact firms. Small credit unions (also deposit acceptors) and friendly societies (also insurers) will continue to pay only the reduced minimum fees they paid in 2011/12.

**5.5** Other fee-blocks with significant above average year-on-year increases in allocated AFR and the reasons for those increases are:

- **A.7 Fund managers** – Increase of £9.1m to £37.3m (32.4%). Mainly due to increased enforcement activity focusing on significant influence functions, systems and controls and market abuse in this sector.
- **B. Recognised Exchanges, Clearing Houses Recognised Exchanges, Multilateral Trading Facilities (MTFs) and Service Companies ('Infrastructures')** – Increase of £1.9m to £9.3m (25.3%). This reflects increased resources covering both the supervision of the Infrastructures and, in particular, developing and implementing the markets-facing elements of significant EU driven policy work streams for:
  - the Markets in Financial Instruments Directive (MiFID);
  - European Markets Infrastructure Regulations (EMIR);
  - the Regulation on Energy Markets Integrity and Transparency (REMIT);
  - the Market Abuse Directive (MAD);
  - the Securities Law Directive (SLD); and
  - the Central Securities Depository (CSD) Legislation.

This also reflects costs associated with implementing a greater focus on the supervision of MTFs to ensure a more consistent approach across all Infrastructures.

- **E. Issuers and sponsors of securities** – Increase of £3.1m to £17.2m (21.9%). Mainly caused by an increase in resources within the UK Listing Authority area.
- **G. Composite fee-block** – Increase of £1.1m to £3.8m (41%). Mainly due to the inclusion, for the first year, of the full cost of regulating issuers under the Regulated Covered Bonds Regulations 2008.

5.6 Fee-blocks A.12 and A.14 show a year-on-year decrease that is significantly in contrast to the average increase. This reflects the reduction in enforcement activity for 2012/13 following the significant increase in these sectors in 2011/12:

- **A.12 Advisory arrangers, dealers or brokers (holding or controlling client money or assets or both)** – Decrease of £9.5m (-19.0%).
- **A.14 Corporate finance advisers** – Decrease of £6.8m to 12.0m (-36%).

**Table 5.1: Proposed 2012/13 AFR allocation compared to the actual AFR allocation for 2011/12**

Fee-block	Proposed AFR 2012/13 (£m)	Actual AFR 2011/12 (£m)	% year on year change
A.0 Minimum fee*	19.2	18.4	4.7%
A.1 Deposit acceptors	176.9	141.3	25.2%
A.2 Home finance providers and administrators	14.2	13.0	8.5%
A.3 Insurers – general	40.1	29.4	36.7%
A.4 Insurers – life	61.1	44.5	37.3%
A.5 Managing Agents at Lloyd's	1.3	1.1	17.3%
A.6 The Society of Lloyd's	1.6	1.4	14.2%
A.7 Fund managers	37.3	28.2	32.4%
A.9 Operators, Trustees and Depositaries of collective investment schemes etc	11.0	10.4	6.3%
A.10 Firms dealing as principal	49.6	34.6	43.7%
A.12 Advisory arrangers, dealers or brokers (holding or controlling client money or assets, or both)	40.2	49.7	-19.0%
A.13 Advisory arrangers, dealers or brokers (not holding or controlling client money or assets, or both)	38.4	39.7	-3.4%
A.14 Corporate finance advisors	12.0	18.8	-35.9%
A.18 Home finance providers, advisers and arrangers	14.5	15.1	-3.9%
A.19 General insurance mediation	24.2	24.9	-3.1%
A.20 Markets in Financial Instruments Directive (MiFID) transaction reporting – targeted recovery of additional IS costs	2.6	2.2	17.2%
B. Recognised Exchanges, Clearing Houses and Operators of prescribed markets and service providers	9.3	7.4	25.3%
C. Collective Investment Schemes	2.0	1.9	5.3%
D. Designated Professional Bodies	0.2	0.2	-3.3%

E. Issuers and Sponsors of securities	17.2	14.1	21.9%
F. Unauthorised mutuals	1.6	1.4	14.3%
G. Firms registered under the Money Laundering Regulations 2007. Firms covered by Regulated Covered Bonds Regulations 2008; Payment Services Regulations 2009; and Electronic Money Regulations 2011.	3.8	2.7	40.7%
<b>Total</b>	<b>578.4</b>	<b>500.5</b>	<b>15.6%</b>
*Costs that all firms in the 'A' fee-blocks (except A.6 and A.20) contribute through the minimum fee – see Chapter 6			

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### How costs are allocated

Costs are allocated across fee-blocks in two ways:

- **Direct costs:** These are costs that we are able to allocate to individual fee-blocks, e.g. individual firm supervision and sector-specific policy development. These direct costs include the people costs, to which we add their overhead costs, e.g. accommodation, IT and other operational costs needed to support the people in doing their work.
  - **Indirect costs:** These are costs that we cannot directly allocate to individual fee-blocks, e.g. thematic supervision, non-sector specific policy development, or the costs of a director's office in an area. These indirect costs also represent the people costs, to which we add the overhead costs. We allocate indirect costs to fee-blocks in proportion to the direct costs allocated.
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# 6

## Periodic fees for authorised firms

*(FEES 4 Annex 2R – draft rules in Appendix 2)*

- 6.1 This chapter sets out our proposals for the 2012/13 periodic fees of authorised firms (the ‘A’ fee-blocks) who form the majority of our fee-payers (94% of our total AFR is recovered from these firms).
- 6.2 Proposals for the fees payable by other bodies are in Chapter 8 of this paper.

### **Proposed minimum periodic fees 2012/13**

- 6.3 Any firm that is authorised to carry out any of the regulated activities covered by the ‘A’ fee-blocks is subject to the A.0 minimum fee.<sup>11</sup> The minimum fee is aimed at ensuring that all authorised firms (including small firms) contribute to the cost of regulation. It also aims to ensure that the minimum fee level is not too high (which would unnecessarily impede competition) and not too low (which would prejudice existing fee-payers). The costs of the following functions are allocated to the A.0 minimum fee-block:
- regulatory reporting (the administrative charge we receive for late returns is deducted from these costs);
  - Customer Contact Centre (firms and consumers);
  - unrecovered authorisation costs (authorisation costs of firms and approved persons not covered by application fees); and
  - policing the perimeter (ensuring financial services business is not undertaken by unauthorised persons).

<sup>11</sup> Except A.6 which has one fee-payer (The Society of Lloyd’s) which is invoiced on an individual basis and A.20 which relates to specific system development costs which are recovered from firms already paying the minimum fee in the other A fee-blocks.

- 6.4 The net costs relating to these functions are allocated to the A.0 fee-block and are apportioned equally across all firms in that fee-block, according to the number of firms in the fee block on 1 April, the start of the financial year that the minimum fee will be levied. For 2011/12, the minimum fee was set at £1,000.
- 6.5 As set out in Table 5.1 in Chapter 5, the proposed allocation to the A.0 fee-block is £19.2m for 2012/13 compared to £18.4m for 2011/12 – a year-on-year increase of 4.7%. We also anticipate there will be an increase in the number of fee-payers reflecting firms leaving regulation and new entrants joining. Overall, therefore we are maintaining the minimum fee at £1,000 for 2012/13.
- 6.6 Taking into account the anticipated financial penalties discount for 2012/13 (which could be less when we finalise fee rates in May – see Chapter 7), the amount firms may actually pay in terms of the minimum fee in 2012/13 could be lower at £987 (£832 in 2011/12). The minimum fee is paid by almost all authorised firms in the ‘A’ fee-blocks and 42% of these firms only pay the minimum fee.

### **Exceptions to standard minimum fee**

- 6.7 Exceptions from paying the standard minimum fee are allowed where this can be justified (which we consult on) and the current exceptions are smaller credit unions (reduced minimum fee of £160 or £540, depending on size) and smaller non-directive friendly societies (reduced minimum fee of £430). The minimum fees for these firms are at the level they were before the current full minimum fee structure was introduced for 2010/11.
- 6.8 These firms are exceptions because they support people with limited financial resources to improve their economic status. As these firms contribute less to recovering the costs allocated to A.0 fee-block, the short fall is recovered from the A.1 (Deposit takers) and A.4 (Life – insurers). The firms in these fee-blocks are subsidising the firms benefitting from the exception – this was made clear in consultation. We are also proposing to maintain these exceptions to the standard minimum fee at 2011/12 levels for 2012/13.

### **Proposed variable periodic fees**

- 6.9 Costs allocated to the ‘A’ fee-blocks are recovered on a ‘straight line’ basis (i.e. in direct proportion to the size of permitted business firms undertake in these fee-blocks). Therefore the fees firms pay should change broadly in line with the year-on-year percentage movement in the allocations set out in Table 5.1 in Chapter 5.
- 6.10 However, when calculating the estimated proposed 2012/13 periodic fee rates, we used the latest data on firm populations and tariff data (measures of size of permitted business undertaken by firms in the fee-blocks), which are necessarily different from that used to calculate the final 2011/12 fee rates. This latest data is given in Table 6.1 and is set out against the final data used to calculate the actual periodic fee rates for 2011/12.

**Table 6.1: Data used to estimate 2012/13 periodic fee rates for consultation**

Fee-block	Tariff base	2012/13 (Estimates of 2012/13 fee-payers and tariff data)			2011/12 (Actual 2011/12 data)		
		AFR (£m)	No. of fee- payers	Tariff base	AFR (£m)	No. of fee- payers	Tariff base
A.0	Minimum fee	19.2	19,600	NA	18.4	18,702	NA
A.1	Modified eligible liabilities	176.9	934	£3,066.0bn	141.3	792	£3,049.7bn
A.2	Number of mortgages or other home finance transactions	14.2	355	£7.4m	13.0	367	£7.2m
A.3	Gross premium income			£61.3bn			£58.3bn
	Gross technical liabilities	40.1	406	£135.0bn	29.4	445	£125.3bn
A.4	Adjusted gross premium income			£53.7bn			£54.1bn
	Mathematical reserves	61.1	242	£854.9bn	44.5	254	£840.5bn
A.5	Active capacity	1.3	59	£23.2bn	1.1	63	£23.2bn
A.7	Funds under management	37.3	2,527	£4,305.9bn	28.2	2,506	£4,364.0bn
A.9	Gross income	11.0	760	£7.7bn	10.4	760	£7.7bn
A.10	Traders	49.6	485	9,705	34.6	498	10,126
A.12	Relevant approved persons	40.2	1,889	66,958	49.7	1,807	67,691
A.13	Relevant approved persons	38.4	7,129	36,050	39.7	7,022	36,990
A.14	Relevant approved persons	12.0	827	7,448	18.8	843	7,321
A.18	Annual income	14.5	5,732	£1.2bn	15.1	5,729	£1.2bn
A.19	Annual income	24.2	13,298	£14.4bn	24.9	13,354	£13.8bn
A.20*	Volume of Contracts	2.6	69	£1,777.0m	2.2	75	£2,275.0m

\* Applicable firms are included in FEES 4 Annex 9

**6.11** The differences arise from firms leaving regulation and new entrants joining, resulting in changes in the total tariff data, as well as where firms have reported their tariff data after

the 2011/12 periodic fee rates were finalised. Therefore, a year-on-year comparison of 2011/12 actual fee rates with the 2012/13 draft fee rates will reflect these movements, as well as the year-on-year movements in the fee-block allocations.

- 6.12** Table 6.2 sets out the year-on-year change between AFR allocations to fee-blocks for 2012/13 and 2011/12. It also sets out the year-on-year change in the 2012/13 draft periodic fee rates and those levied in 2011/12, taking into account the movements in the tariff data over the period. The table indicates the extent to which the effects of these firm-driven variations have made increases or decreases in the year-on-year movements in AFR allocations greater or less. Where they have had no impact they are noted as being the same.

**Table 6.2: Impact of firm-driven variations on estimated 2012/13 periodic fee rates**

Fee-Blocks		2012/13 year on year change in allocations of AFR	2012/13 year on year change in periodic fee rates	Periodic fee rates change higher or lower than allocation change in AFR
A.1	Deposit acceptors	25%	23%	Less
A.2	Home finance providers and administrators	8%	7%	Less
A.3	Insurers – general	37%	29%	Less
A.4	Insurers – life	37%	34%	Less
A.5	Managing Agents at Lloyd’s	17%	17%	Same
A.7	Fund managers	32%	32%	Same
A.9	Operators, Trustees and Depositaries of collective investment schemes etc	6%	8%	Greater
A.10	Firms dealing as principal	44%	50%	Greater
A.12	Advisory arrangers, dealers or brokers (holding or controlling client money or assets, or both)	-19%	-18%	Greater
A.13	Advisory arrangers, dealers or brokers (not holding or controlling...)	-3%	0%	Greater
A.14	Corporate finance advisors	-36%	-37%	Less
A.18	Home finance providers, advisers and arrangers	-4%	2%	Greater
A.19	General insurance mediation	-3%	-9%	Less
A.20	Markets in Financial Instruments Directive (MiFID) transaction reporting – targeted recovery of additional IS costs	17%	19%	Greater

## Moderation framework

- 6.13** We can apply our moderation framework, which allows our straight-line recovery policy to accommodate a targeted recovery of costs within a fee-block, on an exceptions basis, if it can be justified. This moderation can be either side of the straight-line recovery and is achieved by applying a premium or discount to the tariff data that measures the amount of permitted business firms undertake within a moderated fee-block. We consult before applying the moderation framework.
- 6.14** The A.1 fee-block (Deposit acceptors) is the only current exception from straight-line recovery. Within this fee-block, the firms who fall within the medium-high and high bands of our moderation framework pay a premium fee-rate. This reflects the particular targeting of our overall supervision to the high-impact, systemically important firms in this sector.
- 6.15** For 2012/13 we are proposing to continue to apply a premium of 25% and 65% to the fee rates for medium-high and high-impact firms respectively in the A.1 fee-block, as set out in Table 6.3.

## Calculating the actual periodic fees for 2012/13

- 6.16** To calculate the actual periodic fee rates to recover the final AFR allocations from the fee-blocks, we need to update Table 6.1 to analyse the:
- Number of fee-payers in each fee-block as at 1 April 2011.
  - Tariff data (unit of measure of size) from each fee-payer – generally based on the fee-payer's activity in (or reported in) 2011 or as at 31 December 2011. The collection of this tariff data is completed while the consultation on estimated draft periodic fee rates is carried out.

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The updated data is used to calculate the revised periodic fee rates, which are finalised in light of responses to this consultation and subject to FSA Board approval, and then published in our consolidated Policy Statement for fees in May 2012.

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- 6.17** Fee-payers should be aware that this means the final periodic fee rates for 2012/13 – which will be made by our board at its May 2012 meeting – could vary materially from the estimated periodic fee rates in this paper.

**Q1:** Do you have any comments on the proposed FSA 2012/13 minimum fees and periodic fee rates for authorised firms?

**We must receive any responses to Q1 by 2 April 2012**

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#### Online fee calculator

Firms can calculate their periodic FSA fees online at:  
[www.fsa.gov.uk/Pages/Doing/Regulated/Fees/calculator/index.shtml](http://www.fsa.gov.uk/Pages/Doing/Regulated/Fees/calculator/index.shtml)

The fee calculator enables firms to work out their fees and levies for different financial periods and scenarios, based on previous, current and draft estimated fee rates for the forthcoming year. So, existing firms and potential applicants for authorisation can calculate the amounts they are likely to be invoiced for the financial year (including any applicable discounts) and compare these to previous years. However, firms will be liable for the fees and levies shown on their invoices rather than the amounts indicated by the fee calculator.

The fee calculator aims to make the likely implications of the estimated draft fee rates for 2012/13, and the actual fee rates and levies consulted on in this paper, clearer to firms and help them with planning their budget for the year ahead.

The fee calculator also enables firms to calculate FSCS, ombudsman service and Money Advice Service money advice levies where applicable. It will not include Money Advice Service debt advice levies see paragraph 13.45 in Chapter 13.

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**Table 6.3: Moderation framework**

Fee-block		Tariff base		Moderation: Discount (-) and Premium (+) levels				
				Low Impact		Medium Low Impact	Medium High Impact	High Impact
				Band 1	Band 2	Band 3	Band 4	Band 5
A.1	Deposit acceptors	MELs [essentially UK deposits held] £ms	Moderation	0%	0%	0%	plus 25%	plus 65%
			Band width	>10 - 140	>140 - 630	>630 - 1,580	>1,580 - 13,400	> 13,400
A.2	Home finance providers and administrators	Number of new home finance contracts etc	Moderation	0%	0%	0%	0%	0%
			Band width	> 50 - 130	>130 - 320	>320 - 4,570	>4,570 - 37,500	>37,500
A.3	Insurers – general	Gross premium income £m	Moderation	0%	0%	0%	0%	0%
			Band width	>0.5 - 10.5	>10.5 - 30	>30 - 245	>245 - 1,900	>1,900
		Gross technical liabilities £m	Moderation	0%	0%	0%	0%	0%
			Band width	>1 - 12.5	>12.5 - 70	>70 - 384	> 384 - 3,750	>3,750
A.4	Insurers – life	Adjusted gross premium income £m	Moderation	0%	0%	0%	0%	0%
			Band width	>1 - 5	>5 - 40	> 40 - 260	>260 - 4,000	>4,000
		Mathematical reserves £m	Moderation	0%	0%	0%	0%	0%
			Band width	>1 - 20	>20 - 270	>270 - 7,000	> 7,000 - 45,000	>45,000
A.5	Managing agents at Lloyd's	Active capacity £m	Moderation	0%	0%	0%	0%	0%
			Band width	>50 - 150	>150 - 250	>250 - 500	>500 - 1,000	>1,000
A.7	Fund managers	Funds under management £m	Moderation	0%	0%	0%	0%	0%
			Band width	>10 - 150	>150 - 2,800	>2,800 - 17,500	>17,500 - 100,000	>100,000
A.9	Operators, Trustees and Depositories of CISs etc	Gross income £m	Moderation	0%	0%	0%	0%	0%
			Band width	>1 - 4.5	>4.5 - 17	>17 - 145	>145 - 750	>750
A.10	Firms dealing as principal	Number of traders	Moderation	0%	0%	0%	0%	0%
			Band width	2 - 3	4 - 5	6 - 30	31 - 180	>180
A.12	Advisory arrangers, dealers or brokers (holding client money/assets)	Number of approved persons	Moderation	0%	0%	0%	0%	0%
			Band width	2 - 5	6 - 35	36 - 175	176 - 1,600	>1,600

A.13	Advisory arrangers, dealers or brokers (not holding client money/assets)	Number of approved persons	Moderation	0%	0%	0%	0%	0%
			Band width	2 - 3	4 - 30	31 - 300	301 - 2,000	>2,000
A.14	Corporate finance advisers	Number of approved persons	Moderation	0%	0%	0%	0%	0%
			Band width	2 - 4	5 - 25	26 - 80	81 - 199	>199
A.18	Home finance providers, advisers and arrangers	Annual income £000's	Moderation	0%	0%	0%	0%	0%
			Band width	>100 - 180	>180 - 1,000	>1,000 - 12,500	>12,500 - 50,000	>50,000
A.19	General insurance mediation	Annual income £000's	Moderation	0%	0%	0%	0%	0%
			Band width	>100 - 325	>325 - 10,000	>10,000 - 50,750	>50,750 - 250,000	>250,000

# 7

## Applying financial penalties 2012/13

7.1 This chapter sets out our proposed 2012/13 allocation of any financial penalties received in 2011/12 to:

- fee-block A – authorised firms;
- fee-block B – only in the case of operators of Multilateral Trading Facilities (MTFs);
- fee-block E – UK Listing Authority (UKLA) fee-payers; and
- fee-block G – fee-payers subject to the Money Laundering Regulations 2007 (MLRs), Regulated Covered Bonds Regulations 2008 (RCBs), Payment Services Regulations 2009 (PSRs) and the Electronic Money Regulations 2011 (EMRs).

7.2 In some cases, enforcement action can result in a financial penalty being imposed on a person under the Financial Services and Markets Act 2000 (FSMA). We are required to use those penalties to benefit authorised persons – except the penalties collected from firms in breach of the listing rules, which must be used to benefit issuers of securities. Our policy for applying penalties to the benefit of fee-payers is published in Annex 4 of our Consolidated Policy Statement on fees and levies (PS11/7, published May 2011).

### Changes to the FSMA financial penalty scheme

7.3 In Chapter 3 of CP11/21<sup>12</sup> we proposed changes to our financial penalty scheme under FSMA, which affect all firms authorised under FSMA in the ‘A’ fee-blocks and operators of MTFs. The consultation period ended 6 January. In Chapter 14 we provide feedback on the responses received and publish the revised financial penalty scheme in Annex 2 on which the 2012/13 financial penalty discounts have been calculated.

<sup>12</sup> *Regulatory fees and levies: Policy Proposals for 2012/13* (October 2011).

- 7.4 In Chapter 5 of CP11/21 we set out proposals for a revised fees regime for issuers of RCBs. With regard to financial penalties received under the RCBs, paragraph 16, Schedule 1 of FSMA applies in the same way as it applies to authorised firms. We therefore proposed that the RCB financial penalty scheme mirrors that of the proposed revised scheme for authorised firms. The only exception is that RCB related financial penalties can only be applied to the benefit of RCB issuers. The consultation period ended 6 January and in Chapter 14 we provide feedback on responses received.

### **Financial penalties received under the MLRs, PSRs and EMRs**

- 7.5 We are required to apply the financial penalties that are paid to us under the MLRs, PSRs and EMRs towards the costs of carrying out our functions under those regulations. We are meeting this requirement through the following approach:
- firstly, the financial penalty discount is applied to the fee-block(s) paying the enforcement costs of a case; and
  - we then apply any financial penalties in excess of the case costs against our costs of supervision under the regulations.

### **FSMA related financial penalty discounts to 2012/13 periodic fees**

- 7.6 Fines from enforcement action rebated to fee-payers through the financial penalty discount are forecast to be lower than last year. In the 2010/11 financial year these financial penalties were worth £86.2m, equating to a reduction of approximately 16.8% across the fee-blocks for 2011/12 fees. Our current forecast of the financial penalties we will receive by the end of March 2012 is £58.7m. This forecast figure is 31.9% lower than last year. Table 7.1 shows the allocation of these financial penalties as financial penalty discounts to periodic fees. We will confirm the final 2012/13 penalty discounts to fees in our Consolidated Policy Statement, published in May 2012.
- 7.7 As stated in paragraph 7.3, the distribution of the financial penalty discount for 2012/13 is based on our revised financial penalty scheme for authorised firms in the 'A' fee-blocks and operators of MTFs. Overall, the financial penalty discounts will be better aligned to the fee-blocks that have been allocated enforcement costs – so firms that are paying for enforcement activity receive a greater share of the discounts. This will, however, mean that the distribution of financial penalties will not be as evenly spread as previously.

**Table 7.1: FSMA related penalties to be applied as financial penalty discounts in 2012/13 compared with 2011/2**

Fee-block	2012/13		2011/12	
	Penalties to be applied for the benefit of fee payers (£'000)	Reduction in fee payable (%) – see note*	Penalties to be applied for the benefit of fee payers (£'000)	Reduction in fee payable (%) – see note*
A.0 Minimum fee	264	1.3%	3,099	16.8%
A.1 Deposit acceptors	9,234	5.2%	24,161	17.0%
A.2 Home finance providers and administrators	2,160	15.2%	2,727	20.8%
A.3 Insurers – general	2,135	5.3%	4,991	16.9%
A.4 Insurers – life	2,700	4.4%	7,553	16.9%
A.5 Managing Agents at Lloyd's	18	1.3%	193	16.8%
A.6 The Society of Lloyd's	22	1.3%	240	16.8%
A.7 Fund managers	8,099	21.7%	5,116	18.1%
A.9 Operators, Trustees and Depositaries of collective investment schemes etc	3,327	30.1%	1,751	16.8%
A.10 Firms dealing as principal	6,288	12.6%	6,444	18.6%
A.12 Advisory arrangers, dealers or brokers (holding or controlling client money or assets, or both)	12,302	30.5%	10,813	21.7%
A.13 Advisory arrangers, dealers or brokers (not holding or controlling client money or assets, or both)	4,404	11.4%	7,059	17.7%
A.14 Corporate finance advisors	3,018	25.0%	3,844	20.4%
A.18 Home finance providers, advisers and arrangers	3,177	21.9%	2,755	18.2%
A.19 General insurance mediation	1,485	6.1%	4,331	17.3%

A.20 Markets in Financial Instruments Directive (MiFID) transaction reporting – targeted recovery of additional IS costs	35	1.3%	365	16.7%
B (Multilateral Trading Facility operators only)	82	10.0%	101	16.7%
E Issuers and Sponsors of securities	0	0.0%	672	4.7%
<b>Total</b>	<b>58,752</b>		<b>86,215</b>	
* The percentage reduction in fee amount payable has been rounded down				

### Financial penalty discounts under the MLRs, PSRs, EMRs and RCBs for 2012/13

- 7.8 We do not anticipate receiving any financial penalties in 2011/12 in relation to the MLRs, PSRs, EMRs or RCBs. Therefore we also do not anticipate applying financial penalty discounts to the periodic fees for these fee-blocks in 2012/13. If this position changes before the 31 March 2012 we will apply any resulting discounts when we finalise the fee rates through our Consolidated Policy Statement in May 2012.

# 8

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## Periodic fees for other bodies

- 8.1** This chapter sets out the proposed periodic fees for fee-payers in fee block:
- B, Market Infrastructure Providers;
  - C, Collective Investment Schemes;
  - D, Designated Professional Bodies;
  - E, Issuers and sponsors of securities (UK Listing Authority – UKLA);
  - F, Unauthorised mutuals; and
  - G, Firms registered under the Money Laundering Regulations 2007, firms covered by the Regulated Covered Bonds Regulations 2008, the Payment Services Regulations 2009 and the Electronic Money Regulations 2011.
- 8.2** The periodic fees for the fee-payers in the A fee-blocks are discussed in Chapter 6.
- 8.3** The proportion of our annual funding requirement (AFR) allocated to fee-blocks B to G, the year-on-year movements in allocations and our comments on year-on-year increases that are substantially more than the overall 15.6% increase in the AFR are detailed in Chapter 5.

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Fee-payers should note that we do not yet have all the data needed to set periodic fees, where applicable in this chapter. This means that the final periodic fee rates for 2012/13 – which will be made by our Board at its May 2012 meeting – could vary significantly from the estimated periodic fees in this paper.

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## Fee-block B: Market Infrastructure Providers

- 8.4 We set out in Chapter 5 the reasons for the substantial above average year-on-year increase in the allocation to fee block B.

### Recognised Investment Exchanges and Recognised Clearing Houses

*(FEES 4 Annex 6R Part 1 – draft rules in Appendices 1 and 2)*

- 8.5 The periodic fees for the Recognised Investment Exchanges and Recognised Clearing Houses (collectively ‘UK recognised bodies’) are set on an individual basis for each body and are based on the amount of regulatory resources required. They are payable in two instalments during the year – on 30 April and 1 September. The proposed fees are detailed in Table 8.1.

**Table 8.1: Proposed periodic fees for UK recognised bodies**

Name of UK recognised body	Proposed 2012/13 fee (£)	Actual 2011/12 fee (£)	Variance
Euroclear UK & Ireland Limited	750,000	600,000	25%
ICE Futures Europe	650,000	500,000	30%
LIFFE Administration and Management	935,000	750,000	25%
LCH.Clearnet Limited	945,000	700,000	35%
The London Metal Exchange Limited	575,000	450,000	28%
London Stock Exchange plc	775,000	615,000	26%
EDX London Ltd	N/A	90,000	N/A
Plus Markets plc	235,000	190,000	24%
European Central Counterparty Ltd	402,000	355,000	13%
ICE Clear Europe Ltd	725,000	540,000	34%
Chicago Mercantile Exchange Clearing Europe Ltd	502,000	400,000	26%

- 8.6 If you have any questions regarding these fees please contact your relationship manager.

### Recognised Overseas Investment Exchanges (ROIEs) and Recognised Overseas Clearing Houses (ROCHs)

*(FEES 4 Annex 6R Part 2 – draft rules in Appendix 2)*

- 8.7 For 2012/13 we propose a minimum fee for ROIEs of £50,000 an increase of 25% compared to 2011/12 (£40,000). We propose a minimum fee for ROCHs of £85,000 an increase of 21% compared to 2011/12 (£70,000).

## Multilateral Trading Facilities (MTFs)

*(FEES 4 Annex 10R – draft rules in Appendix 2)*

- 8.8 The periodic fees for MTFs are set on an individual basis and are based on the amount of regulatory resources required. The proposed fees are detailed in Table 8.2.

**Table 8.2: Proposed periodic fees for MTFs**

Organisation	Proposed 2012/13 fee (£)	Actual 2011/12 fee (£)	Variance
Chi-X Europe Limited	185,000	130,000	42%
BATS Trading Limited	115,000	80,000	44%
Turquoise Global Holdings Ltd	175,000	80,000	119%
Liquidnet Europe Limited	87,500	70,000	25%
EuroMTS Limited	37,500	30,000	25%
SmartPool Trading Limited	28,000	22,500	24%
Baltic Exchange Derivatives Trading Ltd	25,000	20,000	25%
Tradeweb Europe Limited	16,000	13,000	23%
Cantor Index Limited	10,000	8,000	25%
ICAP Electronic Broking Limited	7,800	6,250	25%
UBS Limited	5,000	4,000	25%
Barclays Bank Plc	5,000	4,000	25%
BGC Brokers LP	5,000	4,000	25%
GFI Brokers Limited	5,000	4,000	25%
GFI Securities Limited	5,000	4,000	25%
Icap Energy Limited	5,000	4,000	25%
ICAP Europe Limited	5,000	4,000	25%
ICAP Securities Limited	5,000	4,000	25%
ICAP Shipping Tanker Derivatives	5,000	4,000	25%
ICAP-WCLK Limited	5,000	4,000	25%
My Treasury Limited	5,000	4,000	25%
TFS-ICAP Limited	5,000	4,000	25%
Tradition (UK) Limited	5,000	4,000	25%
Tradition Financial Services Limited	5,000	4,000	25%
Tullet Prebon (Europe) Limited	5,000	4,000	25%
Tullet Prebon (Securities) Limited	5,000	4,000	25%

MF Global Limited	5,000	4,000	25%
J.P.Morgan Cazenove Limited	5,000	4,000	25%
Nomura International Ltd	5,000	4,000	25%
Sigma X MTF	N/A	4,000	N/A
Goldman Sachs International	5,000	4,000	25%
Credit Agricole Chevreux International	5,000	4,000	25%
iSWAP Euro Ltd	5,000	N/A	N/A

### Service companies

*(FEES 4 Annex 2R Part 1 – draft rules in Appendix 2)*

8.9 The proposed fees for service companies are detailed in Table 8.3.

**Table 8.3: Proposed periodic fees for service companies**

Organisation	Proposed 2012/13 fee (£)	Actual 2011/12 fee (£)	Variance
Bloomberg LP	51,750	45,000	15%
LIFFE Services Ltd	40,250	35,000	15%
OMGEO Ltd	40,250	35,000	15%
Reuters Ltd	51,750	45,000	15%
Swapswire Ltd	40,250	35,000	15%

### Fee-block C: Collective Investment Schemes

*(FEES 4 Annex 4R – draft rules in Appendix 2)*

8.10 The proposed fee rates are detailed in Table 8.4, which are maintained at 2011/12 levels for 2012/13, reflecting an increase in the number of funds from which the allocated AFR is recovered.

**Table 8.4: Proposed periodic fees**

Scheme type	Total aggregate number of funds/sub-funds	Proposed 2012/13 Fee (£)	Actual 2011/12 Fee (£)	Variance
ICVC, AUT, Section 264 of FSMA or Section 270 of FSMA	0-2	585	585	0%
	3-6	1,463	1,463	0%
	7-15	2,925	2,925	0%
	16-50	6,435	6,435	0%
	>50	12,870	12,870	0%
Section 272 of FSMA	0-2	2,380	2,380	0%
	3-6	5,950	5,950	0%
	7-15	11,900	11,900	0%
	16-50	26,180	26,180	0%
	>50	52,360	52,360	0%

**Fee-block D: Designated Professional Bodies (DPBs)**

*(FEES 4 Annex 5R – draft rules in Appendices 1 and 2)*

- 8.11** We set individual periodic fees for each DPB, based on an estimated number of exempt professional firms in each body. Every DPB pays £10,000 for its first exempt professional firm. The balance allocation is then distributed in proportion to the remaining exempt professional firms reported by each DPB. The proposed periodic fees are detailed in Table 8.5.

**Table 8.5: Proposed periodic fees**

Name of DPB	Proposed 2012/13 fee (£)	Actual 2011/12 fee (£)	Variance
The Law Society of England and Wales	68,790	73,190	-6.0%
The Law Society of Scotland	13,700	13,990	-2.1%
The Law Society of Northern Ireland	12,730	12,920	-1.5%
The Institute of Actuaries	10,100	10,110	-0.1%
The Institute of Chartered Accountants in England and Wales	23,710	24,660	-3.9%
The Institute of Chartered Accountants of Scotland	11,120	11,200	-0.7%
The Institute of Chartered Accountants in Ireland	10,610	10,650	-0.4%
The Association of Chartered Certified Accountants	16,520	16,980	-2.7%

Council for Licensed Conveyancers	11,150	11,230	-0.7%
Royal Institute of Chartered Surveyors	13,660	13,800	-1.0%

## Fee block E: Issuers and sponsors of securities (UKLA)

(FEES 4 4.2.11R Table of periodic fees and FEES 4 Annex 7R and 8R – draft rules in Appendix 2)

### Issuers

8.12 The proposed fee rates are detailed on Table 8.6 and 8.7, which reflect as applicable:

- changes to the way shares are valued, which we consulted on in CP11/21 and we provide feedback in Chapter 14;
- changes to the way fees are calculated for depositary receipts and global depositary receipts, which we consulted on in CP11/21 and we provide feedback in Chapter 14; and
- an increase in the overall market capitalisation tariff data compared to 2011/12.

**Table 8.6: Proposed UKLA periodic fees for issuers (FEES 4 Annex 7)**

Fee payable*	Proposed 2012/13		Actual 2011/12		Variance
	£ million of Market capitalisation	Rate	Rate	Fee at maximum	
Minimum fee	n.a.	4,200	n.a.	3,700	13.5%
>100-250	26.778459	8,217	23.593356	7,239	13.5%
>250-1,000	10.710673	16,250	9.436716	14,317	13.5%
>1,000-5,000	6.592859	42,621	5.808686	37,551	13.5%
>5,000-25,000	0.160820	45,838	0.141692	40,385	13.5%
>25,000	0.051957	–	0.045777	–	–

\* Issuers solely with a listing of equity securities of an overseas company which is not a primary listing pay 80% of the fee otherwise payable

**Table 8.7: Proposed UKLA periodic fees for issuers (FEES 4 Annex 8)**

Fee payable £ million of market capitalisation	Proposed 2012/13		Actual 2011/12		Variance (%)
	Rate	Fee at maximum	Rate	Fee at maximum	
Minimum fee	n.a.	3,360	n.a.	2,960	13.5%
>100-250	21.422767	6,573	18.8747	5,791	13.5%
>250-1,000	8.568538	13,000	7.5494	11,453	13.5%
>1,000-5,000	5.274287	34,097	4.6469	30,041	13.5%
>5,000-25,000	0.128656	36,670	0.1134	32,308	13.5%
>25,000	0.041565	-	0.0366	-	-

### Sponsors

- 8.13 We are proposing to maintain the 2012/13 annual periodic fee for sponsors at £20,000 the same level as 2011/12.

### Fee-block F: Unauthorised mutuals

*(Draft rules in Appendix 3)*

- 8.14 The proposed fees are detailed in Table 8.8 and reflect an increase in the overall total assets tariff data and firm population compared to 2011/12.

**Table 8.8: Proposed periodic fees for unauthorised mutuals**

Total assets (£'000)	Proposed 2012/13 fee (£)	Actual 2011/12 fee (£)	Variance
0-50	55	55	0%
> 50-100	110	110	0%
> 100-250	180	180	0%
> 250-1,000	235	235	0%
> 1,000	425	425	0%

### Fee-block G: Firms registered under the Money Laundering Regulations 2007

- 8.15 We are proposing that the annual fee for firms registered with us under the money laundering regulations should be maintained at £400 for 2012/13. [Fee-block G.1]

## Fee-block G: Firms covered by the Payment Services Regulations (PSRs) 2009

(FEES 4 Annex 11R – draft rules in Appendix 2)

- 8.16 The proposed fee rates are detailed in Tables 8.9 and 8.10 and reflect that, in 2011/12, we completed the recovery of our set-up costs for the scope change resulting from the introduction of the PSRs.

**Table 8.9: Certain deposit acceptors (includes banks and building societies) [G.2 fee-block]**

Minimum fee (£)	400		
£ million or part £m of Modified Eligible Liabilities (MELS)	Fee (£/£m or part £m of MELS)		
	Proposed 2012/13	Actual 2011/12	Variance
> 100,000	0.29344	0.45265	-35%
> 250,000	0.29344	0.45265	-35%
> 1,000,000	0.29344	0.45265	-35%
> 10,000,000	0.29344	0.45265	-35%
> 50,000,000	0.29344	0.45265	-35%
> 500,000,000	0.29344	0.45265	-35%

**Table 8.10 – Large payment institutions and other institutions [G3. and G.5 fee-block]**

Minimum fee (£)	400		
£ thousands or part £ thousand of Relevant Income	Fee (£/£thousand or part £ thousand of Relevant Income)		
	Proposed 2012/13	Actual 2011/12	Variance
> 100,000	0.19604	0.29950	-35%
> 250,000	0.19604	0.29950	-35%
> 1,000,000	0.19604	0.29950	-35%
> 10,000,000	0.19604	0.29950	-35%
> 50,000,000	0.19604	0.29950	-35%
> 500,000,000	0.19604	0.29950	-35%

- 8.17 We propose that the annual fee for small payment institutions be maintained at £400 for 2012/13. [Fee-block G.4]

### Fee-block G: Firms subject to the Electronic Money Regulations 2011 (EMRs)

*(FEES 4 Annex 11R – draft rules in Appendix 2)*

- 8.18 The proposed fee rates for large electronic money institutions (EMIs) under the EMRs reflect the change in the way we calculate average outstanding electronic money as the tariff base on which we consulted in CP11/21 and we provide feedback in Chapter 14.

**Table 8.11: Large electronic money institutions [Fee-block G.10]**

	Proposed 2012/13 (£)	Actual 2011/12 (£)	Variance
Minimum Fee	1,500.00	1,500.00	0%
£m or part £m of average outstanding electronic money (AOEM)	Fee (£/£m or part £m of AOEM)	Fee (£/£m or part £m of AOEM)	
>5,000,000	180.00	150.00	20%

- 8.19 We propose that the annual fee for small EMIs will be maintained at £1,000 for 2012/13 the same as levied in 2011/12.[Fee-block G 11]

**Q2:** Do you have any comments on the proposed FSA 2012/13 minimum fees and periodic fee rates for fee-payers other than authorised firms?

**We must receive any responses to Q2 by 2 April 2012 – except in the case of certain bodies in fee-blocks B and D, as set out in the draft instrument in Appendix 1, where we must receive responses to Q2 by 29 February 2012.**

### Fee-block G: Firms subject to the Regulated Covered Bonds Regulations 2008 (Fee-block G.15)

*(FEES 4 Annex 11R – draft rules in Appendix 2)*

- 8.20 In Chapter 14 we provide feedback on the responses we received to our proposals in CP11/21 (Chapter 5) for a revised methodology for levying periodic fees on issuers of Regulated Covered Bonds (RCBs).

- 8.21** In the draft rules in Appendix 2 we are consulting on the 2012/13 level of minimum fee and variable fee rate calculated as proposed in CP11/21. We are also consulting on an alternative basis for the 2012/13 fee rates reflecting the comments from respondents and our feedback generally as set out in Chapter 14. Both are set out in this section.

### **Minimum fee**

- 8.22** **CP11/21 proposed:** Minimum fee to be 75% of the total amount allocated to G.15 (the RCB fee-block) divided by the number of RCB issuers. This results in a minimum fee per issuer of £83,144.
- 8.23** **Alternative:** Minimum fee to be 75% of the total amount allocated to G.15 divided by the number of programmes, with the first programme of each issuer attracting 100% of the minimum fee and all subsequent programmes attracting 75% of the minimum fee. This results in a minimum fee of £84,913 for the first programme for each issuer and £63,684 for subsequent programmes.

### **Variable periodic fee**

- 8.24** **CP11/21 proposed:** Tariff base (measure of size) for variable fee – regulated covered bonds in issue as at 31 December 2011. This results in a fee rate of £3.41 per £m or part £m of regulated bonds in issue.
- 8.25** **Alternative:** Tariff base for variable fee – Regulated covered bonds issued in the 12 months ending 31 December 2011. This results in a fee rate of £10.63 per £m of part £m of regulated covered bonds issued.

**Q3:** Do you have any comments on which basis we should use to calculate periodic fees for the issuers of regulated covered bonds?

**We must receive any responses to Q3 by 2 April 2012**

## Section II

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# Further fees policy proposals 2012/13



# 9

## Special project fees for Solvency II

*(FEES 4, Annex 2R – draft rules are in Appendix 2)*

- 9.1 This chapter relates to the existing policy established to recover the project development and implementation costs of the Solvency II EU Directive (SII) through a special project fee (SPF). Firms affected by this chapter will be in fee-blocks:
- A.3 (Insurers – general);
  - A.4 (Insurers – life); and
  - A.6 (The Society of Lloyd’s).
- 9.2 The SII SPF is outside our annual funding requirement (AFR), the recovery of which is discussed in Chapters 4 to 6.

### **Overall SII SPF budget for 2012/13**

- 9.3 In 2012/13 we propose to continue to levy two separate SII SPFs:
- Internal Model Approval Process (IMAP) SPF; and
  - Non-IMAP SPF.
- 9.4 The total estimated SII SPF budget to be recovered from firms in 2012/13 is £25.9m (£26.8m in 2011/12) an overall decrease of 3%. Table 9.1 provides a breakdown of these figures.

**Table 9.1: Estimated 2012/13 SII SPF budget**

	IMAP	Non-IMAP	Total
2011/12 Final budgeted recovery from firms	£15.8m	£17.6m	£33.4m
2010/11 under spend reimbursed to firms (i)	(£6.6m)	N/A	(£6.6m)
2011/12 Final budgeted recovery from firms net of reimbursement (1)	<b>£9.2m</b>	<b>£17.6m</b>	<b>£26.8m</b>
2012/13 Budgeted costs	£11.5m	£24.7m	£36.2m
Less estimated 2011/12 under spend (ii)	(£5.1m)	(£5.2m)	(£10.3m)
2012/13 Estimated budgeted recovery from firms (2)	<b>£6.4m</b>	<b>£19.5m</b>	<b>£25.9m</b>
Year-on-year change between (1) and (2)	-30.0%	11%	-3%
(i) The 2010/11 under spend for IMAP was reimbursed to firms via a credit set-off against their periodic fees for 2011/12 rather than off-set against the 2011/12 IMAP budget. This was because the population of firms that paid the IMAP fee in 2010/11 was substantially different to the population that paid the IMAP fee in 2011/12. This adjustment is made in this table to enable a year on year comparison to be made. No adjustment is necessary for the non-IMAP fee as the 2010/11 under spend was off-set against the 2011/12 budget.			
(ii) The actual under spend for 2011/12 will not be finalised until April 2012.			

9.5 The net amount we are raising for SII SPF in 2012/13 is within our previous estimate that our costs would be in the range of £100m to £150m<sup>13</sup> over the life of the SII implementation programme.

## Background

9.6 The overall rationale for SPFs is to target the recovery of our exceptional regulatory costs from the individual firm or a group of firms that receive the benefit.<sup>14</sup> In the case of EU directives, we use an SPF to ensure that firms pay for the regulatory work arising from the particular directive that concerns them, as a sub-set of a fee-block. This is in place of the costs being recovered from all fee-payers in a fee-block, including those who are not affected by the directive. We only propose to use a directive SPF where:

- it applies to enough firms in a certain sub-set to warrant targeting the recovery of the implementation costs to those firms only; and
- the estimated implementation costs of the directive would result in a significant increase in periodic fees for firms in the fee-blocks who are not affected by the directive.

13 CP10/5 Regulatory fees and levies – Rates proposals 2010/11 and Feedback Statement on Part 1 of CP09/26 (published February 2010) – Chapter 14.

14 Full details of the various types of SPFs and how they are applied is set out in Chapter 7 of our latest fees Consolidated Policy Statement PS11/7 published May 2011.

- 9.7 We consult before using SPFs to recover the implementation costs of a particular directive. We consulted on using an SPF to recover SII IMAP development costs in CP07/19<sup>15</sup> and other SII implementation costs in CP09/7.<sup>16</sup>
- 9.8 SII applies to a sub-set of the insurers in fee-blocks A.3 and A.4 (59%<sup>17</sup>) and the Society of Lloyd's (Lloyd's). These firms pay the non-IMAP SPF.
- 9.9 The main rationale behind the IMAP SPF is to recover SII costs by only recovering the implementation and processing costs from a sub-set of SII firms in our internal model approval process.

### IMAP SPF for 2012/13

- 9.10 For 2012/13 the IMAP SPF will continue to recover the costs of developing and implementing the framework relating to IMAP. In addition it will recover our costs of considering internal models submitted for review by firms. The 2012/13 IMAP SPF is payable if before 1 April 2012:
- a firm, or a member of the group of which the firm is also a member (in either case, the 'recipient'), received a written communication from us that it has met the criteria for entry into the internal model pre-application process; and
  - the recipient has not informed us in writing that it wishes to withdraw from that internal model pre-application process, or has been informed by us in writing that it is no longer in that process.
- 9.11 The above communications will, for the majority of firms, have taken place before April 2011. If a firm is still in the pre-application process, as set out in paragraph 9.10, on 1 April 2012 it will be liable to the full 2012/13 IMAP SPF regardless of whether it ceases to be in the pre-application process during 2012/13. This is the same approach as was taken for 2011/12.
- 9.12 We have also notified firms of their 'submission slot' identifying the points in time during which the firm is to submit an internal model for consideration by us.
- 9.13 Based on anticipated changes to the SII Directive, to be made by the proposed Omnibus 2 Directive, we currently expect firms to be able to make a formal internal model application at some point in 2013, and we will be obliged to consider such applications as required by the Directive. In these circumstances, firms that had not participated in the pre-application process (and firms that had withdrawn from or otherwise been notified by us that they are no longer in the pre-application process) would be able to submit a formal internal model application. If the date on which firms may submit a formal internal model application

15 CP07/19: *Regulatory fees and levies: Policy proposals for 2008/09* (published November 2007).

16 CP09/7: *Regulatory fees and levies: Rates proposals 2009/10* (published February 2009).

17 Based on the proportion of insurers that paid periodic fees in 2011/12 that also met the size criteria for being within the scope of SII.

occurs during 2013, and a firm that has not paid an IMAP SPF for 2012/13 makes an application for internal model approval after this date but before 1 April 2013, then that firm will pay the same level of IMAP SPF as it would have paid if it had been in pre-application during 2012/13 (i.e. met the conditions in paragraph 9.10).

### **Allocating IMAP costs across A.3, A.4 and A.6 fee-blocks**

- 9.14** We propose to allocate the 2012/13 estimated IMAP SPF costs on the same basis as 2011/12. We will therefore allocate them to A.3 and A.4 in proportion to the total periodic fees levied in 2011/12. For the A.6 (Lloyd's) fee-block, whose periodic fees are calculated on an individual basis, we will allocate £682,500.

### **Recovering the IMAP SPF allocation from A.3 and A.4 fee-blocks**

- 9.15** The £5.7m estimated IMAP SPF costs for 2012/13, which has been allocated to the A.3 and A.4 fee-blocks, will be recovered from the firms to which this fee applies (as set out in paragraphs 9.10 to 9.13), in proportion to their size (straight line recovery) using the same measures of size we use to calculate their periodic fees (premium income and liabilities), as in previous years. This will continue to ensure that small and medium-size firms will pay proportionally less than larger firms, and that will broadly reflect the level of engagement we will have with firms. As with periodic fees, the amount of IMAP SPF will not directly relate to the actual resources applied to individual firms.
- 9.16** The calculation of the IMAP SPF rates in the draft instrument in Appendix 2 is based on our projection of the number of the firms that will be in the pre-application process as at 1 April 2012. As with periodic fee rates, the IMAP SPF rates are also based on estimates of tariff data (measures of size). These will not be finalised until April and will then be used to calculate the actual IMAP SPF rates for 2012/13. Therefore, the actual 2012/13 IMAP SPF rates may differ from those consulted on in this paper.

**Q4:** Do you have any comments on the proposed IMAP SPF for 2012/13 or the proposed circumstances under which it will be payable by firms?

**We must receive any responses to Q4 by 2 April 2012**

### **Non-IMAP SPF for 2012/13**

- 9.17** The non-IMAP SPF recovers the other costs we are incurring to implement SII. These include the costs of staff recruitment, staff training, revised supervisory processes (other

than IMAP) and developing and putting in place the technology required to support SII reporting and the supervision process.

**9.18** We propose to allocate and recover the estimated 2012/13 non-IMAP SPF costs in the same way as 2011/12:

- £19.5m will be allocated to the A.3, A.4 and A.6 fee-blocks in proportion to the total periodic fees raised in 2011/12; and
- recovery from the firms within the A.3 and A.4 fee-blocks will be in proportion to their size (straight-line recovery) using the same measures of size we use to calculate their periodic fees (premium income and liabilities).

**9.19** The calculation of the non-IMAP SPF rates in the draft instrument in Appendix 2 is based on our estimate of the firms that will be within the scope of SII as at 1 April 2012. As with periodic fee rates, they are also based on estimates of tariff data (measures of size) and these will not be finalised until April and will then be used to calculate the actual non-IMAP SPF for 2012/13. Therefore the actual 2012/13 non-IMAP SPF rates may differ from those consulted on in this paper.

**9.20** If a firm notifies us before 1 April 2012 that it intends to migrate out of the UK for regulatory purposes before SII is implemented, it will also be exempt from this non-IMAP SPF. If the firm notifies us during the 2012/13 financial year, it will have to pay the full non-IMAP SPF. This policy is the same as for periodic fees, when a firm applies to cancel its permissions during the year in which the periodic fee is paid. However, the cancellation of permissions must become effective within three months from the start of the financial period 2012/13 (30 June 2012).

**9.21** In line with article 302 of the Directive, we will apply an exchange rate [EUR-GBP] based on the last working day of October the previous year – i.e. 31 October 2011 – to identify the firms that are within the scope of SII.

**Q5:** Do you have any comments on the proposed non-IMAP SPF for 2012/13?

**We must receive any responses to Q5 by 2 April 2012**

Terms in this paper		Terms in the draft rules in Appendix 2
'IMAP SPF'	<b>Relate to</b>	'Solvency 2 Special Project fee'
'non-IMAP SPF'	<b>Relate to</b>	'Solvency 2 Implementation fee'
'pre-application process'	<b>Relate to</b>	'pre-IMAP status'



# 10

## Other policy proposals for consultation

**10.1** In this chapter, we present four other policy proposals for consultation:

- payment services providers and electronic money issuers – notifications of agents;
- regulatory reporting – changes to the RMAR-J;
- restructuring special project fees (SPFs) – revised hourly rates; and
- policy clarification – valuing derivatives in fund management.

### **Payment services providers and electronic money issuers – notifications of agents**

**10.2** We propose to modify our charging structure for notifications of agents by authorised payment institutions (APIs), so that it more closely reflects our actual costs, and extend it to authorised electronic money issuers (AEMIs).

### **Authorised payment institutions**

**10.3** When we introduced application fees before the Payment Services Regulations 2009 (PSRs)<sup>18</sup>, we were aware that a number of APIs would operate through networks of agents, so we applied additional application fee bandings to our charging structure to recoup the administrative costs associated with authorising them:

- £12,500 for applicants with over 2,500 agents; and
- £25,000 for applicants with over 5,000 agents.

<sup>18</sup> Handbook Notice 87 (April 2009)

- 10.4** At that time, we had not processed any payment services applications, so these figures reflected our best estimates of the costs that might be involved. They are in addition to the application fees paid by all APIs, whether or not they have agents, which are dependent on the payment services activities applied for:
- £1,500 for money remittances and transactions where consent is given via a telecommunication, digital or IT device.
  - £5,000 for more complex payment services, e.g. operating payment accounts, execution of direct debits, or issuing payment instruments such as payment cards, credit/debit cards, etc).
- 10.5** We now have two years' experience of administering the PSRs. It has become clear that agent networks are more volatile than we anticipated, and that notifications take place not only at the application stage, but after authorisation. Although two APIs now have more than 2,500 agents, none were over the lower threshold at the time of authorisation, so we have never charged the additional fee for registering a network of agents. One firm authorised in 2009 with 1,000 agents, now has about 5,100; another, authorised with 1,200, now has 8,400. On a smaller scale, a firm authorised with 116 agents in 2009 now has about 1,800. In addition, agents move between APIs and some belong to several networks. All these changes in the agent population have to be registered individually with us. In practice, therefore, these costs are being picked up by the other APIs.
- 10.6** Since 2009, we have been able to monitor the actual resources involved in handling notifications. We have established that the average cost to us is £3 per notification. This allows us to dispense with the broad bandings we originally introduced. Instead, we propose to charge APIs £3 for each agent notification. This would restrict the costs to the specific APIs that have generated the work, avoiding cross-subsidy. As well as modifying the application charges, we also propose to bring in annual charges to cover notifications submitted after authorisation:
- Firms applying for authorisation will pay an agent registration fee of £3 per agent when they submit their applications. This will be in addition to the £1,500 or £5,000 application fee, which we are not changing.
  - Firms that notify us of changes in their networks of agents after authorisation will be charged an agent notification fee of £3 per notification. This will apply to all the amendments we have to register – i.e. registering new agents, deleting existing entries or modifying the details of agents. Because it would not be cost effective – for us or firms – to pay separately for each transaction, we will charge annually in arrears, sending one invoice for all notifications during the previous calendar year ending 31 December. Since it is not cost effective for us to issue small invoices, we will not charge firms if the total number of notifications in any year is 100 or less.

### **Authorised electronic money issuers (AEMIs)**

- 10.7** Up to now, there have been no examples of AEMIs operating through networks of agents, but some APIs with agents have told us they are considering re-registering as AEMIs, so similar concerns about cross-subsidy may arise in the future. Consequently, we have decided to apply exactly the same terms to AEMIs – i.e. a charge of £3 per agent when they apply for authorisation and an annual charge for subsequent notifications, at £3 per notification.

**Q6:** Do you agree with our proposal to: replace the agent bandings for authorised payment institution applications with an agent registration fee; introduce an agent notification fee in arrears for all notifications during the previous calendar year; and extend this structure to authorised electronic money issuers?

**We must receive any responses to Q6 by 2 April 2012**

### **Regulatory reporting – changes to the RMAR-J**

- 10.8** We propose to amend Part J of the Retail Mediation Activities Return (RMAR), to allow firms to report their annual regulated income as the tariff base for fee-blocks A.12, A.13 and A.14. This will facilitate our proposal in CP11/21 (Chapter 2), to replace the current tariff base, which is a headcount of approved persons, with an income measure from 2013/14.
- 10.9** The proposal is still under consultation, but if it goes ahead firms will be reporting on their 2011/12 financial years, so we need to put the appropriate systems in place to receive the data. We are setting a consultation deadline of 29 February so the changes can take effect by the end of March 2012, when we intend to make the rules bringing in the income measure for 2013/14.
- 10.10** Regulatory reporting is part of the regulatory processes manual (SUP), not the fees manual (FEES). The RMAR is prescribed in SUP16 Annex 18A, with the guidance notes in Annex 18B. The proposed changes cover both FSA fees and the FOS levy, and are in Appendix 1 of this CP.

**Q7:** Do you agree with our proposed amendments to Part J of the Retail Mediation Activities Return (RMAR) to allow firms to report their annual regulated income?

**We must receive any responses to Q7 by 29 February 2012**

## Restructuring Special Project Fees (SPFs) – revised hourly rates

- 10.11** These SPFs are levied to recover our exceptional supervisory costs incurred where a firm undertakes certain restructuring transactions e.g. restructuring of regulatory capital or raising additional capital. Our policy for charging restructuring SPFs and other types of SPFs is detailed in Chapter 7 of our annual Consolidated Policy Statement (PS11/7 published May 2011).
- 10.12** The restructuring SPF is only charged where our additional costs (internal and external) exceed £50,000. For our internal costs the SPF is calculated based on the number of hours individuals work on the specific restructuring transaction. Our hourly rates are based on the costs we use for funding our projects internally. These are average staff costs per hour of each grade within each of the key functions that could be involved in a particular transaction. The existing hourly rates were set in 2008 when this SPF was introduced for 2009/10. We propose to update these rates in line with those we currently use for internal project accounting purposes as set out in Table 10.1 below.

**Table 10.1: Proposed revised hourly rates**

Supervision, Policy General Counsel etc	(1) Existing hourly rate (i)	(2) Proposed revised hourly rate
Administrator	£25	£30
Associate	£50	£55
Technical Specialist	£85	£100
Manager	£90	£110
Any other person employed by the FSA (ii)	£135	£160
Notes: (i) Hourly rate is average across each function for each grade. (ii) Relates to time spent by a Head of Department, Director, a Managing Director or the Chief Executive Officer.		

**Q8:** Do you have any comments on the proposed revised hourly rates for restructuring SPFs?

**We must receive any responses to Q8 by 2 April 2012**

## Policy clarification – valuing derivatives in fund management

- 10.13** We are clarifying the way fund managers in fee-block A.7 should calculate the valuation of derivatives for overlay portfolios. Recent queries from firms indicate that there may be a risk of inconsistent reporting, both between firms and over time within firms, when a fund manager is managing an overlay portfolio of derivatives.

- 10.14** The fees of fund managers are based on the total value of funds under management. Valuing physical assets such as cash, bonds and equities is straightforward, but when the funds include derivative instruments, there are alternative options. This issue is potentially more complex when two firms are involved in managing a portfolio, one with responsibility for managing the underlying assets, and the other with responsibility for managing an overlay portfolio of derivatives. When calculating funds under management for the overlay portfolio, a firm might use the exposure value of the overlay portfolio of derivatives, the value of the physical assets under its control, or the value of the underlying assets. In our view, the correct interpretation for fees purposes is the fair value of the investment portfolio combining the underlying assets with the derivative overlay. This calculation reflects revised guidance in SUP 16 Annex 25G, on which we are currently consulting (CP11/27).
- 10.15** There is a proviso, that if the assets are being managed by another firm within the same group, who have reported their value to us separately, then to avoid double-counting within the group, it would be reasonable to restrict the calculation to the fair value of the overlay. The issue does not arise where the assets are being managed by a firm outside the group because we are looking for a measure of the full range of the exposures of both firms to the market.
- 10.16** We propose to clarify the fees rule by directing fund managers in fee-block A.7 to apply the definition in SUP 16 Annex 25G when valuing their derivative instruments, but to exclude underlying assets from the calculation when these are managed by another firm within the same group who reports its value separately to us.
- Q9:** Do you agree with our proposal to direct fund managers to the guidance in SUP16 Annex 25G when calculating the value of their derivative instruments, subject to the proviso on underlying assets that are reported separately within the same group?

**We must receive any responses to Q9 by 2 April 2012**



## Section III

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# Funding the Financial Services Compensation Scheme 2012/13



# 11

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## Financial Services Compensation Scheme (FSCS) – management expenses levy limit 2012/13

*(FEES 6 – draft rules Appendix 1)*

- 11.1** In this chapter we consult on the FSCS's management expenses levy limit (MELL) for 2012/13. Management expenses are the non-compensation costs that are incurred or are expected to be incurred by the FSCS in connection with delivering its functions.
- 11.2** Under the Financial Services and Markets Act 2000, we must set a limit on the total management expenses to be levied, which will allow the FSCS adequate resources to perform its functions efficiently and economically. This represents the maximum amount of management expenses that can be incurred in the year under the FEES rules, although it is not necessarily the amount the FSCS will actually levy in the coming year. The levy limit applies from 1 April 2012, the start of the FSCS's new financial year, to 31 March 2013. The draft rule can be found in Appendix 1.
- 11.3** We only consult on the MELL for the FSCS. The compensation costs levy, the amount levied to pay claims, is determined by the FSCS and is not consulted on. There are limits under the FEES rules on how much can be levied on firms annually to pay for compensation costs.
- 11.4** For further information on the compensation cost levy and a break down of total FSCS levies by sub-class, please see the FSCS Plan and Budget 2012/13. This will be available on the FSCS's website shortly after this CP is published: [www.fscs.org.uk/industry/publications/](http://www.fscs.org.uk/industry/publications/)

## FSCS MELL 2012/13

- 11.5** The FSCS management expense budget is set to ensure it can provide a responsive, well-understood and efficient compensation service for consumers of financial services. We propose to set the MELL at £1bn, in line with the preceding three years, comprising:
- total continuing operations expenses of £38.2m;
  - change investments of £14.6m to improve the scheme;
  - new activities for the FSCS of £8.6m, including a facility to ensure payment of compensation;
  - legal and other professional expenses to pursue recoveries, including in respect of Keydata Investment Services Limited, of £3.9m;
  - illustrative costs of £376.1m for specific deposit-taking default (SDD) expenses, relating to the loans advanced by the Bank of England in 2008 (that were subsequently refinanced by the Treasury) to fund defaults by deposit takers; and
  - contingency reserve of £558.7m that allows the FSCS to levy additional funds for unforeseen expenses, including potential increases in the ongoing interest rates related to SDD expenses, without further formal consultation.
- 11.6** Table 11.1 shows how the MELL we are consulting on breaks down. It should be noted that, in addition to SDD expenses, outsourcing and certain other operational costs are also specific costs and are only levied on the sub-class in which the defaults arose. Base costs are levied across all sub classes and include the costs of change investments.

**Table 11.1: Overview of FSCS budget information<sup>19</sup>**

FSCS management expenses	2012/13 Budget £m	2011/12 Budget £m	Against 2011/12 Budget Inc/ (dec) £m	2011/12 Reforecast £m	Against 2011/12 Reforecast Inc/(dec) £m
Continuing operating expenses – excludes outsourcing costs	24.5	23.2	1.3	24.7	(0.2)
Outsourcing costs	13.6	13.9	(0.3)	12.8	0.8
<b>Total continuing operations costs</b>	<b>38.2</b>	<b>37.1</b>	<b>1.0</b>	<b>37.5</b>	<b>0.7</b>
Change investments	14.6	21.4	(6.9)	16.8	(2.2)
<b>Total operations and change investments</b>	<b>52.7</b>	<b>58.6</b>	<b>(5.8)</b>	<b>54.3</b>	<b>(1.6)</b>
New activities	8.6	0.5	8.1	4.8	3.8
Major recoveries	3.9	0.0	3.9	5.3	(1.4)
<b>Total expenses excluding specified deposit default expenses</b>	<b>65.2</b>	<b>59.0</b>	<b>6.2</b>	<b>64.4</b>	<b>0.8</b>
Specified deposit default expenses	376.1 <sup>20</sup>	346.9	29.2	360.7	15.4
<b>Total scheme management expenses</b>	<b>441.3</b>	<b>405.9</b>	<b>35.3</b>	<b>425.1</b>	<b>16.2</b>
Reserve contingency within MELL	558.7	594.1	(35.3)		
MELL	1,000.0	1,000.0	0.0		

## Continuing operations expense – running the FSCS

- 11.7** Continuing operations expenses, are day-to-day costs associated with running the scheme. These expenses, in addition to outsourcing costs, make up the total continuing operations costs.
- 11.8** Table 11.2 provides a breakdown of the continuing operations budget for 2011/12, the revised forecast for 2011/12<sup>21</sup> and the proposed budget for 2012/13. The table also indicates the increase or decrease in the budget for 2012/13 against the 2011/12 budget and 2011/12 reforecast.

<sup>19</sup> Rounding errors may occur.

<sup>20</sup> This indicates an illustrative interest cost of £374.9m based on the interest rate applied in 2011/12 (12 month LIBOR + 30 basis points).

<sup>21</sup> The revised forecast for 2011/12 is based on actual spending to September 2011 plus forecast figures for the months through to 31 March 2012.

**Table 11.2: Synopsis of FSCS budget information for continuing operations 2012/13<sup>22</sup>**

FSCS Management Expenses for continuing operations	2012/13 Budget £m	2011/12 Budget £m	Against 2011/12 Budget Inc/(dec) £m	2011/12 Reforecast £m	Against 2011/12 Reforecast Inc/(dec) £m
Employment costs	13.0	11.7	1.3	12.0	1.0
Other staff costs	2.3	2.8	(0.6)	3.3	(1.0)
Outsourcing	13.6	13.9	(0.3)	12.8	0.8
Accommodation	2.0	2.1	(0.1)	2.5	(0.5)
Office services	0.7	0.7	0.1	0.6	0.1
IT	2.0	2.1	(0.0)	1.7	0.4
Professional	2.3	1.5	0.8	2.9	(0.6)
Depreciation	0.9	1.1	(0.2)	0.9	0.1
Press and communication	0.5	0.5	0.1	0.5	0.0
Other	0.7	0.7	0.0	0.4	0.3
<b>Total continuing operating costs</b>	<b>38.2</b>	<b>37.1</b>	<b>1.0</b>	<b>37.5</b>	<b>0.7</b>

**11.9** The figures in Tables 11.1 show that the like for like costs of continuing operations excluding outsourcing costs (which are largely dependent on claim volumes) for 2012/13 are budgeted to increase by 6% or £1.3m compared with the 2011/12 Budget. The breakdown in table 11.2 shows that this is due to increases in employment costs and professional and legal costs.

## Outsourcing – handling fluctuating claims volumes

**11.10** Approximately 95% of claims received by the FSCS are outsourced. This gives the FSCS flexibility to handle fluctuating numbers of claims. The FSCS believes that this is the most responsive, cost effective and efficient means of coping with the significant and unpredictable peaks and troughs in its workflow. It also means that the FSCS' outsourcing costs can fluctuate considerably, depending on the number and type of claims. Outsourcing costs for 2011/12 have been reforecast at £12.8m, compared with the outsourcing budget for 2011/12 of £13.9m; this reflects a reduction in the assumed number of claims to be handled this year. The budget for outsourcing costs for 2012/13 is projected at £13.6m.

**11.11** As in previous years, there is considerable uncertainty about quantity, timing and type of claims that may arise in the coming year. The FSCS must take account of this uncertainty in its planning for the year. The FSCS assesses the likely upper and lower ranges of projected

<sup>22</sup> Rounding errors may occur.

claims volumes. The planning assumptions represent the FSCS's view of a 'most likely' outcome within this range and are used to estimate the management expenses. For information on projected claims volumes please refer to the FSCS Plan and Budget, published on its website.<sup>23</sup>

- 11.12** The current major defaults are expected to be largely worked out in 2011/12 – for example, Keydata Investment Services Limited. The FSCS broadly assumes that the overall volume of new claims received next year will be maintained, but the mix will change significantly as claim numbers arise in areas, such as PPI and home finance advice and arranging.
- 11.13** The FSCS is actively involved in assessing the implications of the MF Global default. It is too early to assess the implications for levy payers. All figures indicated do not include costs in relation to MF Global default.

### **Change investments – improving the FSCS**

- 11.14** In addition to continuing operations, the FSCS is continuing to undertake a comprehensive programme of change investments, to transform and strengthen the scheme's structure, processes and operations. Once completed, the investments will improve the FSCS's effectiveness and efficiency. The investments will ensure the continuing provision of a compensation service that protects consumers and supports financial stability. The FSCS will also be equipped to continue to deal with increasingly complex and volatile claim volumes. The 2012/13 change investment project portfolio is budgeted to cost £14.6m. The program includes expenses for mandatory projects resulting from our Banking and Compensation reform work in 2009, including delivery of faster payout and the consumer awareness campaign.
- 11.15** The key FSCS projects during 2012/13 are:
- re-engineering the FSCS business process so that all services are delivered to a standard model and supported by the up-to-date IT system that was introduced for fast pay-out of deposits<sup>24</sup>, £6.3m;
  - the next stage of the FSCS strategy to raise consumer awareness of protections, £2.9m;
  - implementing the electronic payment project for faster deposit pay-out, £0.7m;
  - relocating FSCS staff on a single floor of new office premises, occupying less space and at lower rent, £1.7m; and
  - a number of other projects costing around £3m in total.

<sup>23</sup> [www.fscs.org.uk/industry/publications/](http://www.fscs.org.uk/industry/publications/)

<sup>24</sup> The FSCS also expect to increase efficiency and improve service standards in other areas of claims.

## New activities for the FSCS

- 11.16 The FSCS has also taken on a number of new activities. A breakdown of these new activities is shown in Table 11.3. The new activities are expected to add £4.8m to the FSCS expense base in 2011/12 and £8.6m in 2012/13.

**Table 11.3: Synopsis of FSCS budget information for new activities 2012/13<sup>25</sup>**

FSCS Management expenses for new activities	2012/13 Budget £m	2011/12 Budget £m	Against 2011/12 Budget Inc/(dec) £m	2011/12 Reforecast £m	Against 2011/12 Reforecast Inc/(dec) £m
Bank facility fee	6.1	0.5	5.6	4.6	1.5
External payment standby costs	1.0	0.0	1.0	0.3	0.8
Additional new outsource workstream	1.4	0.0	1.4	0.0	1.4
<b>Total mandatory new activities</b>	<b>8.6</b>	<b>0.5</b>	<b>8.1</b>	<b>4.8</b>	<b>3.7</b>

- 11.17 For 2012/13, these new activities comprise:

- £6.1m for a syndicated short term financing facility, to enable the FSCS to access funds up to £1bn in the event of a failure without having to wait for an interim levy to be raised. One example of when the facility may be used is to cover the cash-flow gap between making seven-day payouts on deposits and collecting a special levy 30 days after invoicing. However, the facility can be used to make compensation payments across all classes and is not specific to deposit taking.
- £1m for standby electronic pay-out capability. These are ongoing costs that will be incurred once the electronic payment project for faster deposit pay-out has been completed. This will remove the need to make all deposit compensation payments by cheque.
- £1.4m to set up and run an additional new outsource workstream.

## Recoveries – reducing the costs of compensation

- 11.18 The FSCS actively pursues opportunities to recover the costs of compensation. Following the significant compensation paid to investors with Keydata Investment Services Limited, the FSCS is taking action to recover costs from both the assets of Keydata and the underlying investments and from firms who were responsible for the sales of Keydata

<sup>25</sup> Rounding errors may occur.

bonds to investors. The FSCS believes the ultimate level of recoveries could be very significant. The FSCS is also taking action to recover compensation from firms responsible for the sales of PPI policies and other structured products. Total legal and professional expenses incurred by the FSCS to make major recoveries are estimated at £5.3m for 2011/12 and £3.9m is budgeted for 2012/13 to enable this.

### **Specified deposit default (SDD) expenses – Interest costs on loans associated with 2008 bank failures**

- 11.19** To fund the compensation relating to the 2008 bank failures, the FSCS borrowed from the Bank of England and the loans were subsequently refinanced by the Treasury. Interest costs on borrowings by the FSCS are classed as a management expense and are a specific cost element of the management expenses, not a base cost. So the costs are attributable only to the deposit class. Levies to pay for the SDD expenses are currently invoiced by the FSA in July of each year, and are payable by firms by 1 September. The invoice relates to the levy period preceding each July – for example, invoices sent in July 2012 will be for the costs incurred between 1 April 2011 and 31 March 2012.
- 11.20** SDD expenses for the 2011/12 financial year, which will be levied in July 2012, are forecast to be £360.7m based on actual costs to date and an average rate of 1.99% for the remaining months of 2011/12.
- 11.21** SDD expenses for the 2012/13 financial year will be levied in July 2013. It should be noted that the continuing terms to apply after 31 March 2012 are still to be agreed with the Treasury, including the interest rate applied, which may change from the current terms. The total SDD expenses for 2012/13 are estimated at £376.1m; this includes an illustrative amount of £374.9m in SDD interest expenses. The interest expenses have been estimated based on the interest rate applied in 2011/12 (12 month LIBOR + 30 basis points) and may change.
- 11.22** These interest costs are the largest component of FSCS management expense. This is particularly sensitive to the level of interest rates on the SDD loans. The calculation of SDD expenses for the 2012/13 levy year is forecast based on a projected loan interest rate of 1.99% (LIBOR + 30 basis points). It should be noted that a 0.5% change affects the annual interest cost by some £100m, and underlying assumptions about the principle amount can also change (e.g. further recoveries are received before the year end). In future, the level of expense incurred could change. To accommodate this uncertainty, the proposed MELL is set at a level that allows for some interest rate increases.

## Contingency reserve

- 11.23** The contingency reserve allows the FSCS to levy additional funds without further formal consultation. The contingency reserve proposed for 2012/13 is £558.7m. Of this, the majority is to accommodate possible increases in interest rates on the SDD loans.
- 11.24** The contingency reserve level requested is not intended to reflect the specific or known costs of any particular future failures, but it is indicative of the costs involved in dealing with large defaults, should they occur, within tight timeframes and given the uncertainties of the financial climate.
- 11.25** In practice, the FSCS is unlikely to raise more than its budgeted expenses, unless there is a specific event or events that require it to do so.
- 11.26** In line with its usual practice, the FSCS will liaise with relevant parties, such as us and trade associations, before raising a levy for its reserve contingency. To the extent that any such levy is for operational and change investment costs over £20m, the FSCS will publish an explanation.

## Value for money – improving cost effectiveness

- 11.27** The FSCS seeks to operate efficiently and ensure value for money. The FSCS is seeking to improve efficiency, in particular improving service quality, turnaround time and controls, while reducing risk and the cost of running the FSCS. In order to achieve this the FSCS is investing in a number of change projects while also carrying out ‘business as usual’ initiatives.
- 11.28** The proposed 2012/13 Budget already includes expense savings of around £1.5m, compared with the previous year’s cost base, mainly in IT and outsourcing costs. The projects and initiatives planned for implementation in 2012/13 are expected to improve cost efficiency and effectiveness of the FSCS. In future years the projects also aim to achieve projected ongoing cost savings of around £1.3m per year across the FSCS cost base.

## Base costs and specific costs

- 11.29** Management expenses are split into base costs and specific costs for levying purposes. Base costs are the general costs associated with running the scheme, which are not dependent on the level of claims made on the FSCS. Base costs are levied across all FSA-authorized firms and are allocated to the FSA authorised firm fee blocks in line with the allocation of our annual funding requirement. FSCS base costs include the cost of the FSCS change investments.
- 11.30** Specific costs are the costs associated with managing claims received by the FSCS following a firm default. Specific costs are levied on the specific industry sub-class for the activities

that compensation claims relate to. Outsourcing and certain other operational costs are also specific costs and are only levied on the sub-class in which the defaults arose.

- 11.31** For more detail on FSCS' operations and proposed levies for 2012/13, please refer to the FSCS 2012/13 Plan and Budget. This will be available on its website shortly after this CP is published: [www.fscs.org.uk/industry/publications/](http://www.fscs.org.uk/industry/publications/)

**Q10:** Do you have any comments on the proposed 2012/13 FSCS management expenses levy limit figure?

**We must receive any responses to Q10 by 29 February 2012**

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Fee-payers should note that estimates referred to in this paper are budgeted and reforecast costs for the FSCS, which are expected to be incurred in the respective financial year. The estimates are based on assumptions of claims volumes and amounts. While these are forecast according to the best available information at the time, actual numbers of claims can be volatile and unforeseeable. The actual amount raised by the overall FSCS levy also depends on any amounts carried forward from the previous financial year and the value of recoveries made by the FSCS. The FSCS levy figures in this paper are indicative only and may change significantly when they are finalised in March 2012.

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### **Compensation cost estimates for 2012/13**

- 11.32** The FSCS provides an initial indication of its current estimated compensation figures and its related funding and levies in its 2012/13 Plan and Budget. This will be available on its website shortly after the publication of this CP: [www.fscs.org.uk/industry/publications/](http://www.fscs.org.uk/industry/publications/)
- 11.33** The FSCS will confirm its actual levy requirements in early April 2012.



## Section IV

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# Funding the Financial Ombudsman Service general levy 2012/13



# 12

## Financial Ombudsman Service general levy 2012/13

*(FEES 5 Annex 1R – draft rules in Appendix 2)*

- 12.1** In this chapter, we consult on the 2012/13 tariff rates for firms in the compulsory jurisdiction (CJ) of the Financial Ombudsman Service (FOS). In Annex 5 we set out the proposed tariff rates for firms in each industry block.<sup>26</sup> In Appendix 2 we set out the draft rules for FEES 5.
- 12.2** The FOS's overall budget is subject to its own consultation<sup>27</sup> on its draft budget and corporate plan, which began on 6 January and ends 20 February 2012.
- 12.3** The deadline for any comments on the proposed general levy tariffs for 2012/13, set out in this chapter, is 2 April 2012.
- 12.4** Under FSMA, the FOS's 2012/13 budget must be set before the financial year begins on 1 April 2012. In March, the FOS's board will present a final budget to the FSA Board and the FSA will be asked to approve the FOS total annual budget, including the amount of the general levy, case fees and the number of free cases.
- 12.5** The FSA board will base its decision on the information available at the time. This will include updated advice from the FOS on:
- its 2011/12 end of year position and the conclusions from its consultation on its corporate plan and draft budget; and
  - any evidence that may indicate increased volatility.

<sup>26</sup> The FOS's general levy is calculated using 'industry blocks', which are similar (but not identical) to the FSA 'fee-blocks'. Each industry block has a minimum levy and, in most cases, the levy then increases in proportion to the amount of 'relevant business' (i.e. business done with private individuals) each firm does. The proportion is called 'tariff rate'.

<sup>27</sup> The FOS's consultation of its Corporate Plan and draft 2012/13 budget is available at [www.financial-ombudsman.org.uk/publications/pdf/plan-budget-2012-13.pdf](http://www.financial-ombudsman.org.uk/publications/pdf/plan-budget-2012-13.pdf)

- 12.6** The tariff rates for firms in the FOS's CJ will be approved by the FSA Board in May. This is because we will not have complete data until the end of March 2012 on actual costs for 2012/13 and actual fee block populations, fee income and fee tariff data.

### Comments on the FOS budget

- 12.7** Comments on the FOS's overall budget for 2012/13, including its reserves policy and PPI supplementary case fee, should be submitted in response to its consultation – which closes on 20 February 2012.
- 12.8** This Consultation Paper does not intend to cover the FOS's overall budget, but we have summarised some key issues here as background to our consultation on the tariff rates for the general levy.
- 12.9** The deadline for any comments on the proposed tariff rates payable by firms under the CJ towards the 2012/13 general levy of the FOS (as described in this chapter) is 28 February 2012.

## Budget and funding

### Funding structure

- 12.10** The FOS is required to budget separately for the CJ, the consumer credit jurisdiction (CCJ) and the voluntary jurisdiction (VJ).
- 12.11** Table 12.1 shows how the FOS's 2012/13 budget is distributed across the jurisdictions.

**Table 12.1: Division of the FOS's 2012/13 budget across jurisdictions**

	£'m	%
Compulsory jurisdiction	187	97.8%
Voluntary jurisdiction	1.3	0.7%
Consumer credit jurisdiction	2.9	1.5%
Total	191.2	100%

- 12.12** Each of these three jurisdictions is funded by a combination of annual fees (levies) and case fees – with the majority coming from case fees (which are currently invoiced and collected once cases have been resolved).<sup>28</sup>

<sup>28</sup> The FSA's power to raise the general levy from authorised firms arises from section 234 of the Financial Services and Markets Act 2000 (FSMA). The FOS's power to charge case fees is in Schedule 17 paragraph 15 of FSMA. The rules on funding are in Chapters 1, 2 and 5 of the Fees Manual (FEES) in the FSA Handbook.

- 12.13** Case fees are paid by authorised firms (covered by the CJ) and other financial businesses (covered by the CCJ or VJ) that have cases referred to the FOS.
- 12.14** Since 2009/10, case fees have been charged only for the fourth and any subsequent cases per firm/business per year. The FOS is consulting on proposals to maintain three free cases annually per firm/business and hold the standard case fee at £500 for the 2012/13 financial year.
- 12.15** From April 2012, the FOS is proposing to introduce a new supplementary PPI case fee of £350, in addition to the standard £500 case fee, relating to complaints involving the mis-sale of PPI, payable after the first 25 PPI mis-sale cases per firm/business per year. In addition, the FOS is proposing that the PPI supplementary case fee be payable when the case is formally taken on (i.e. when it is 'converted') rather than when it is resolved.
- 12.16** The CJ levy (which is raised and collected by the FSA) is payable by all firms authorised or registered by the FSA, including those that have not had any cases referred to the FOS, unless they have notified us that they do not deal with retail customers and are exempt.
- 12.17** The FOS is consulting separately on proposed changes to its funding approach.<sup>29</sup> The consultation began on 6 January and ends 16 April 2012. However, no new funding arrangements will be introduced before April 2013. As such, the existing funding approach will continue until that time.

## Budget assumptions

- 12.18** The FOS's current forecast for 2012/13 is £191.2m. The FOS proposes meeting the additional funding needed for 2012/13 without increasing the general levy. The increase in income would be met through fees from a higher number of cases and the proposed supplementary case fee for PPI complaints. Details of expenditure are set out in the FOS's draft budget for 2012/13.
- 12.19** The volume of its workload is dependent on external factors outside the control of the FOS. The speed at which the FOS is able to progress and close cases is also dependent on external factors; for example, the extent to which firms and consumers cooperate with its investigations or push for final decisions from an ombudsman. Sudden surges (or drops) in complaints about the same product or topic, such as the FOS is currently experiencing with PPI, have a substantial impact on its workload and costs.
- 12.20** For the purpose of its 2012/13 budget, the FOS's consultation forecasts new cases of between 242,250 and 327,750, of which between 140,250 and 189,750 may be cases about PPI (the current forecast for new complaints in 2011/12 is 259,200). This increase is driven primarily by an expected increase in the number of new complaints about PPI in 2012/13.

<sup>29</sup> [www.financial-ombudsman.org.uk/publications/pdf/charging-for-our-work-Jan12.pdf](http://www.financial-ombudsman.org.uk/publications/pdf/charging-for-our-work-Jan12.pdf)

- 12.21** During 2012/13, the FOS aims to continue to make improvements to reduce the average and maximum times for the resolution of cases. The FOS plans to eradicate the number of cases that take more than 18 months to resolve, and aim to come close to meeting its target by the end of 2012/13.
- 12.22** Should the number of cases mirror these ranges, and subject to the volatility issues described below, the FOS believes that its funding needs for 2012/13 can be met without any increase in the basic CJ levy – which has been held at £17.7m since 2009/10. This will involve efficiency savings by the FOS beyond the 10% cost-base reduction it has already achieved as well as investing further in the e-enablement of its processes and systems.
- 12.23** The FOS's forecast unit cost (total costs, excluding financing, divided by the number of case closures) for 2012/13 is £759. This compares with a budgeted unit cost for 2011/12 of £571 and an actual cost for 2011/12 of £530. The FOS attributes the increased unit cost to:
- the cost for the additional resources required to manage the significant volumes of PPI cases (as described below);
  - general inflationary pressures and the rising cost base; and
  - significant change in the types of financial products involved and the complexity of cases. For example, the FOS has seen a reduction in the number of more straightforward credit card 'default charge' cases.
- 12.24** As part of its commitment to ensuring efficiency, and as referred to in CP10/5, the FOS commissioned an efficiency review by the National Audit Office. The FOS published the report in January 2012.<sup>30</sup>

## Volatility

- 12.25** The volatility experienced by the FOS can include sharp fluctuations in case load volumes, as well as unpredictability in what those cases are about. The FOS has seen an increasing volatility in its workload, mainly as a result of mass claims.
- 12.26** Cases about PPI are the latest example of this volatility. By 31 December 2011, the FOS had received over 104,000 cases on PPI for the current financial year, compared to a planned volume of 60,000 for the full financial year. The FOS is receiving PPI cases at a rate of between 2,500 and 3,000 per week.
- 12.27** Forecasts for PPI case volumes remain very uncertain. It is difficult for the FOS to forecast the volume of PPI cases it will expect to receive in 2012/13, given the substantial volumes of complaints being received by the industry and the uncertainty about how and when the industry will handle them. The FOS expects the present rate of PPI cases will remain and in the short term may increase.

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<sup>30</sup> [www.financial-ombudsman.org.uk/news/updates/nao-report.htm](http://www.financial-ombudsman.org.uk/news/updates/nao-report.htm)

- 12.28** Given this volatility and to ensure service standards are the best that can be achieved, the FOS will manage the PPI caseload as a single unit. Given the scale of additional resources required and the speed at which they need to be mobilised, the unit cost of handling PPI cases will be significantly higher than the cost of handling other cases. The FOS does not consider it fair to attribute these additional costs to firms not involved in claims about the mis-sale of PPI.
- 12.29** It is therefore proposing a supplementary case fee of £350, in addition to the standard case fee of £500, for cases involving the mis-sale of PPI.
- 12.30** Since the FOS will incur a significant proportion of these additional costs before individual PPI cases are resolved, it is proposing that the supplementary PPI case fee is payable when it formally takes the case on (i.e. once the case is ‘converted’) rather than when it is resolved. This would have significant cash flow benefits and will help the FOS manage the significant financial risks around its PPI caseload.
- 12.31** Volatility (and its effect on funding) arises from more than the inflow of cases. It is also affected, for example, by the behaviour of firms and by regulatory action, which may lead to more (or fewer) complaints being considered by the FOS. As well as having an impact on the volume of cases, regulatory action may also affect the complexity of cases that the FOS considers. It may also mean a delay to the case fees received by the FOS, if it decides to put cases on hold temporarily.
- 12.32** If some firms routinely take all cases through to the ombudsman final-decision stage or slow down the progress of cases in other ways, this delays cases being closed, increases costs and postpones the receipt of case fees.
- 12.33** Further information on the causes and types of case load volatility the FOS expects in its workload in 2012/13 is set out in Chapter 4 of the FOS’s consultation on its corporate plan and draft budget.<sup>31</sup>
- 12.34** The FOS has set out in further detail in its consultation the number and range of cases it expects to receive during 2012/13 and what impact this may have on its operations.

### **Reserves for 2012/13**

- 12.35** It is essential for confidence in the financial services industry that the FOS is able to operate effectively and efficiently. This requires funding that can deal with the uncertain risks arising from volatility that cannot be reasonably forecast.
- 12.36** Any significant interruption in case-fee income – whether or not accompanied by increased overheads as a result of having to respond to more complex cases – can have a considerable effect on the FOS’s reserves quite quickly.

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<sup>31</sup> [www.financial-ombudsman.org.uk/publications/pdf/plan-budget-2012-13.pdf](http://www.financial-ombudsman.org.uk/publications/pdf/plan-budget-2012-13.pdf)

- 12.37** So, for example, reserves set at 5% of the FOS's overall budget would be used up entirely (through non-receipt of case fees) if 25% of cases could not be progressed for around three months.
- 12.38** In 2011/12, the FOS increased its reserves for the compulsory jurisdiction by £25m in order to manage its financial risks going forward.
- 12.39** The FOS currently holds £30m in reserves. There remains significant challenges, uncertainties and financial risks in its funding model. So it proposes that the reserve is retained for 2012/13 to deal with circumstances where case volumes change significantly outside of their forecast range. Following advice from its audit committee, the FOS Board has reviewed the reserve and is not proposing to seek additional funding in 2012/13.
- 12.40** Although the FOS is consulting on introducing a supplementary PPI case fee to help mitigate some of the financial risks its faces during 2012/13, it will not cater for scenarios of mass claims about non-PPI products or where case volumes change significantly outside of their forecast range.
- 12.41** A reserve of £30m in 2012/13 provides for less than two months operating costs. During 2011/12, the reserve would have provided for three months operating costs.

## CJ levy for 2012/13

### Apportionment among fee blocks

- 12.42** The focus of this consultation is the proposed amounts payable towards the 2012/13 CJ levy by firms in the various fee blocks. Table 12.2 shows the proportions in which the CJ levy would be distributed across the fee blocks.
- 12.43** In line with FEES 5.3.3 G, this is based on the FOS's forecasts for the proportion of resources it expects to devote in 2012/13 to cases from firms in each sector.<sup>32</sup>

**Table 12.2: Distribution of CJ levy based on the 2012/13 forecast of relevant business per industry block**

Industry block		Proportion of total CJ levy (%)
I001	Deposit acceptors, home finance lenders and administrators	49.2%
I002	Insurers – General	15.1%
I003	The Society of Lloyds	0.1%
I004	Insurers – Life	4.2%

<sup>32</sup> FEES 5.3.3 G. The general levy for the ombudsman service is payable across industry blocks. The amount raised from each industry block is based on the budgeted costs and numbers of ombudsman service staff required to deal with the volume of complaints expected about the firms in respect of their relevant business activity in each of those blocks. (Fees Manual: Fees 5).

I005	Fund managers	1.0%
I006	Operators, Trustees and Depositaries of collective investment schemes	0.1%
I007	Dealers as principle	0.1%
I008	Advisory arrangers, dealers or brokers (holding client money)	2.1%
I009	Advisory only firms and arrangers, dealers, or brokers (not holding client money)	2.1%
I010	Corporate finance advisers	0.1%
I013	Cash plan health providers	0.0%
I014	Credit unions	0.1%
I015	Friendly societies	0.0%
I016	Home finance lenders, advisers and arrangers	2.0%
I017	General insurance mediation	23.2%
IA11	Authorised Payment Institutions	0.1%
IS11	Small Payment Institutions and Small e-money issuers	0.1%
IA18	Authorised electronic money institutions	0.4%
IS18	Small electronic money institutions	0.0%

- 12.44** For the basic element of the levy, the total levy remains the same – but the amounts payable by each block vary to reflect changes in the proportions of cases from each block.
- 12.45** For most blocks, the proportions for 2012/13 are broadly similar to those for 2011/12, with the following exceptions.
- 12.46** Block 1 (deposit acceptors) has increased from 39.1% to 49.2% of the total proportion of the general levy collected from firms within the compulsory jurisdiction. This reflects the proportion of the FOS's resources devoted to banking cases. Complaints involving banking continue to be the largest area of work for the FOS. During 2010/11, the FOS received 58,000 banking complaints. For 2012/13, it has forecast to receive 71,000 banking cases.
- 12.47** Block 2 (general insurance) has increased from 12.3% of the total proportion of the CJ levy collected to 15.1%. This reflects the increase in complaint volumes and the FOS resources devoted to these cases, as an increasing number of these complaints are being referred for a final decision.
- 12.48** The FOS has also seen an increase in the volume of complaints in block 16 (mortgage intermediaries) and this is reflected in an increase of 1.5% to 2% of the total proportion of the CJ levy collected.
- 12.49** There is a significant decrease in block 17 (insurance intermediation) from 36.8% to 23.2%. Although the volumes of PPI complaints are not expected to decrease, this decrease reflects the change in the means of recovery for PPI complaints by the proposed introduction of a supplementary PPI case fee.

**12.50** As indicated in our consultation document in October 2011 (CP11/21), we propose modifying the tariff base for e-money issuers so that they are levied on the basis of average outstanding electronic money (averaged over the full year). Given the new tariff basis, we propose the tariff rate be set at £0.0466 per £1000 of outstanding e-money. This reflects a forecast of approximately 600 complaints relating to e-money issuers in 2012/13 for both compulsory and voluntary jurisdictions. We note that, to date, the FOS has received 324 complaints for the 2011/12 year relating to e-money issuers, which is expected to result in 432 complaints for the full financial year. The forecast increase in complaints aims to reflect the liberalisation of the e-money regulatory framework, with a growth in the expected number of participants in the relevant fee block, and a corresponding increase in the complaints workload.

### Apportionment of the CJ levy within fee blocks

- 12.51** Annex 5 sets out the proposed allocation of the CJ levy for 2012/13 within each industry block. The rates for 2011/12 are also included for comparison.
- 12.52** There is a minimum levy in each industry block, and in most cases the levy then increases in proportion to the amount of ‘relevant business’ (i.e. business done with private individuals) each firm does.
- 12.53** For 2012/13, it is estimated that 85.7% of firms will only pay the minimum levy for their block.
- 12.54** Individual firms can calculate the impact of the proposed fees and levies using our online fees calculator.<sup>33</sup>
- 12.55** The general levy tariff rates will be finalised in May 2012 for the 2012/13 fee period.
- 12.56** Case fees are set by the FOS and approved by the FSA, following approval of the FOS’s 2012/13 budget by the FSA board in March 2012. The fees will come into force on 1 April 2012.
- 12.57** Table 12.3 summarises how the proposals for 2012/13 compare with the FOS’s funding for 2011/12.

**Table 12.3: Comparison of FOS’s funding in 2011/12 and 2012/13**

	Proposals for 2012/13	2011/12 Forecast	2011/12 Budget
<b>Budgeted expenditure</b>	£197.6m	£113.1m	£102.9m

<sup>33</sup> [www.fsa.gov.uk/pages/Doing/Regulated/Fees/calculator/index.shtml](http://www.fsa.gov.uk/pages/Doing/Regulated/Fees/calculator/index.shtml)

<sup>34</sup> Including £25m addition to the reserve

<sup>35</sup> Including £25m addition to the reserve

<sup>36</sup> Including £52.4m from PPI supplementary case fees

<b>Budgeted income</b>	£191.2m	£119.7m	£102.9m
<b>Addition to reserves</b>	£0	£25m	£25m
<b>CJ levy</b>	£17.7m	£44.9m <sup>34</sup>	£42.7m <sup>35</sup>
<b>CCJ and VJ levy</b>	£2.0m	£2.4m	£2.8m
<b>Case fees</b>	£172.2m <sup>36</sup>	£97.8m	£82.7m
<b>General levy/case fee split</b>	9:91	31:36	33:67
<b>Case fees</b>	£500 plus £350 supplementary case fee for PPI cases	£500	£500
<b>Estimated case closures</b>	260,000	213,500	180,000
<b>Unit cost</b>	£759	£530	£571
<b>Free cases</b>	3 plus 25 for PPI cases	3	3

**12.58** As in previous years, it is proposed that the 2012/13 budget should continue to be predominantly made up from case fees. This means that firms generating complaints will pay a significantly greater proportion of the FOS's costs than firms that generate few or no complaints.

**Q11:** Do you have any comments on the proposed method of calculating the tariff rates for firms in each fee block towards the CJ levy and our proposals for how the overall CJ levy should be apportioned?

**We must receive any responses to Q11 by 2 April 2012**

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Fee payers should be aware that the final tariff rates for 2012/13 will be finalised by our board at its May 2012 meeting. Therefore the final levy rates could vary from that set out in this paper.

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## Section V

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# Funding the Money Advice Service 2012/13



# 13

## Money Advice Service levies 2012/13

*(FEES 7 – draft rules in Appendix 2)*

- 13.1** In this chapter, we consult on the levies proposed for the Money Advice Service for 2012/13.
- 13.2** The Money Advice Service was established in April 2010 to fulfil a requirement in the Financial Services Act 2010 that we establish a body corporate (the ‘consumer financial education body’) to enhance:
- the understanding and knowledge of members of the public of financial matters (including the UK financial system); and
  - the ability of members of the public to manage their own financial affairs.
- 13.3** It should be noted that legislation and our rules refer to the name the ‘consumer financial education body’ (CFEB). This was an interim name that was used until the launch of the Money Advice Service brand in April 2011.
- 13.4** Two separate levies are proposed for the Money Advice Service in this consultation:
- for delivery of money advice, to raise £46.3m in 2012/13 (£43.7m 2011/12); and
  - for carrying out a central role, from April 2012 in the coordination and provision of debt advice across the UK and to put the funding of debt advice on a sustainable footing – a new responsibility, agreed with government in July 2011.<sup>37</sup>
- 13.5** This new responsibility is consistent with the core statutory functions of the Money Advice Service to improve people’s understanding of financial matters and their ability to manage money well.
- 13.6** In March 2012, the Money Advice Service will publish separate business plans and budgets for its money advice and debt advice work for 2012/13. As these money advice and debt

<sup>37</sup> The government has clarified the consumer education function in the Financial Services Bill, by including express provision for the coordination and provision of debt advice.

advice functions have, for this year, discrete strategic aims and differentiated allocation and recovery models, we have separated the two business activities within this paper.

## Funding and budget for money advice

- 13.7** The total budget for money advice in 2011/12 was £43.7m, all of which came from FSMA-authorised firms, payment institutions and electronic money issuers through the levy. This funded the delivery of a multi-channelled advice service including online, face-to-face and telephone advice, as well as the associated costs for staff, premises, IT investment, marketing and other essential operations.
- 13.8** Key developments for the Money Advice Service during 2011/12 included:
- completing the transition to full operational independence;
  - the launch, on 8 June 2011, of the health check, a new online money planner, with a target of achieving 500,000 visits to the health check by end March 2012; and
  - completing a comprehensive organisation-wide review of products, services and delivery channels and developing a new operating model.
- 13.9** The Money Advice Service have designed a new operating model to improve its ability to deliver on its three core strategic objectives to:
- make it the norm for people to manage money well;
  - to achieve greater leverage from its work; and
  - to operate effectively and authoritatively.<sup>38</sup>
- 13.10** The total budget for delivering the enhanced money advice function in 2012/13 is £46.3m.

**Table 13.1: 2012/13 Breakdown of Money Advice Service expenditure for money advice**

Type of expenditure	Cost £m
Service delivery and ongoing product development – digital/web delivery	2.1
Service delivery and ongoing product development – non digital delivery and development	6.6
Staff and associated costs	7.2
Service transition costs	6.7

<sup>38</sup> See the Money Advice Service's 2011/12 Business Plan for further information about their core strategic objectives: [www.moneyadviceservice.org.uk/\\_assets/downloads/pdfs/businessplan\\_20112012.pdf](http://www.moneyadviceservice.org.uk/_assets/downloads/pdfs/businessplan_20112012.pdf)

<sup>39</sup> Figures relating to expenditure breakdown may vary slightly. The Money Advice Service will confirm breakdown figures in their 2012/13 Business Plan.

Core operational costs	2.8
Consumer communications and marketing – to drive awareness	7.0
Consumer communications and marketing – to promote products	4.9
Consumer communications and marketing – to drive response and utilisation	8.2
Research and evaluation	0.8
<b>Total (inc VAT)</b>	<b>46.3<sup>39</sup></b>

- 13.11** The Money Advice Service's 2012/13 Business Plan, for its money advice activity, will set out in more detail its plans to:
- Conclude the implementation of a new organisational structure with the skills and capabilities necessary to deliver an enhanced service, able to reach 1.9 million people per year by end 2012/13, increasing to 11.3 million people per year by 2016/17.
  - Continue developing a new range of free, tailored and easy-to-access money-management tools, information and advice that enable people to take action, develop good money habits and be in more control of their money. These resources will be tailored to people's individual attitudes to money and relevant to specific key life events such as starting work, starting a family or planning for retirement.
  - Increase the focus of resources to digital products and capabilities. Ensuring this functionality is up-to-date both in terms of the content and the delivery mechanisms, including rich media and decision aids, thought most likely to encourage action.
  - Integrate its delivery channels more comprehensively and effectively.
- 13.12** The Money Advice Service sees increasing and improving its use of cost-effective digital tools and channels as essential to:
- increase substantially the numbers of people using the Money Advice Service; and
  - maximise the impact of its advice on those people in terms of the actions they take with their money and their long-term personal money management behaviour.
- 13.13** The Money Advice Service provides a service to all members of the public. Face-to-face and telephone advice will continue to be a fundamental part of its service, to ensure it meets the needs of all consumers. The Money Advice Service plans to develop its channel management systems to refer consumers to a digital channel where possible. By referring consumers to the most appropriate channel for those with particular needs or preferences, the Money Advice Service will ensure its resources are deployed in the most cost effective way possible.
- 13.14** When development and consumer testing is complete in the first quarter of 2012/13, the Money Advice Service plans to launch an enhanced and revised product set in the second quarter of the year, refined in light of user feedback.

- 13.15** The Money Advice Service plans to develop systems that enable it to share its insights about consumers' financial behaviour, based on intelligence gained from customer contact, with industry and other key stakeholders to:
- promote the exchange of information and ideas among the financial services community;
  - encourage the growing consensus in the financial services industry around the benefits of better-informed consumers becoming more engaged and proactive consumers of a larger range of financial service products; and
  - enhance consumers' experience of financial services.
- 13.16** The Money Advice Service plan to track consumer behaviour, in both short and long term, against a framework of measures. The Money Advice Service plans to measure how aware and engaged consumers are with its service, and whether they have taken actions for themselves as a result of its advice. Short-term targets include:
- reaching 1.9 million users in 2012/13, increasing to 11.3 million users per annum by 2016/17;
  - delivery, across all channels, of one million action plans;
  - 75% of people using the service agreeing it has 'provided them with the information they required';
  - 50% of people using the service agreeing it has 'helped them decide on a course of action'; and
  - 75% of people using the service agreeing 'they will revisit the Money Advice Service'.
- 13.17** The Money Advice Service plans to supplement this with further, detailed, internal operational metrics to ensure efficiency and value for money.
- 13.18** During 2012/13, the Money Advice Service plans to develop a new measure for financial capability, based on consumers money-related attitudes and behaviours, to establish a baseline to measure long-term impact and to further inform its development.
- 13.19** To achieve the targets the Money Advice Service has set, the Money Advice Service plans to substantially increase communications and marketing activity to raise brand and product awareness and encourage consumers to its products. These costs are budgeted at around £20.m, of the money advice budget. The Money Advice Service believes this activity is essential to raise awareness of the service across the population and build trust and engagement necessary to deliver its statutory function and its long-term goal of making it the social norm for people to manage their money well.
- 13.20** More detail on Money Advice Service expenditures will be included in its 2012/13 Business Plan for its money advice function.

## Allocation and recovery for money advice funding

**13.21** Consistent with 2011/12, the Money Advice Service's 2012/13 funding for money advice will come from levies raised from FSMA-authorized firms, payment institutions and electronic money issuers. Overall this will come through an allocation and recovery framework that:

- Mirrors the allocation of Money Advice Service funding to the fee-block structure used to allocate the FSA annual funding requirement (AFR) in 2010/11.
- Recovers those allocations from the firms that have permission to undertake the regulated activities covered by the relevant fee-blocks, based on the size of the business undertaken, using the tariff data (which is the unit of measure for the size of business undertaken) used to calculate FSA periodic fees. This is subject to a fixed £10 minimum levy.

**13.22** The proposed allocation of £46.3m for the money advice funding requirement to the FSA fee-block structure for 2012/13 is set out in Table 13.2.

**Table 13.2: Proposed allocation of money advice 2012/13 budget to fee-blocks, compared to actual allocation for 2011/12**

Fee-Block	Proposed allocation 2012/13 (£m)	Actual allocation 2011/12 (£m)	% year on year change
A.0 Minimum fee	0.2	0.2	0.0%
A.1 Deposit acceptors	14.7	13.9	5.7%
A.2 Home finance providers & administrators	1.1	1.0	5.7%
A.3 Insurers - general	3.5	3.3	5.7%
A.4 Insurers - life	5.5	5.2	5.7%
A.5 Managing agents at Lloyd's	0.1	0.1	5.7%
A.6 The Society of Lloyd's	0.2	0.2	5.7%
A.7 Fund Managers	3.5	3.3	5.7%
A.9 Operators, Trustees and Depositaries of collective investment schemes etc	0.7	0.6	5.7%
A.10 Firms dealing as principal	3.3	3.0	5.7%
A.12 Advisory arrangers dealers or brokers (holding or controlling client money or both)	3.0	2.8	5.7%
A.13 Advisory arrangers dealers or brokers (not holding or controlling client money or both)	4.6	4.3	5.7%
A.14 Corporate finance advisers	0.9	0.8	5.7%
A.18 Home finance providers, advisers and arrangers	1.6	1.5	5.7%

A.19 General insurance mediation	3.5	3.3	5.7%
G. Firms covered by Payment Services Regulations 2009 (PSRs) and Electronic Money Regulations 2011(EMRs)	0.1	0.1	6.5%
<b>Total</b>	<b>46.3</b>	<b>43.7</b>	<b>5.9%</b>
<p>Notes:</p> <p>(i) The individual figures have been rounded up to the nearest 0.1m. The totals reflect the non-rounded up position.</p> <p>(ii) We are proposing to maintain the minimum fee at £10 so have maintained the 2012/13 allocation to the A.0 fee-block as that allocated in 2011/12.</p> <p>(iii) The G fee-block year-on-year movement reflects our approach to new scope firms. We base money advice allocations on FSA allocations for each year that we are in the process of recovering set-up costs until the year when there are no set-up costs - that will be the FSA allocation base for subsequent years.</p>			

- 13.23** The year-on-year increases in the Money Advice Service for money advice allocations will be reflected in the levy rates set out in the draft instrument in Appendix 2. The fees calculator – which is available on the FSA website to help firms calculate the impact of the fees and levy proposals in this CP – also covers the Money Advice Service money advice levy, as well as FSA fees and the FSCS and FOS levies.

**Q12:** Do you have any comments on the proposed 2012/13 Money Advice Service levy rates for money advice?

**We must receive any responses to Q12 by 2 April 2012**

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In Chapter 6 we explain how, in setting draft FSA fee rates for consultation, we estimate the data required for the number of fee-payers in each fee-block and the amount of tariff data (unit of measure of size). We highlight that, in setting the final fee rates in May 2012, we use updated data and therefore final fee rates can materially vary from those set out in this paper. The same caveat applies to Money Advice Service money advice levies as these are calculated on a similar basis.

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## Debt advice funding and budget

- 13.24** From April 2012, the Money Advice Service will carry out a central role in the coordination of debt advice across the UK.
- 13.25** This new responsibility is being assumed following a request from government that the Money Advice Service:

- develops a new more effective and efficient model for providing debt advice that meets the needs of over-indebted people and delivers fair outcomes for them and their creditors; and
- from April 2012, takes over responsibility for funding face-to-face debt advice services in England and Wales, previously funded by the Department for Business, Innovation and Skills (BIS).

**13.26** As an independent body, the Money Advice Service is well placed to use its coordinating role to achieve more from existing resources at a time when demand for debt advice is projected to increase.

**13.27** The total funding required for this activity in 2012/13 is £40.5m, comprising:

- an amount matching the 2011/12 grant agreement funding for free debt advice provided by BIS (£27m);
- equivalent funding for free debt advice in Scotland and Northern Ireland determined by the Barnett Formula; and
- sufficient funding to cover the development of a new more efficient, consistent and customer centric delivery model.

**13.28** The Money Advice Service has also included provision for contingent contractual liabilities under the existing grant agreements with BIS.

**Table 13.3: 2012/13 Breakdown of expenditure for debt advice**

Type of expense	Cost £m
Face to face contracts in England and Wales	27.0
Barnett Formula (10%) for Scotland	2.7
Barnett Formula (2.9%) for Northern Ireland	0.8
<b>Service delivery costs sub-total</b>	<b>30.5</b>
Proposition development costs (including evaluation, procurement, marketing and internal staff costs)	2.2
BIS contracts contingent contractual liabilities	1.8
<b>Total ex VAT for service delivery costs</b>	<b>34.4<sup>40</sup></b>
VAT <sup>41</sup>	6.1
<b>Total (including VAT)</b>	<b>40.5</b>

**13.29** 2012/13 is a transitional year for the Money Advice Service and its debt advice activities. During this year, the Money Advice Service aims to increase the reach of the projects

<sup>40</sup> Rondina errors occur.

<sup>41</sup> Possible VAT charge to be confirmed in the Money Advice Service 2012/13 Business Plan

previously funded by BIS from 100,000 to at least 150,000 consumers per year while maintaining the quality of the advice provided. It will do this by introducing efficiencies, promoting best practice, and making better use of the full range of delivery channels available to debt advice consumers.

**13.30** Additional activity in this transitional year will include:

- Building on the research and consultation undertaken in 2011/12, to design, test, evaluate and finalise proposals for a new model of service delivery for free debt advice. This may also lead to the need for procurement in due course.
- Working with Scottish organisations to fund a series of projects to deliver debt advice across Scotland and with the Department of Enterprise, Trade and Investment in Northern Ireland to fund debt advice services that complement existing provision.

**13.31** Additionally, the Money Advice Service will work to co-ordinate provision from other providers of debt advice, to set standards, ensure effective triage and monitor performance, to ensure consumers get a good deal.

**13.32** Over time, the Money Advice Service will look to align debt advice with its money advice function to create a virtuous circle that minimises the numbers of people falling into unmanageable debt and the numbers of people in need of advice to get out of and stay out of unmanageable debt.

**13.33** Further details of the Money Advice Service's role in relation to debt advice will be available in its 2012/13 Business Plan for debt advice, which will be published in March 2012. The Money Advice Service also intends to publish a series of research reports in setting out the present landscape of debt advice provision in the UK, and what consumers and stakeholders want to see from debt advice services.

## **Allocation of debt advice funding**

**13.34** In conjunction with the Money Advice Service we are proposing that the funding for debt advice is allocated to the firms who will benefit from the provision of debt advice. Research undertaken by the Money Advice Service<sup>42</sup> shows that household debt is 15% unsecured and 85% secured. We are therefore proposing to use this split as the basis for allocating the £40.5m funding requirement between the following fee-blocks:

- £6.1m (15%) to a separate debt advice A.1 (Deposit acceptors) fee-block as the firms undertaking this regulated activity also provide unsecured lending; and
- £34.4m (85%) to a separate debt advice A.2 (Home finance providers and administrators) fee-block as these firms provide secured lending.

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<sup>42</sup> [www.moneyadviceservice.org.uk/about/corporateinformation/research.aspx](http://www.moneyadviceservice.org.uk/about/corporateinformation/research.aspx)

- 13.35** This approach targets the recovery of the debt advice costs to the lenders who are the beneficiaries of the debt advice in particular the secured lenders. When a consumer reaches a crisis debt situation, any debt advice given will ensure that secured debt is the 'priority debt' to be paid ahead of other debt.
- 13.36** Table 13.4 sets out the overall impact of allocating debt advice costs in this way alongside the allocation of money advice costs for 2012/13 compared to 2011/12. We do not propose to set an additional minimum fee for debt advice recovery.

**Table 13.4: Proposed allocation of 2012/13 debt advice funding to the fee-blocks alongside money advice funding for 2012/13 compared to 2011/12 funding**

Fee-Block		(A)			(B)		(A)+(B)	
		Money Advice Service allocation 2011/12 (£m)	Money advice allocation 2012/13 (£m)	% year on year change money advice only	Debt advice allocation 2012/13 (£m)	Total money advice and debt advice allocation 2012/13 (£m) and % year on year change		
A.0	Minimum fee	0.2	0.2	0.0%	0.0	0.2	0.0%	
A.1	Deposit acceptors	13.9	14.7	5.7%	6.1	20.8	49.4%	
A.2	Home finance providers & administrators	1.0	1.1	5.7%	34.4	35.4	3440.0%	
A.3 -A.19	All other MAS fee payers in A fee-block	28.4	30.4	5.7%	0.0	30.4	5.7%	
G	PSRs and EMRs	0.1	0.1	6.5%	0.0	0.1	6.5%	
<b>Total</b>		<b>43.7</b>	<b>46.3</b>	<b>5.9%</b>	<b>40.5</b>	<b>86.8</b>	<b>98.6%</b>	
Notes:								
(i) The individual figures have been rounded up to the nearest 0.1m. The totals reflect the non-rounded up position.								
(ii) We are not levying a minimum fee on debt advice.								

- 13.37** The overall increase in the allocation of Money Advice Service funding in A.2 is substantial and reflects the impact of the 85% secured proportion of debt advice funding (£34.4m) added to this fee-block, which was only allocated £1m of Money Advice Service costs for 2011/12. In the case of A.1, the addition of the 15% unsecured proportion (£6.1m) has less of an impact, as this fee-block was allocated much more of Money Advice Service funding (£13.9m) in 2011/12. Over 80% of the funding allocated to A.2 is recovered from the top ten largest banks and building societies.

- 13.38** Although the largest banks and building societies will pay for most of the debt advice funding, the small firms (who pay variable fees above the minimum fee) and medium size firms will nevertheless see substantial increases in their Money Advice Service fees in 2012/13 – in particular firms that are only in the A.2 fee-block.

### **Recovery within the separate A.1 and A.2 debt advice fee-blocks**

- 13.39** We are also proposing to recover the allocated debt advice funding from the separate A.1 and A.2 fee-blocks in proportion to the amount of outstanding debt rather than the FSA measures of size – Modified Eligible Liabilities (MELs) and annual mortgage transactions respectively. We anticipate this will further target recovery to the firms who have undertaken lending on a large scale.
- 13.40** We propose to base the levy for fee-block A.1 on the total value of unsecured debt owned by firms and the total value of secured debt for A.2. The valuation date will be 31 December of the year preceding the fees year – i.e. 31 December 2011 for the 2012/13 levy. Most firms already report this information, either to the FSA or the Bank of England, so they will not need to submit any additional data. A small number do not submit the relevant returns, so we will write to them separately in March or April 2012. This is basic information on loans which we believe firms will have to hand for their own internal financial reporting. The details are set out below.

#### **Fee-block A.1 – revised tariff base/data**

- 13.41** **Unsecured debt:** The sterling value of all outstanding loans to individuals in the UK, excluding bridging loans and loans secured on dwellings and land. This includes all:
- credit card lending;
  - ‘charge card’ lending, even if the outstanding balance has to be paid off in full at the end of each charging period; and
  - other loans and advances to individuals that are not bridging loans or secured on dwellings or land.
- 13.42** Many firms already provide this data through the Bank of England’s Form BE and as we have access to this data base, they will not need to provide any additional information. We will write separately to those that do not complete Form BE in March or April, asking for the equivalent information. For more detailed definitions, firms should refer to the current Bank of England guidance on Form BE at [www.bankofengland.co.uk/statistics/reporters/defs/def\\_be.pdf](http://www.bankofengland.co.uk/statistics/reporters/defs/def_be.pdf) (lines 29DB3A3 and 29DB3A4).

- 13.43** Credit unions submit the equivalent data through their annual regulatory returns. We will take the information from their latest available returns, so no further action is required on their part.

### **Fee-block A.2- revised tariff base/data**

- 13.44** **Secured debt:** The sterling value of all regulated and non-regulated residential loans to individuals – the sum of gross unsecuritised and securitised balances. Most firms already supply this information to us through the Mortgage Lending and Administration Return (MLAR). We will write to the few that do not in March or April, asking them to apply the definitions set out in the MLAR guidance, which is in our handbook – SUP16 Annex 19B: lines A3.2 and A3.3.
- 13.45** The provisional levy rates for the Money Advice Service debt advice allocations are set out in the draft instrument in Appendix 2. These are based on the information available to us on 30 September 2011. The figures may change when we publish the final rates in May 2012, as we will have the more up-to-date December returns, and we will have filled in the gaps with data from the firms that have not submitted the forms. The fees calculator will not cover debt advice rates. For firms to calculate their debt advice fees under the separate A.1 and A.2 fee-blocks, they should refer to the draft instrument.

**Q13:** Do you have any comments on the proposed 2012/13 Money Advice Service levy rates for debt advice?

### **We must receive any responses to Q13 by 2 April 2012**

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In Chapter 6 we explain how, in setting draft FSA fee rates for consultation, we estimate the data required for the number of fee-payers in each fee-block and the amount of tariff data (unit of measure of size). We highlight that, in setting the final fee rates in May 2012, we use updated data and therefore final fee rates can vary significantly from those set out in this paper. As explained in paragraph 1.45, the same caveat applies to Money Advice Service debt advice levies as these are calculated on a similar basis.

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## Section IV

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# Feedback on policy proposals in CP11/21



# 14

## Feedback on policy proposals

**14.1** This chapter presents our feedback to the comments we received during consultation on a number of policy proposals set out in CP11/21:

- financial penalty scheme;
- UK Listing Authority;
- Regulated Covered Bonds Regulations 2008; and
- modified tariff base for electronic money issuers.

### **Financial penalty scheme**

**14.2** In Chapter 3 of CP11/21, we proposed to change the way we distribute money received from financial penalties across fee-blocks A.0 to A.20 (authorised persons) and operators of multi-lateral trading facilities in fee-block B.

**14.3** We are required under FSMA to operate and publish a scheme to apply the amounts we receive from financial penalties imposed under FSMA for the benefit of authorised persons. The current scheme is set out in Annex 4 of the consolidated Policy Statement on our fee-raising arrangements, published in May 2011.<sup>43</sup> It commits us to distributing the money first to the fee-block/s paying the enforcement costs of the cases that generated penalties, and then distributing any balance across all FSMA ‘A-type’ fee-blocks in proportion to their respective contributions to our annual funding requirement (AFR).

**14.4** An internal review concluded that distributing the balance in this way could be unfair. Firms who are not the subject of any enforcement investigation, but are in a fee-block that pays higher enforcement costs arising from investigations into other firms, do not benefit as

<sup>43</sup> *Consolidated Policy Statement on our fee-raising arrangements and regulatory fees and levies 2011/12* (PS11/07, May 2011).

much as firms in fee-blocks with lower enforcement costs. So instead, we proposed to set the balance first against our wider estimates of enforcement resources by distributing any remaining amounts in proportion to our allocations of enforcement costs.

- 14.5** If we had applied this methodology in the current financial year, it would have increased the financial penalty distribution in several fee-blocks where high estimates of enforcement activity had pushed up the AFR. For example, it would have helped to mitigate the broader impact of increased enforcement activity on corporate finance advisers in fee-block A.14, advisory arrangers, dealers and brokers in A.12, and operators of collective investment schemes, etc in A.9. By contrast, the financial penalty distribution would have been lower in fee-blocks where there was less enforcement activity, such as insurance providers in A.3 and A.4. We believe this confirms that our proposed approach is fairer.

### Consultation responses

We received six responses, all supporting our proposals. As one firm commented: 'It seems fairer that the "good guys" in a fee block should not suffer an increased AFR as a result of increased enforcement action against the "bad guys"'

One firm noted that the allocation was based on estimated enforcement costs and hoped these would become actual costs when the discount was applied. The same firm added that there should be greater visibility in the recovery process against firms that have failed so that firms contributing to the FSCS compensation fund can see that robust action has been taken to recover assets from, or take legal action against, negligent firms.

### Our feedback

Since the comments supported our approach, we will proceed as proposed and have incorporated the new principles into the revised financial penalty scheme in Annex 2 of this CP.

We should make it clear that the penalty discounts have no impact on the AFR allocations to fee-blocks. These are intended to cover our estimated costs for the coming year and do not change once they have been set. The discounts that we apply are calculated from our total actual costs of enforcing cases that closed during the previous year.

The penalty scheme does not apply to the FSCS. However, when the FSCS accepts and pays a claim for compensation, it takes a transfer or assignment of the consumer's rights. These rights enable it to participate as a creditor in the

insolvency process, but also include the right to pursue claims against third parties. The FSCS will seek to make recoveries where it considers it is reasonably possible and cost effective to do so. We will share the feedback about greater visibility in the recovery process with the FSCS so they can consider how they might review communications with levy payers for recoveries.

We have noted the reference to the FSCS as a helpful comment on the effectiveness of our own communications about enforcement more generally. We will keep the comments in mind when explaining our actions on future cases.

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## UK Listing Authority

14.6 In Chapter 4, we proposed changes to the fees charged by the UK Listing Authority (UKLA):

- **Sponsor – change of legal status:** When a sponsor changes its legal status, it has to re-apply for approval, paying the appropriate application fee, and then paying a periodic fee again as a new entity, even if it is only a simple change of legal status and not a substantive change. We proposed to reduce the application fee under these circumstances from £15,000 to £5,000 and make no further charge for the present year's periodic fees (currently a fixed fee of £20,000) if they have already been paid by the previous entity.
- **Document vetting fees:** We decided to revise some of our vetting fees for documents to give a better reflection of the effort we put into processing them. We proposed raising the fee for vetting a non-equity securities note and summary document (Category 6) from £660 to £825, and removing the discount on the fee for vetting a drawdown or base prospectus (Category 8). This category would now be included under Category 4 and charged the full fee of £2,750 rather than £660.
- **Valuation of shares in issue:** UKLA fees for issuers of securities are partly based on the market capitalisation (i.e. market value) of the shares in issue. Where an issuer has more than one type of share in issue, we proposed to base the fee in future on the total market valuation rather than, as now, the share type that has the highest valuation. At the same time, we decided to bring the fees for Global Depositary Receipts (GDRs) into line with other share issues by basing them on the market capitalisation instead of a flat fee.

### Consultation responses and feedback

We received no comments, so we are proceeding with our original proposals. They will go to our March Board, so that they take effect from 1 April.

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## Regulated Covered Bonds Regulations 2008

14.7 In Chapter 5 of CP11/21 we set out the following proposals for a revised fees regime for issuers of regulated covered bonds (RCBs) under the Regulated Covered Bonds Regulations 2008:

- **Application fee:** For an issuer applying to register an RCB, we proposed introducing a two category approach to target the recovery of our costs to the applications that require more of our resources to process. We proposed maintaining the current £25,000 application fee for programmes based on a pool of UK residential mortgages as collateral. We proposed introducing a separate application fee of £45,000 for applications where programmes were collateralised by a different class of assets to reflect the additional work that would be undertaken.
- **Periodic fees:** We proposed introducing a new separate fee-block (G.15) to which a proportion of our annual funding requirement (AFR) will be allocated, reflecting our full ongoing RCB regulatory costs. The costs allocated to the G.15 fee-block will only be recovered from issuers of RCBs and will be a combination of a minimum fee (recovering 75% of the costs allocated) and a variable periodic fee, compared to a single flat fee currently. We proposed that the variable periodic fee would be recovered based on the amount of RCB issuances as at 31 December. We also proposed that the RCB financial penalty scheme mirrors that already in place for authorised firms, revisions to which were consulted on in Chapter 3 of CP11/21.
- **Material change fee:** We proposed introducing a new fee of £6,500 where an issuer proposes to make a material change to the contractual terms of an RCB.

### Consultation responses

We received four responses, including one Trade Association and two RCB issuers.

#### Application fee

One respondent supported the proposals welcoming that we had proposed to keep application fees under review. One respondent acknowledged that the initial assessment of a new asset class may require additional resource. However, they wanted to ensure that the new application fee would recover the full costs and that none would fall to existing issuers. They highlighted that costs may vary depending on whether the application for the new asset class was from an established RCB issuer or a first time issuer new to the whole process. They suggested that a flat fee for an application (regardless of asset class) would be more appropriate, being set at a level that would be expected to cover the costs of all applications.

## Periodic fees

Four respondents commented on the proposed revised methodology for calculating periodic fees and two commented on the proposals for the financial penalty scheme.

### *Methodology*

Three respondents commented on the tariff base (measure of size) we proposed for the variable element of the new G.15 fee-block, i.e. RCBs in issue as at 31 December. Overall they highlighted that a tariff base valued at a point in time does not distinguish between issuers that are actively making issues and others who are inactive – implying a degree of correlation between activity and the level of demand on our resources. Two respondents proposed that the tariff base should be calculated on the value of issuances over 12 months.

Two respondents commented on the level of costs recovered by the minimum fee. Our proposal was that 75% of the costs allocated to the new G.15 fee-block would be recovered from a flat minimum fee. One respondent suggested that there should be cost savings for us where there is more than one issuer from an integrated group: for example, a single site review is possible, policies are aligned, oversight and governance through one process or function. This should therefore be captured within the fee structure, and for simplicity a single fee structure where costs are allocated equally among issuers would be appropriate.

One respondent commented that the minimum fee should recover a much smaller proportion of our costs, as it could act to discourage new entrants and smaller or less frequent issuers. Also, they commented that despite the RCB regime being less than four years old, and the market size and participation being relatively modest and slowing, the costs of our supervision has grown to be quite substantial – estimated in CP11/21 as £1.4m. They suggested we consider the Danish Financial Services Authority's approach, which is to recover costs proportional to the book value of each issuer's outstanding registered covered bonds at the end of each year, with a minimum fee equivalent to £225.

### *Financial penalty scheme*

Two respondents commented on this proposal. One respondent supported the proposal. One respondent asked whether any surplus financial penalties in one year would be used to reduce fees for issuers in subsequent years and whether any rebate would be in proportion with issuance size if we proceeded with this measure.

### **Material change fee**

Three respondents commented on and overall supported this proposal. They also raised three issues:

1. One respondent asked for more clarity, stating that 'material' was not defined and their expectation was that anything minor would not be subject to this fee. Another respondent also asked for more clarity of what constituted a material change for the purposes of the fee.
  2. One respondent suggested a change to the regulations regarding the turnaround time from the current 'within three months' to a 'reasonable period, proportionate to the complexity of the change, but no longer than three months'.
  3. One respondent asked how the fee had been calculated.
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## **Our feedback**

### **Application fee**

As set out in the CP, the new application fee is calculated in line with our general policy for application fees. Under this policy, we recover from applicants the incremental direct costs of processing their applications (overheads and indirect costs are not included, as these are recovered through periodic fees). This approach aims to strike the right balance between ensuring that application fees are not a barrier to entry and that their processing costs do not represent an undue burden on existing participants.

Application fees are set to recover average incremental direct processing costs. Therefore the extent they under or over recover such costs will vary for each individual application. It is not possible to set a flat fee that will recover the costs of every individual application. Where there are factors within a type of application that can cause significant under or over recovery of the flat fee, we address that by introducing differentiated levels of application fees. This is why we proposed the higher fee for issuer applications where the programme would be collateralised by assets other than a pool of UK residential mortgages.

We will be making the rules for the new application fee at the March FSA Board so that it comes into effect from 1 April 2012.

## Periodic fees

### *Methodology*

We believe there is some merit in the suggestion that the tariff base should be calculated on the value of issuances over a period. Also, that we should take account of potential cost savings where there is more than one issuer from an integrated group. Therefore, in Chapter 8 we consult on fees calculated on both the basis set out in CP11/21 and on an alternative basis taking into account these suggestions.

However, our experience has shown that a high proportion of our work is undertaken across issuers regardless of the size of the programmes or level of activity. We therefore continue to be of the opinion that allocating 75% of the total fee-block costs to be recovered through a flat fee is appropriate and fair. Setting a lower minimum fee would result in a number of issuers subsidising, unfairly in our opinion, the fixed amount of work conducted for the benefit of other issuers.

Furthermore, we do not believe that the fees that we are proposing to charge would discourage new entrants. When commencing a new RCB programme, issuers incur costs from a number of sources such as dealer banks, structure advisors, legal counsel, accounting firms, rating agencies. We believe that our regulatory costs are relatively small compared to these other costs. In addition, we also do not believe our overall regulatory costs, amounting to £1.3m for 2012/3, to be substantial relative to the size of the RCB market, currently £97.5bn in terms of bonds outstanding.

### *Financial penalty scheme*

We proposed that the RCB financial penalty scheme mirrors that of the revised FSMA financial penalty scheme, which we discuss further in Chapter 14. The only exception being that any surplus financial penalty (after paying for the cost of the RCB-related enforcement case) could only be applied to the benefit of issuers of RCBs, i.e. not for the benefit of other fee-payers. Therefore, the surplus would be applied to potentially reduce RCB fees to zero in a given year and if a surplus still arose it would be carried forward to the next year and applied to the RCB fees in that year and so on. Any application of financial penalties would be through a discount to the fees to be levied in that year and would reflect the way the fees are calculated.

### **Material change fee**

#### *Our response to the issues raised by respondents*

We have specifically related the material change fee to the circumstances covered under RCB3.5.4D – this is only when the fee will be charged. We do not believe that the well established RCB3.5.4D reference to material change needs any further explanation because we are now charging a fee.

We will consider a material change as soon as possible, taking into account other priority regulatory commitments. Less complex changes may shorten the turnaround time, but where other regulatory commitments are a higher priority for us, this will not necessarily happen. We therefore do not believe that the suggested change to the regulations would add any value in this respect.

The material change fee is calculated on the same basis as application fees. The aim is to recover the costs of considering the application, based on the incremental direct costs of processing it (overheads and indirect costs are not included as these are recovered through periodic fees).

We will be proceeding to make the rules for the material change fee at the March FSA Board so that it comes into effect from 1 April 2012.

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### **Modified tariff base for electronic money issuers**

- 14.8** Following discussions with the industry, we decided in CP11/21 (Chapter 6) to retain average outstanding electronic money as the tariff base for electronic money issuers in fee-block G.10, but we agreed a slight modification to the data they report. We currently ask for an average of six months, ending 31 December, but practitioners pointed out that the calculations might be distorted by seasonal fluctuations in trade, such as the Christmas shopping period. So we proposed to take an average of 12 months to even out the seasonal impact.

## Consultation responses

The issue and its solution were identified by the industry and discussed extensively with the Stakeholder Liaison Group before the CP was published. Both of the comments we received supported our approach.

However, the Electronic Money Association questioned our inclusion of dormant accounts in the fees calculation. They argued that this:

‘does not accurately reflect the risks posed to consumers because most consumers are not likely to claim such funds and therefore significant regulatory risks are unlikely to arise in the future. Applying regulatory fees to such funds would therefore skew the costs of regulation from some business models toward others in a way that does not necessarily reflect the actual distribution of risk.’

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## Our feedback

We will base our fees on an average of 12 months as proposed and make the rule at our March Board, to take effect from 1 April.

We do not agree that dormant accounts should be excluded. In CP11/21, we pointed out that the Electronic Money Regulations 2011 give customers the right to reclaim their balances up to six years after their contracts have ended. Regardless of how many consumers make claims in practice, the money in their accounts has to be safeguarded as customer assets and it remains as a liability on the balance sheet. Consequently, we do not make a regulatory distinction between a ‘live’ and a ‘dormant’ account.

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## Annex 1

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# Compatibility statement and cost benefit analysis

1. When we issue rules for consultation, we are required by Section 155(2)(c) of the Financial Services and Markets Act (FSMA) to explain why we believe our proposals are compatible with our general duties under Section 2 of FSMA and our statutory objectives, which are set out in Sections 3 to 6 of FSMA. This is known as a ‘compatibility statement’.
2. Section 155(9) of FSMA exempts us from having to carry out a cost benefit analysis on our policy proposals for FSA fees and levies for the ombudsman service and the Money Advice Service.

### **Compatibility with our statutory objectives**

3. The fees policy proposals and draft rules we are consulting on build on our earlier consultations on the policy framework for our funding arrangements, and we believe that the current proposals are compatible with our general duties in Section 2 of FSMA.
4. In carrying out our duties, we are required to act in a way that is compatible with our statutory objectives (market confidence and market stability, protection of consumers, and reduction of financial crime), and the Money Advice Service objective of enhancing public understanding of financial matters.

### **FSA regulatory fees and levies rates**

5. As we have stated in previous consultations on fees, our fee-raising arrangements support each of our statutory objectives because they provide the resources that allow us to meet them. They are not intended in themselves to act as vehicles to achieve our statutory objectives.

## FSCS

6. The role of the FSCS is, in general, to provide compensation to consumers of financial products when authorised firms are unable, or likely to become unable, to meet their obligations. The existence of a compensation scheme provides a safety net, offering protection to consumers, which in turn leads to greater confidence in their dealings with financial firms, benefiting all firms and leading to a stronger financial system. If the FSCS was unable to process claims because of financial constraints due to an inappropriate management expenses levy limit (MELL) this would undermine the protection offered to consumers.
7. In light of this, we believe that the proposed FSCS MELL is appropriate. The limit proposed ensures the FSCS has adequate resources to perform its functions for the coming year, including completing projects associated with some of the wider functions envisaged by the 2009 Banking Compensation Reform proposals. In addition, in setting the MELL for 2012/13, we have allowed for sufficient reserve contingency to prevent disruption to the FSCS's work if they need to exceed their operating budget for unexpected reasons.
8. Setting an FSCS MELL figure has no material significance for the reduction of financial crime objectives.

## FOS

9. The overall structure of the FOS's funding arrangements has been consulted on previously and we are not proposing to alter the way in which we calculate the general levy for firms in the FOS's compulsory jurisdiction at this time. However the FOS is consulting separately on proposed future changes to its funding model<sup>1</sup> which began on 6 January and ends 16 April 2012.
10. For 2012/13, the FOS is proposing to introduce a supplementary PPI case fee of £350, in addition to the standard £500 case fee, chargeable when the FOS formally take it on. This does not apply to the first 25 PPI mis-sale cases per firm/entity.

## Money Advice Service

11. Proposals on the Money Advice Service 2012/13 levy reflect its statutory remit to enhance the understanding and knowledge of members of the public on financial matters, and their ability to manage their own financial affairs. This requires a strong communication effort, providing both universal as well as targeted services where necessary. We believe the Money Advice Service levy is appropriate. This year, we have had to incorporate the costs of taking on the

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<sup>1</sup> [www.financial-ombudsman.org.uk/publications/pdf/charging-for-our-work-Jan12.pdf](http://www.financial-ombudsman.org.uk/publications/pdf/charging-for-our-work-Jan12.pdf)

debt advice service and we are satisfied that the Money Advice Service's proposed structure will target recovery on the firms most likely to benefit from the impact of the service.

## **Compatibility with the principles of good regulation**

12. We have outlined in previous fees consultations how our general policy framework has been influenced by the 'have regard' factors in Section 2(3) of FSMA (also known as the 'principles of good regulation'). In this annex we consider how the proposals in this CP take account of these principles.

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

13. Our fee rates are set to recover our costs in carrying out our responsibilities under FSMA and associated legislation. We endeavour to carry out this work in the most efficient and economic way possible, concentrating on areas of activity that pose the greatest risk to our statutory objectives.
14. Our priorities for each financial year are set out in our annual Business Plan, mitigating the risks identified in the Prudential Risk Outlook (PRO) and the Conduct Risk Outlook (CRO), which together replace the Financial Risk Outlook and will be published later in February and March 2012. The Business Plan includes our budget for the forthcoming year, which is the basis for our AFR, which we recover through fees levied on firms. Chapter 2 of this CP includes a summary of our 2012/13 Business Plan, which will be published in March.
15. The FSCS, the FOS and the Money Advice Service are operationally independent, but accountable to us, which means that our resources are not directly involved in carrying out the proposed activities.
16. Our rules for the FSCS include a similar requirement on it to use their resources in the most efficient and economic way when carrying out their functions. Setting the MELL after public consultation encourages good internal management and effective operating procedures.
17. The FOS has stated that it is committed to increasing efficiency and reducing its operating costs. It is consulting separately on its corporate plan and budget where it sets out how it intends to achieve this. The FOS commissioned an efficiency study by the National Audit Office and published the report in January 2012.<sup>2</sup>
18. The Money Advice Service recognises the need to demonstrate that it is delivering its outcomes in an efficient way. To ensure it provides efficiency and value for money it is developing 'impact metrics' and internal operational metrics.

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<sup>2</sup> [www.financial-ombudsman.org.uk/news/updates/nao-report.htm](http://www.financial-ombudsman.org.uk/news/updates/nao-report.htm)

## **The burden to be imposed should be proportionate to the benefits**

19. To investigate whether the burden of a proposal is proportionate to the benefits that are expected to arise from its imposition, we normally carry out a cost benefit analysis. Rules relating to fees are excluded from this requirement. However, we believe we have taken care in framing our proposals to impose burdens that are proportionate.
20. As set out in Chapter 4, our total budget for 2012/13 is £521.1m and in Chapter 9 the total SII SPF budget for 2012/13 is £36.2m.
21. We believe our budgeted expenditure is proportionate, given the scale of the activities needed to deliver our planned work programme. Our AFR for 2012/13 is £578.4m, 15.6% higher than the AFR of £500.5m for 2011/12. This increase reflects our planned work programme for 2012/13, which is driven by our statutory objectives and the risks being faced by the firms and markets we regulate and the consumers who use them.
22. Much of our work is driven by European Union (EU) requirements. We are also continuing to prepare for the restructuring of financial services regulation set out by the Treasury in July 2010. Our plan continues much of the work we started last year contains no significant discretionary initiatives and will be accomplished without increasing our headcount. The key areas for the coming year are set out in Chapter 2 as a summary of our annual Business Plan, which will be published in March.
23. We believe the budgeted expenditure under the SII SPF is proportionate given the scale of the activities to implement this directive. The net amount we are raising in 2012/13 of £25.9m, takes into account the expected underspend for 2011/12. This is within our previous estimate that our costs would be in the range of £100m to £150m over the life of the SII implementation programme.
24. Updating the hourly rates for SPFs as proposed in Chapter 9 will ensure that our charges better reflect our costs, as will the changes to the scope of the SFP for approval of firms' internal models under SII. Similarly, our proposal in Chapter 10 to change how we charge for notifications of agents by payment services providers and electronic money issuers will ensure that we target cost recovery more effectively on the firms that are generating the work, removing the risk of cost subsidy. Clarifying how fund managers should calculate the value of derivatives will reduce the risk of inconsistency.
25. The FSCS's MELL remains as it has since 2009/10, to continue to allow for significant costs associated with the 2008 deposit-taking defaults. This is substantially larger than the limit that was set before the defaults.
26. However, the measures described in Chapter 11, where the FSCS borrowed funds initially from the Bank of England which were refinanced by the Treasury to fund the 2008 deposit taker defaults, have been structured in this way to minimise the immediate impact of these defaults. Had these measures not been implemented, the FSCS would have needed to levy a greater amount, which would have placed an unintended burden on the firms concerned. If

decisive action had not been taken, confidence would have suffered further, leading to further detriment across the whole financial sector.

27. The firms affected by the interest costs relating to the banking default all belong to the deposit class. This is because interest costs are classified as specific costs, which are only attributable to the class in which the defaults arose. Firms in the deposit class are charged FSCS levies in proportion to their share of eligible protected deposits.
28. As described in Chapter 11, the total SDD expenses for the 2012/13 financial year, which will be levied in July 2013, are an illustrative amount of £376.1m. This includes an illustrative amount of £374.9m in SDD interest expenses. It should be noted that the continuing terms to apply after 31 March 2012 are still to be agreed with the Treasury, including the interest rate applied, which may change from the current terms. The interest expenses have been estimated based on the interest rate applied in 2011/12 (12 month LIBOR + 30 basis points) and may change.
29. The FOS continues to see significant growth in volume and the complexity of the cases it receives. FOS is required to resolve cases promptly – however, at the rate it can progress cases can be affected by external factors outside its control, including more cases being referred to an ombudsman for a final decision.
30. We believe that the proposals for the FOS's annual budget are proportionate to the benefits delivered from having a reliable, credible and prompt redress mechanism.
31. The Money Advice Service remit now places a greater focus on outcome-based delivery. In addition to continuing to provide information and advice to members of the public, it is taking on the major new function of delivering a debt advice service.

### **The international character of financial services and the desirability of maintaining the competitive position of the UK**

32. When we set our fees, we consider the fact that many financial services firms are globally mobile and that regulatory costs – both direct (fees) and indirect (compliance) – can be one of the influences affecting decisions about location. By ensuring the calculation of our fees is based on weighting our costs allocation (as far as possible) towards the fee-blocks that take up our resources – and by recovering those costs from firms within the fee blocks through a consistently applied framework – we ensure that they do not present barriers to mobility, while our discounts (other than minimum fees) for passporting firms facilitate cross-border trade.

## Most appropriate method

33. In carrying out our general duties, we are required to act in a way that we consider most appropriate for the purpose of meeting our objectives.
34. We believe that our fees policy proposals are the most appropriate means of raising the funding required to maintain our statutory objectives because they are:
- consistent and built on existing fee-raising arrangements, which have operated since N2 (1 December 2001 – when we gained our powers);
  - targeted towards the most appropriate firms; and
  - influenced by our risk-based approach to achieving our statutory objectives; and
  - compatible with the legal framework provided by both FSMA and our Handbook.
35. We do not consider that the changes we are consulting on will have any significant effect on the other principles.

## Cost benefit analysis (CBA)

36. For the FSCS levy, FSMA requires a cost-benefit analysis comparing the position if the MELL is set as proposed with the position if the limit were either not set, or set at a lower amount.
37. If the limit was not set, the position is clear – the FSCS would be unable to operate. If the limit was set at a lower amount than proposed, the FSCS would either not have the resources to deal adequately with the expected number of claims or – in the case of the contingency reserves – would not have the flexibility to increase its resources to deal with higher claims than expected or upward changes in the level of the interest costs on the special deposit default (SDD) loans during the year ahead.
38. In either case, resource limitations on FSCS operations could affect consumers. If the FSCS is unable to meet its obligations, consumer protection is undermined and the associated cost would outweigh any benefits arising from the reduction of firms' levies. Therefore we should reject both of the above on CBA grounds.
39. The FSCS would use the contingency reserve account only in the case of unexpected events that are not already covered by its budgeted operating costs. The need to use the reserve contingency account will be kept under review by the FSCS and will be subject to further discussion with relevant parties before raising an additional levy.
40. The interest costs for the 2012/13 financial year, which will be levied in July 2013, are an illustrative amount of £374.9m, based on the interest rate applied in 2011/12 (12 month LIBOR + 30 basis points). It should be noted that HMT and the FSCS are currently agreeing the terms of the loan to apply after 31 March 2012 and the terms, including the interest rate applied, may change.

41. For 2011/12 the SDD expenses are estimated at £360m, based on actual costs to date and an average of 1.99% (LIBOR + 30bps). A 0.5% increase of interest rates affects the annual interest costs by some £100m. To accommodate this uncertainty, the proposed contingency reserve is set at a level that allows for some interest rate increases.



## Annex 2

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# Revised Financial Penalty Scheme under the Financial Services and Markets Act 2000

1. We are required under FSMA to operate and publish schemes to ensure that:
  - financial penalties imposed under FSMA are applied for the benefit of authorised persons; and
  - financial penalties imposed under Part 6 of FSMA are applied for the benefit of the issuers of securities admitted to the Official List, and issuers who have requested or approved the admission of financial instruments to trading on a regulated market.
2. By publishing details of the schemes in this annex, we are complying with the requirements of sections 100(4), 100(5) and paragraphs 16(4) and 16(5) of part III of schedule 1 of FSMA.

### **Penalties received under section 206 of FSMA**

3. This section of FSMA gives us the power to impose penalties on authorised persons who have contravened requirements imposed on them.
4. Generally, penalties imposed under this section are for activities undertaken in a particular fee-block or blocks. Taking enforcement action raises the annual funding requirement (AFR) for all the firms in the fee-blocks concerned. We intend to apply the money received as a result of penalties to reduce the impact on firms who are not the subject of any enforcement investigation, but are in fee blocks where our investigations into other firms generate enforcement activity. The fee-blocks affected are A.0 – A.20 and operators of

multi-lateral trading facilities in fee-block B. Money received from financial penalties under this section is distributed to benefit authorised firms in the following order:

- firstly, it is allocated to the fee-block(s) paying the enforcement costs of the specific closed cases that gave rise to the penalties, to meet the costs of enforcement action in full, where possible;
  - secondly, any remaining money is distributed across fee-blocks to meet the costs of enforcement cases that closed during the year without leading to penalties;
  - thirdly, any remaining money is distributed across fee-blocks in proportion to the projected costs of enforcement for the coming year; and
  - finally, if any money remains from penalties after all the enforcement costs have been met, it is applied to all authorised firms (fee-blocks A.0 – A.20) and operators of multi-lateral trading facilities in fee-block B, in proportion to their respective contributions to our AFR.
5. These distributions are applied in the financial year after we receive the penalty money. If at any stage in this process applying the money from penalties would exceed the total AFR for any particular fee-block, the surplus is returned to the total remaining penalty pot and applied to the other fee-blocks in the same order.
6. An individual authorised firm should not benefit from deductions generated by a penalty we have imposed on it. We therefore invoice the firm to recover the value of the deduction, provided it exceeds £250.

### **Penalties received under section 66 of FSMA**

7. This section of FSMA gives us the power to impose a penalty on any person guilty of misconduct while an **approved person** in the circumstances set out under section 66.
8. Penalties imposed on approved persons will be treated as if the fine had been imposed on the authorised person that employed them when the misconduct occurred. They are dealt with in the same manner as penalties received under section 206, as set out in paragraphs 4 to 6.

### **Penalties received under section 91 of FSMA**

9. This section of FSMA gives us the power to impose penalties for breach of Part 6 rules.
10. Penalties imposed under this section of FSMA are applied for the benefit of issuers of securities admitted to the Official List, and issuers who have requested or approved the admission of financial instruments to trading on a regulated market, in fee-block E.

## Penalties imposed under section 123 of FSMA

11. Section 123 of FSMA gives us the power to impose penalties on any person that has engaged in market abuse. How we will apply penalties that we receive under this section of FSMA, for the benefit of authorised persons, differs with the nature of the person to which the penalty applies. The scheme operates as follows:
- market abuse penalties imposed on **authorised persons** are dealt with, as penalties received under section 206, in the manner described in paragraphs 4 to 6;
  - market abuse penalties imposed on **approved persons** will be treated as if the fine had been imposed on the authorised person that employed them when the abuse occurred, and so allocated as in the manner described in paragraphs 4 to 6; and
  - market abuse penalties imposed on persons who are **neither approved nor authorised** are applied for the benefit of all authorised persons – fee-blocks A.0 to A.20 and operators of multi-lateral trading facilities in fee-block B, in proportion to the AFR of each fee-block.



## Annex 3

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# List of consultation questions

### Chapter 6

**Q1:** Do you have any comments on the proposed FSA 2012/13 minimum fees and periodic fee rates for authorised firms?

**Deadline:** 2 April 2012

### Chapter 8

**Q2:** Do you have any comments on the proposed FSA 2012/13 minimum fees and periodic fee rates for fee-payers other than authorised firms?

**Deadline:** 29 February or 2 April 2012 (refer to chapter)

**Q3:** Do you have any comments on which basis we should use to calculate periodic fees for the issuers of regulated covered bonds?

**Deadline:** 2 April 2012

## Chapter 9

**Q4:** Do you have any comments on the proposed IMAP SPF for 2012/13 or the proposed circumstances under which it will be payable by firms?

**Deadline:** 2 April 2012

**Q5:** Do you have any comments on the proposed non-IMAP SPF for 2012/13?

**Deadline:** 2 April 2012

## Chapter 10

**Q6:** Do you agree with our proposal to: replace the agent bandings for authorised payment institution applications with an agent registration fee; introduce an agent notification fee in arrears for all notifications during the previous calendar year; and extend this structure to authorised electronic money issuers?

**Deadline:** 2 April 2012

**Q7:** Do you agree with our proposed amendments to Part J of the Retail Mediation Activities Return (RMAR) to allow firms to report their annual regulated income?

**Deadline:** 29 February 2012

**Q8:** Do you have any comments on the proposed revised hourly rates for restructuring SPFs?

**Deadline:** 2 April 2012

**Q9:** Do you agree with our proposal to direct fund managers to the guidance in SUP16 Annex 25G when calculating the value of their derivative instruments, subject to the proviso on underlying assets that are reported separately within the same group?

**Deadline:** 2 April 2012

## Chapter 11

**Q10:** Do you have any comments on the proposed 2012/13 FSCS management expenses levy limit figure?

**Deadline:** 29 February 2012

## Chapter 12

**Q11:** Do you have any comments on the proposed method of calculating the tariff rates for firms in each fee block towards the CJ levy and our proposals for how the overall CJ levy should be apportioned?

**Deadline:** 2 April 2012

## Chapter 13

**Q12:** Do you have any comments on the proposed 2012/13 Money Advice Service levy rates for money advice?

**Deadline:** 2 April 2012

**Q13:** Do you have any comments on the proposed 2012/13 Money Advice Service levy rates for debt advice?

**Deadline:** 2 April 2012



## Annex 4

# Location of fees and levy rules and guidance in the FSA Handbook

1. All rules and guidance on regulatory fees and levies are consolidated in the Fees manual (FEES) in our Handbook. Table A4 shows the organisation of rules and guidance in FEES.
2. Our powers to make rules for paying fees are in FSMA, at paragraph 17 of Part 3 of Schedule 1. Section 99 of FSMA sets out our power to make fee rules for the UK Listing Authority.

**Table A4: Location of fees rules and guidance in FEES**

Chapter	Fees rules and guidance, and fee annexes
<b>FEES 1</b>	<b>Application and purpose</b>
<b>FEES 2</b>	<b>General provisions</b>
<b>FEES 3</b>	<b>Application, notification and vetting fees</b>
Annex 1R	Authorisation fees payable
Annex 2R	Application and notification fees payable in relation to collective investment schemes
Annex 3R	Application fees payable in connection with Recognised Investment Exchanges and Recognised Clearing Houses
Annex 4R	Application and administration fees in relation to listing rules
Annex 5R	Document vetting and approval fees in relation to listing and prospectus rules
Annex 6R	Fees payable for permission or guidance on its availability in connection with the Basel Capital Accord

Annex 7R	Fees where changes are made to firms' transaction reporting systems and the FSA is asked to check that these systems remain compatible with FSA systems
Annex 8R	Fees payable for authorisation as an authorised payment institution or registration as a small payment institution in accordance with the Payment Services Regulations
Annex 9R	Special Project Fee for restructuring
Annex 10R	Fees payable for authorisation as an authorised electronic money institution or registration as a small electronic money institution or variation thereof in accordance with the Electronic Money Regulations
<b>FEES 4</b>	<b>Periodic fees</b>
Annex 1R	Activity groups, tariff bases and valuation dates applicable
Annex 2R	Fee tariff rates, permitted deductions and EEA/Treaty firm modifications for the period from 1 April 2011 to 31 March 2012
Annex 3R	Transaction reporting fees
Annex 4R	Periodic fees in relation to collective investment schemes payable for the period 1 April 2011 to 31 March 2012
Annex 5R	Periodic fees for designated professional bodies payable in relation to the period 1 April 2011 to 31 March 2012
Annex 6R	Periodic fees for recognised investment exchanges and recognised clearing houses payable in relation to the period 1 April 2011 to 31 March 2012
Annex 7R	Periodic fees in relation to the Listing Rules for the period 1 April 2011 to 31 March 2012
Annex 8R	Periodic fees in relation to the discolour rules and transparency rules for the period 1 April 2011 to 31 March 2012
Annex 9R	Periodic fees in relation to securities derivatives for the period from 1 April 2010 to 31 March 2011
Annex 10R	Periodic fees for MTF operators payable in relation to the period 1 April 2011 to 31 March 2012
Annex 11R	Periodic fees in respect of payment services carried on by fee-paying payment service providers under the Payment Services Regulations and electronic money issuers under the Electronic Money Regulations in relation to the period 1 April 2011 to 31 March 2012
Annex 12G	Guidance on the calculation of tariffs set out in FEES 4 Annex 1R Part 2
<b>FEES 5</b>	<b>Financial Ombudsman Service Funding</b>
Annex 1R	Annual Fees Payable in Relation to 2011/12
<b>FEES 6</b>	<b>Financial Services Compensation Scheme Funding</b>
Annex 1	Management Expenses Levy Limit
Annex 2	Annual levy limits
Annex 3	Classes and sub-classes

Annex 4	Guidance on the calculation of tariff bases
<b>FEES 7</b>	<b>CFEB levies (Money Advice Service)</b>
Annex 1R	CFEB levies for the period from 1 April 2011 to 31 March 2012

Notes: Fees for unauthorised mutuals – the ‘registrant-only’ fee-block – are in rules outside the FSA Handbook. They are available at: [www.fsa.gov.uk/doing/small\\_firms/msr](http://www.fsa.gov.uk/doing/small_firms/msr)



## Annex 5

# FOS general levy – overview of industry blocks 2012/13

Industry Block	Description	Tariff Base	Proposed 2012/13 tariff rate	Actual 2011/12 tariff rate	Proposed 2012/13 minimum levy per firm	Actual 2011/12 minimum levy per firm	Proposed 2012/13 gross total	Actual 2011/12 gross total	Proposed 2012/13 contribution by block	Actual 2011/12 contribution by block
1	Deposit acceptors, home finance lenders and administrators (excluding firms in block 14)	Per relevant account	0.0321	0.0643648	100	100	£8,708,200	£16,701,075	49.2%	39.1%
2	Insurers – general (excluding firms in blocks 13 & 15)	Per £1,000 of relevant annual gross premium income	0.1286	0.21626	100	100	£2,670,000	£5,237,172	15.1%	12.3%
3	Society of Lloyd's		0	0	20,000	48,116	£20,000	£48,116	0.1%	0.1%

## Regulatory fees and levies – rates proposals 2012/13

Industry Block	Description	Tariff Base	Proposed 2012/13 tariff rate	Actual 2011/12 tariff rate	Proposed 2012/13 minimum levy per firm	Actual 2011/12 minimum levy per firm	Proposed 2012/13 gross total	Actual 2011/12 gross total	Proposed 2012/13 contribution by block	Actual 2011/12 contribution by block
4	Insurers – life (excluding firms in block 15)	Per £1,000 of relevant adjusted annual gross premium income	0.0146	0.038445	100	100	£740,000	£1,785,187	4.2%	4.2%
5	Fund managers	Flat fee	0	0	200	485	£180,000	£440,380	1.0%	1.0%
6	Operators, Trustees and Depositories of collective investment schemes	Flat fee	0	0	50	120	£20,500	£50,880	0.1%	0.1%
7	Dealers as principal	Flat fee	0	0	50	125	£13,400	£32,500	0.1%	0.1%
8	Advisory arrangers, dealers or brokers holding and controlling client money and/or assets	Per relevant approved person	15	36.98	35	35	£370,000	£894,574	2.1%	2.1%
9	Advisory arrangers, dealers or brokers not holding and controlling client money and/or assets	Per relevant approved person	10	30.02	35	35	£370,000	£895,985	2.1%	2.1%
10	Corporate finance advisors	Flat fee	0	0	50	130	£13,900	£33,540	0.1%	0.1%

Industry Block	Description	Tariff Base	Proposed 2012/13 tariff rate	Actual 2011/12 tariff rate	Proposed 2012/13 minimum levy per firm	Actual 2011/12 minimum levy per firm	Proposed 2012/13 gross total	Actual 2011/12 gross total	Proposed 2012/13 contribution by block	Actual 2011/12 contribution by block
11	Fee-paying payment service providers (excluding firms in any other industry block)	Authorised payment institutions per £1,000 of relevant income	0.0153	0.040854	75	75	£25,000	£62,957	0.1%	0.1%
13	Cash plan health providers	Small payment institutions and small e-money issuers a flat fee	0	0	50	150	£21,000	£81,300	0.1%	0.2%
14	Credit unions	Flat fee	0	0	50	125	£600	£1,500	0.0%	0.0%
15	Friendly societies whose tax exempt business represents 95% or more of their total relevant business	Flat fee	0	0	50	125	£23,000	£56,875	0.1%	0.1%
16	Home finance providers, advisers and arrangers (excluding firms in blocks 13, 14 & 15)	Flat fee	0	0	50	110	£348,000	£650,100	2.0%	1.5%

## Regulatory fees and levies – rates proposals 2012/13

Industry Block	Description	Tariff Base	Proposed 2012/13 tariff rate	Actual 2011/12 tariff rate	Proposed 2012/13 minimum levy per firm	Actual 2011/12 minimum levy per firm	Proposed 2012/13 gross total	Actual 2011/12 gross total	Proposed 2012/13 contribution by block	Actual 2011/12 contribution by block
17	General insurance mediation	Per £1,000 of relevant business annual income	0.3582	1.6492774	85	85	£4,099,500	£15,718,115	23.2%	36.8%
18	Electronic money institutions	Per £1,000 of outstanding electronic money	0.0466	0	75	180	£71,000	£6,300	0.4%	0%
		Small electronic money institutions	0	0	50	180	£2,400	£7,200	0.0%	0%
	<b>Total – all blocks</b>						<b>£17,700,000</b>	<b>£42,712,381</b>	<b>100.0%</b>	<b>100.0%</b>

## Annex 6

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# List of non-confidential respondents to Chapters 3 – 6 of CP11/21

Absalon Project

Building Societies Association

Electronic Money Association

Institute of Chartered Accountants in England and Wales

Investment Management Association

Killik & Co

Page Russell Ltd



## Appendix 1

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# Draft rules and guidance for consultation response by 29 February 2012

## FEES PROVISIONS (2012/2013) INSTRUMENT 2012

### Powers exercised

- A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in or under the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 99 (Fees);
  - (2) section 101 (Part 6 rules: general provisions);
  - (3) section 156 (General supplementary powers);
  - (4) section 157(1) (Guidance);
  - (5) section 213 (The compensation scheme);
  - (6) section 223 (Management expenses);
  - (7) paragraph 17(1) (Fees) of Schedule 1 (The Financial Services Authority); and
  - (8) paragraphs 1 (General), 4 (Rules), and 7 (Fees) of Schedule 7 (The Authority as Competent Authority for Part VI).
- B. The rule-making powers listed above are specified for the purposes of section 153(2) (Rule-making instruments) of the Act.

### Commencement

- C. This instrument comes into force on 1 April 2012.

### Amendments to the Handbook

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

### Citation

- E. This instrument may be cited as the Fees Provisions (2012/2013) Instrument 2012.

By order of the Board  
XX March 2012

## Annex

## Amendments to the Fees manual (FEES)

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

**4 Annex 5R** Periodic fees for designated professional bodies payable in relation to the period 1 April ~~2011~~ 2012 to 31 March ~~2012~~ 2013

Table of fees payable by Designated Professional Bodies

Name of Designated Professional Body	Amount payable	Due date
The Law Society of England & Wales	<del>£41,530</del> <u>£36,595</u>	30 April <del>2011</del> <u>2012</u>
...	...	
...		

...

**4 Annex 6R** Periodic fees for recognised investment exchanges and recognised clearing houses payable in relation to the period 1 April ~~2011~~ 2012 to 31 March ~~2012~~ 2013

...

Part 1 – Periodic fees for UK recognised clearing houses and recognised investment exchanges

Name of UK recognised body	Amount payable	Due date
Euroclear UK & Ireland Limited	<del>£325,000</del>	30 April <del>2011</del> <u>2012</u>
	<u>£300,000</u>	
	...	
ICE Futures Europe Ltd	<del>£255,000</del>	30 April <del>2011</del> <u>2012</u>
	<u>£250,000</u>	
	...	
LIFFE Administration and Management	<del>£400,000</del>	30 April <del>2011</del> <u>2012</u>
	<u>£375,000</u>	
	...	

LCH Clearnet Limited	£375,000	30 April 2011 <u>2012</u>
	<u>£350,000</u>	
	...	
The London Metal Exchange Limited	£237,500	30 April 2011 <u>2012</u>
	<u>£225,000</u>	
	...	
London Stock Exchange plc	£335,000	30 April 2011 <u>2012</u>
	<u>£307,000</u>	
	...	
<del>EDX London Ltd</del>	£60,000	30 April 2011
	£30,000	1 September 2011
PLUS Markets Plc	£110,000	30 April 2011 <u>2012</u>
	<u>£95,000</u>	
	...	
European Central Counterparty Limited	£187,500	30 April 2011 <u>2012</u>
	<u>£177,500</u>	
	...	
ICE Clear Europe Limited	£275,000	30 April 2011 <u>2012</u>
	<u>£270,000</u>	
	...	
Chicago Mercantile Exchange Clearing Europe	£125,000	30 April 2011 <u>2012</u>
	<u>£200,000</u>	

...

**6 Annex 1R Financial Services Compensation Scheme – Management Expenses Levy Limit**

This table belongs to FEES 6.4.2R	
Period	Limit on total of all management expenses levies attributable to that period (£)
...	
1 April 2011 to 31 March 2012	£1,000,000,000
<u>1 April 2012 to 31 March 2013</u>	<u>£1,000,000,000</u>



## Appendix 2

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# Draft rules and guidance for consultation response by 2 April 2012

**PERIODIC FEES (2012/2013) AND OTHER FEES INSTRUMENT 2012**

- A. The Financial Services 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 99 (Fees);
    - (b) section 101 (Part 6 rules: general provisions);
    - (c) section 156 (General supplementary powers);
    - (d) section 157(1) (Guidance);
    - (e) section 234 (Industry Funding);
    - (f) paragraph 17(1) (Fees) of Schedule 1 (The Financial Services Authority);
    - (g) paragraph 12 of Part 2 (Funding) of Schedule 1A (Further provision about the Consumer Financial Education Body); and
    - (h) paragraphs 1 (General), 4 (Rules), and 7 (Fees) of Schedule 7 (The Authority as Competent Authority for Part VI);
  - (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)
    - (c) regulation 46 and paragraph 5 of Schedule 1 (fees)
- B. The rule-making powers listed above are specified for the purposes of section 153(2) (Rule-making instruments) of the Act.

**Commencement**

- C. This instrument comes into force on 1 June 2012.

**Amendments to the Handbook**

- D. The Fees manual (FEES) is amended in accordance with Annex A to this instrument.
- E. The Supervision manual (SUP) is amended in accordance with Annex B to this instrument.

**Citation**

- F. This instrument may be cited as the Periodic Fees (2012/2013) and Other Fees Instrument 2012.

By order of the Board  
XX May 2012

## Annex A

## Amendments to the Fees manual (FEES)

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

**3 Annex 8R Fees payable for authorisation as an authorised payment institution or registration as a small payment institution, including notification fees, in accordance with the Payment Services Regulations**

Authorisation and registration fees payable

Application <u>or firm</u> type for authorisation, <del>or</del> registration <u>and notification</u> under Part 2 of the <i>Payment Services Regulations</i>	Amount payable
...	
(4) <u>authorised payment institution</u> - where, <u>at the time the application is made</u> , the applicant <del>has or</del> intends to have <u>use between 2,500 and 5,000 agents</u>	<p>£12,500</p> <p><u>£3 for each agent registered with the FSA at the time of application.</u></p> <p><u>This fee is in addition to any fee due under paragraph (2) or (3) of this table.</u></p>
(5) <u>authorised payment institution</u> – where, <u>during the course of the FSA financial year</u> , the applicant <del>firm</del> <u>notifies the FSA of any changes to the list of agents it has registered since authorisation</u> <del>has or intends to have more than 5,000 agents</del>	<p>£25,000</p> <p><u>£3 for each change notified to the FSA during the FSA financial year.</u></p> <p><u>No fee is due if the total number of notifications to the FSA during the financial year numbers 100 or less.</u></p>

**3 Annex 9R Special Project Fee for restructuring**

...		
(11) R	Table of hourly rates:	
	FSA pay grade	Hourly rate (£)

	Administrator	<del>25</del> <u>30</u>
	Associate	<del>50</del> <u>55</u>
	Technical Specialist	<del>85</del> <u>100</u>
	Manager	<del>90</del> <u>110</u>
	Any other person employed by the <i>FSA</i>	<del>135</del> <u>160</u>
...		

**3 Annex 10R Fees payable for authorisation as an authorised electronic money institution or registration as a small electronic money institution or variation thereof in accordance with the Electronic Money Regulations**

Authorisation, registration and variation fees payable

Application type for authorisation, registration or variation under Part 2 of the <i>Electronic Money Regulations</i>	Amount payable
...	
<u>(3) electronic money institution - where, at the time the application is made, the applicant intends to use agents</u>	<p><del>£12,500</del></p> <p><u>£3 for each agent registered with the FSA at the time of application.</u></p> <p><u>This fee is in addition to any fees due under paragraph (1) or (2) of this table.</u></p>
<u>(4) electronic money institution – where, during the course of the FSA financial year, the firm notifies the FSA of any changes to the list of agents it has registered since its authorisation</u>	<p><del>£25,000</del></p> <p><u>£3 for each change notified to the FSA during the FSA financial year.</u></p> <p><u>No fee is due if the total number of notifications to the FSA during the financial year numbers 100 or less.</u></p>

...

**4 Annex 1R Activity groups, tariff bases and valuation dates applicable**

...

Part 2	...
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Activity group	Tariff base
...	...
A.7	<p>...</p> <p><b>Notes on FuM</b></p> <p>...</p> <p><u>(f) If the <i>firm</i> is managing an overlay portfolio of <i>derivative</i> instruments and the underlying assets are managed by itself or a <i>firm</i> within the same <i>group</i> that has not reported them separately to the <i>FSA</i>, or by a <i>firm</i> outside its <i>group</i>, then it should calculate the value of the <i>derivatives</i> and other assets as prescribed in the <i>guidance</i> in FSA038 in SUP 16 Annex 25G.</u></p> <p><u>If the underlying assets are managed by another <i>firm</i> within the same <i>group</i> who has reported their value separately to the <i>FSA</i>, then to avoid double-counting within the <i>group</i>, the calculation must be restricted to the exposure of the overlay.</u></p>

...

**4 Annex 2R Fee tariff rates, permitted deductions and EEA/Treaty firm modifications for the period from 1 April ~~2011~~ 2012 to 31 March ~~2012~~ 2013**

Part 1

This table shows the tariff rates applicable to each fee block

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

		<del>Column 1</del> General Periodic fee		
	>10 – 140	<del>33.44</del> <u>41.13</u>		
	>140 – 630	<del>33.44</del> <u>41.13</u>		
	>630 – 1,580	<del>33.44</del> <u>41.13</u>		
	>1,580 – 13,400	<del>41.80</del> <u>51.41</u>		
	>13,400	<del>55.18</del> <u>67.86</u>		
	...			
A.2	Band width (No. of mortgages and/or home finance transactions)	Fee (£/mortgage)		
	>50 - 130	<del>1.79</del> <u>1.92</u>		
	>130 – 320	<del>1.79</del> <u>1.92</u>		
	>320 – 4,570	<del>1.79</del> <u>1.92</u>		
	>4, 570 – 37,500	<del>1.79</del> <u>1.92</u>		
	>37,500	<del>1.79</del> <u>1.92</u>		
A.3	Gross premium income (GPI)	Column 1 General periodic fee	Column 2 Solvency 2 Implementation fee	Column 3 Solvency 2 Special Project fee
	Minimum fee (£)	Not applicable	25.00	25.00
	Band Width (£ million of GPI)	Fee (£/£m or part £m of GPI)		
	>0.5 – 10.5	<del>505.51</del> <u>658.19</u>	<del>119.38</del> <u>107.88</u>	<del>127.57</del> <u>47.07</u>
	>10.5 – 30	<del>505.51</del> <u>658.19</u>	<del>119.38</del> <u>107.88</u>	<del>127.57</del> <u>47.07</u>
	>30 – 245	<del>505.51</del> <u>658.19</u>	<del>119.38</del> <u>107.88</u>	<del>127.57</del> <u>47.07</u>
	>245 –	<del>505.51</del> <u>658.19</u>	<del>119.38</del> <u>107.88</u>	<del>127.57</del> <u>47.07</u>

	1,900			
	>1,900	<del>505.51</del> <u>658.19</u>	<del>119.38</del> <u>107.88</u>	<del>127.57</del> <u>47.07</u>
	PLUS			
	Gross technical liabilities (GTL)	Column 1 General Periodic fee	Column 2 Solvency 2 Implementation fee	Column 3 Solvency 2 Special Project fee
	Band Width (£ million of GTL)	Fee (£/£m or part £m of GTL)		
	>1 – 12.5	<del>26.82</del> <u>34.36</u>	<del>6.42</del> <u>5.46</u>	<del>7.25</del> <u>2.63</u>
	>12.5 – 70	<del>26.82</del> <u>34.36</u>	<del>6.42</del> <u>5.46</u>	<del>7.25</del> <u>2.63</u>
	>70 – 384	<del>26.82</del> <u>34.36</u>	<del>6.42</del> <u>5.46</u>	<del>7.25</del> <u>2.63</u>
	>384 – 3,750	<del>26.82</del> <u>34.36</u>	<del>6.42</del> <u>5.46</u>	<del>7.25</del> <u>2.63</u>
	>3,750	<del>26.82</del> <u>34.36</u>	<del>6.42</del> <u>5.46</u>	<del>7.25</del> <u>2.63</u>
	...			
A.4	Adjusted annual gross premium income (AGPI)	Column 1 General Periodic fee	Column 2 Solvency 2 Implementation fee	Column 3 Solvency 2 Special Project fee
	Minimum fee (£)	Not applicable	25.00	25.00
	Band Width (£ million of AGPI)	Fee (£/£m or part £m of AGPI)		
	>1 – 5	<del>628.82</del> <u>854.47</u>	<del>147.39</del> <u>165.96</u>	<del>151.35</del> <u>56.79</u>
	>5 – 40	<del>628.82</del> <u>854.47</u>	<del>147.39</del> <u>165.96</u>	<del>151.35</del> <u>56.79</u>
	>40 – 260	<del>628.82</del> <u>854.47</u>	<del>147.39</del> <u>165.96</u>	<del>151.35</del> <u>56.79</u>
	>260 – 4,000	<del>628.82</del> <u>854.47</u>	<del>147.39</del> <u>165.96</u>	<del>151.35</del> <u>56.79</u>

	>4,000	<del>628.82</del> <u>854.47</u>	<del>147.39</del> <u>165.96</u>	<del>151.35</del> <u>56.79</u>
	PLUS			
	Mathe- mational reserves (MR)	Column 1 General Periodic fee	Column 2 Solvency 2 Implementation fee	Column 3 Solvency 2 Special Project fee
	Minimum fee (£)	Not applicable	25.00	25.00
	Band Width (£ million of MR)	Fee (£/£m or part £m of MR)		
	>1 –20	<del>13.44</del> <u>17.88</u>	<del>3.10</del> <u>3.47</u>	<del>3.06</del> <u>1.14</u>
	>20 – 270	<del>13.44</del> <u>17.88</u>	<del>3.10</del> <u>3.47</u>	<del>3.06</del> <u>1.14</u>
	>270 – 7,000	<del>13.44</del> <u>17.88</u>	<del>3.10</del> <u>3.47</u>	<del>3.06</del> <u>1.14</u>
	>7,000 – 45,000	<del>13.44</del> <u>17.88</u>	<del>3.10</del> <u>3.47</u>	<del>3.06</del> <u>1.14</u>
	>45,000	<del>13.44</del> <u>17.88</u>	<del>3.10</del> <u>3.47</u>	<del>3.06</del> <u>1.14</u>
A.5	Band Width (£ million of Active Capacity (AC))	Fee (£/£m or part £m of AC)		
	>50 – 150	<del>56.34</del> <u>65.68</u>		
	>150 – 250	<del>56.34</del> <u>65.68</u>		
	>250 – 500	<del>56.34</del> <u>65.68</u>		
	>500 – 1,000	<del>56.34</del> <u>65.68</u>		
	>1,000	<del>56.34</del> <u>65.68</u>		
A.6	Flat fee	<del>1,419,112.28</del> <u>1,621,243.00</u>		
	PLUS			
	Solvency 2 Special Project Flat fee (£)	<del>975,000</del> <u>682,500</u>		

	PLUS	
	Solvency 2 Implementation Flat fee (£)	<del>331,238.49</del> <u>364,247.50</u>
A.7	For class 1(C), (2) and (3) <i>firms</i> :	
	Band Width (£ million of Funds under Management (FuM))	Fee (£/£m or part £m of FuM)
	>10 – 150	<del>6.80</del> <u>8.99</u>
	>150 – 2,800	<del>6.80</del> <u>8.99</u>
	>2,800 – 17,500	<del>6.80</del> <u>8.99</u>
	>17,500 – 100,000	<del>6.80</del> <u>8.99</u>
	>100,000	<del>6.80</del> <u>8.99</u>
	...	
...	...	
A.9	Band Width (£ million of Gross Income (GI))	Fee (£/£m or part £m of GI)
	>1 – 4.5	<del>1,380.85</del> <u>1,491.82</u>
	>4.5 – 17	<del>1,380.85</del> <u>1,491.82</u>
	>17 – 145	<del>1,380.85</del> <u>1,491.82</u>
	> 145 – 750	<del>1,380.85</del> <u>1,491.82</u>
	>750	<del>1,380.85</del> <u>1,491.82</u>
A.10	Band Width (No. of traders)	Fee (£/trader)
	2 – 3	<del>3,565.73</del> <u>5,355.89</u>
	4 – 5	<del>3,565.73</del> <u>5,355.89</u>
	6 – 30	<del>3,565.73</del> <u>5,355.89</u>
	31 – 180	<del>3,565.73</del> <u>5,355.89</u>
	>180	<del>3,565.73</del> <u>5,355.89</u>
...		

A.12	Band Width (No. of persons)	Fee (£/person)
	2 – 5	<del>757.17</del> <u>618.05</u>
	6 – 35	<del>757.17</del> <u>618.05</u>
	36 – 175	<del>757.17</del> <u>618.05</u>
	176 – 1,600	<del>757.17</del> <u>618.05</u>
	>1,600	<del>757.17</del> <u>618.05</u>
	For a <i>professional firm</i> in A.12 the fee is calculated as above less 10%.	
A.13	For class (2) <i>firms</i> :	
	Band Width (No. of persons)	Fee (£/person)
	2 – 3	<del>1,290.54</del> <u>1,288.98</u>
	4 – 30	<del>1,290.54</del> <u>1,288.98</u>
	31 – 300	<del>1,290.54</del> <u>1,288.98</u>
	301 – 2,000	<del>1,290.54</del> <u>1,288.98</u>
	>2,000	<del>1,290.54</del> <u>1,288.98</u>
	...	
A.14	Band Width (No. of persons)	Fee (£/person)
	2 – 4	<del>2,809.83</del> <u>1,758.05</u>
	5 – 25	<del>2,809.83</del> <u>1,758.05</u>
	26 – 80	<del>2,809.83</del> <u>1,758.05</u>
	81 – 199	<del>2,809.83</del> <u>1,758.05</u>
	>199	<del>2,809.83</del> <u>1,758.05</u>
...		
A.18	Band Width (£ thousands of Annual Income (AI))	Fee (£/£ thousand or part £ thousand of AI)
	>100 –180	<del>13.12</del> <u>13.43</u>

	>180 – 1,000	<del>13.12</del> <u>13.43</u>
	>1,000 – 12,500	<del>13.12</del> <u>13.43</u>
	>12,500 – 50,000	<del>13.12</del> <u>13.43</u>
	>50,000	<del>13.12</del> <u>13.43</u>
A.19	Band Width (£ thousands of Annual Income (AI))	Fee (£/£ thousand or part £ thousand of AI)
	>100 – 325	<del>1.94</del> <u>1.76</u>
	>325 – 10,000	<del>1.94</del> <u>1.76</u>
	>10,000 – 50,750	<del>1.94</del> <u>1.76</u>
	>50,750 – 250,000	<del>1.94</del> <u>1.76</u>
	>250,000	<del>1.94</del> <u>1.76</u>
B. Market operators	<del>£35,000</del> <u>£40,250</u>	
B. Service companies	Bloomberg LP	<del>£45,000</del> <u>£51,750</u>
	LIFFE Services Ltd	<del>£35,000</del> <u>£40,250</u>
	[row deleted]	
	OMGEO Ltd	<del>£35,000</del> <u>£40,250</u>
	Reuters Ltd	<del>£45,000</del> <u>£51,750</u>
	Swapswire Ltd	<del>£35,000</del> <u>£40,250</u>
...		
...		

## Part 2

This table shows the permitted deductions that apply where financial penalties are received by the *FSA* under sections 66, 123 and 206 of the *Act* and regulation 42 of the *Money Laundering Regulations*:

Activity group	Amount of deduction
Part 1A	<del>16.8%</del> <u>1.3%</u> of the fee payable by the <i>firm</i> for the activity

(minimum fee)	group (see Part 1)
A.1	<del>17.0%</del> <u>5.2%</u> of the fee payable by the <i>firm</i> for the activity group (see Part 1)
A.2	<del>20.8%</del> <u>15.2%</u> of the fee payable by the <i>firm</i> for the activity group (see Part 1)
A.3	<del>16.9%</del> <u>5.3%</u> of the fee payable by the <i>firm</i> for the activity group (see Part 1). The deduction does not apply to any Solvency 2 Special Project fee (as defined in Part 1) or Solvency 2 Implementation fee as applicable under Part 5.
A.4	<del>16.9%</del> <u>4.4%</u> of the fee payable by the <i>firm</i> for the activity group (see Part 1). The deduction does not apply to any Solvency 2 Special Project fee (as defined in Part 1) or Solvency 2 Implementation fee as applicable under Part 5.
A.5	<del>16.8%</del> <u>1.3%</u> of the fee payable by the <i>firm</i> for the activity group (see Part 1)
A.6	<del>16.8%</del> <u>1.3%</u> of the fee payable by the <i>firm</i> for the activity group (see Part 1). The deduction does not apply to any Solvency 2 Special Project flat fee or Solvency 2 Implementation flat fee (as defined in Part 1).
A.7	<del>18.1%</del> <u>21.7%</u> of the fee payable by the <i>firm</i> for the activity group (see Part 1)
A.9	<del>16.8%</del> <u>30.1%</u> of the fee payable by the <i>firm</i> for the activity group (see Part 1)
A.10	<del>18.6%</del> <u>12.6%</u> of the fee payable by the <i>firm</i> for the activity group (see Part 1)
A.12	<del>21.7%</del> <u>30.5%</u> of the fee payable by the <i>firm</i> for the activity group (see Part 1)
A.13	<del>17.7%</del> <u>11.4%</u> of the fee payable by the <i>firm</i> for the activity group (see Part 1)
A.14	<del>20.4%</del> <u>25.0%</u> of the fee payable by the <i>firm</i> for the activity group (see Part 1)
A.18	<del>18.2%</del> <u>21.9%</u> of the fee payable by the <i>firm</i> for the activity group (see Part 1)
A.19	<del>17.3%</del> <u>6.1%</u> of the fee payable by the <i>firm</i> for the activity group (see Part 1)

...

## Part 4

This table shows the calculation of the Solvency 2 Special Project fee for *firms* falling into fee block A3 or A4.

(1)	...
(2)	The Solvency 2 Special Project fee is only payable by a <i>firm</i> if it meets the conditions in Part 5 and <del>the</del> <u>either of the</u> conditions set out in paragraph (3) of this part.
(a)	...
(3)	The conditions are that:
(a)	before 1 April <del>2011</del> <u>2012</u> the <i>firm</i> , or a member of the group of which the <i>firm</i> is also a member (in either case, 'the recipient'), received a written communication from the <i>FSA</i> that it has met the criteria for entry into pre-Internal Model Approval Process status ('pre-IMAP'); and <u>the recipient remains in pre-IMAP status on 1 April 2012; or</u>
(b)	<del>the recipient remains in pre-IMAP status on 1 April 2011.</del> <u>before 1 April 2013 the <i>firm</i> makes a written application to the <i>FSA</i> for internal model approval under the <i>Solvency 2 Directive</i> where:</u>
(i)	<u>the application is made on or after the date from which the <i>FSA</i> is required under the <i>Solvency 2 Directive</i> to consider internal model approvals from a <i>firm</i>; and</u>
(ii)	<u>the <i>firm</i> has not otherwise paid a Solvency 2 Special Project Fee in respect of the <i>FSA</i> financial year ending on 31 March 2013.</u>
...	

...

## Part 5

This Part sets out when a Solvency 2 Implementation fee is due for *firms* in the A.3 and A.4 fee-blocks.

(1)	The Solvency 2 Implementation fee is only payable by a <i>firm</i> if it meets all the conditions in (2) and neither of the conditions in (3).
(2)	The conditions in this paragraph are:

	(a)	...
	(b)	the <i>firm</i> has not notified the <i>FSA</i> before the start of the financial year <del>2011/12</del> <u>2012/13</u> that it intends to migrate out of the <i>United Kingdom</i> for regulatory purposes before the <i>Solvency 2 Directive</i> is implemented;
	(c)	...
	(d)	it was in one or both of the insurance fee blocks at the start of the financial year <del>2011/12</del> <u>2012/13</u> ;
	...	
...		

...

#### 4 Annex 4R Periodic fees in relation to collective investment schemes payable for the period 1 April ~~2011~~ 2012 to 31 March ~~2012~~ 2013

##### Part 1 - Periodic fees payable

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

Fees are charged according to the number of funds or *sub-funds* operated by a *firm* as at 31 March ~~2011~~ 2012 ...

...

#### 4 Annex 5R Periodic fees for designated professional bodies payable in relation to the period 1 April ~~2011~~ 2012 to 31 March ~~2012~~ 2013

##### Table of fees payable by Designated Professional Bodies

Name of Designated Professional Body	Amount payable	Due date
The Law Society of England & Wales	...	...
	<del>£31,660</del> <u>£32,195</u>	1 September <del>2011</del> <u>2012</u>
The Law Society of Scotland	<del>£13,990</del> <u>£13,700</u>	1 July <del>2011</del> <u>2012</u>

The Law Society of Northern Ireland	£ <del>12,920</del> <u>£12,730</u>	1 July <del>2011</del> <u>2012</u>
The Institute of Actuaries	£ <del>10,110</del> <u>£10,100</u>	1 July <del>2011</del> <u>2012</u>
The Institute of Chartered Accountants in England and Wales	£ <del>24,660</del> <u>£23,710</u>	1 July <del>2011</del> <u>2012</u>
The Institute of Chartered Accountants of Scotland	£ <del>11,200</del> <u>£11,120</u>	1 July <del>2011</del> <u>2012</u>
The Institute of Chartered Accountants in Ireland	£ <del>10,650</del> <u>£10,610</u>	1 July <del>2011</del> <u>2012</u>
The Association of Chartered Certified Accountants	£ <del>16,980</del> <u>£16,520</u>	1 July <del>2011</del> <u>2012</u>
The Council for Licensed Conveyancers	£ <del>11,230</del> <u>£11,150</u>	1 July <del>2011</del> <u>2012</u>
Royal Institution of Chartered Surveyors	£ <del>13,800</del> <u>£13,660</u>	1 July <del>2011</del> <u>2012</u>

...

**4 Annex 6R Periodic fees for recognised investment exchanges, recognised clearing houses and recognised auction platforms payable in relation to the period 1 April ~~2011~~ 2012 to 31 March ~~2012~~ 2013**

...

Part 1 - Periodic fees for UK recognised clearing houses and recognised investment exchanges

Name of UK recognised body	Amount payable	Due date
Euroclear UK & Ireland Limited	...	...
	£ <del>275,000</del> <u>£450,000</u>	1 September <del>2011</del> <u>2012</u>
ICE Futures Europe Ltd	...	
	£ <del>245,000</del> <u>£400,000</u>	1 September <del>2011</del> <u>2012</u>
LIFFE Administration and Management	...	
	£ <del>350,000</del> <u>£560,000</u>	1 September <del>2011</del> <u>2012</u>

LCH Clearnet Limited	...	
	£325,000 £595,000	1 September 2011 <u>2012</u>
The London Metal Exchange Limited	...	...
	£212,500 £350,000	1 September 2011 <u>2012</u>
London Stock Exchange plc	...	
	£280,000 £467,500	1 September 2011 <u>2012</u>
EDX London Ltd	£60,000	30 April 2011
	£30,000	1 September 2011
PLUS Markets Plc	...	
	£85,000 £140,000	1 September 2011 <u>2012</u>
European Central Counterparty Limited	...	..
	£167,500 £224,500	1 September 2011 <u>2012</u>
ICE Clear Europe Limited	...	
	£265,000 £455,000	1 September 2011 <u>2012</u>
Chicago Mercantile Exchange Clearing Europe	...	
	£275,000 £302,000	1 September 2011 <u>2012</u>
...		

...

## Part 2 - Periodic fees for overseas recognised bodies

Name of overseas recognised body	Amount payable	Due date
The Chicago Mercantile Exchange (CME) (ROIE)	£40,000 £50,000	1 July 2011 <u>2012</u>

Chicago Board of Trade	<del>£40,000</del> <u>£50,000</u>	1 July <del>2011</del> <u>2012</u>
EUREX (Zurich)	<del>£40,000</del> <u>£50,000</u>	1 July <del>2011</del> <u>2012</u>
National Association of Securities and Dealers Automated Quotations (NASDAQ)	<del>£40,000</del> <u>£50,000</u>	1 July <del>2011</del> <u>2012</u>
New York Mercantile Exchange Inc.	<del>£40,000</del> <u>£50,000</u>	1 July <del>2011</del> <u>2012</u>
The Swiss Stock Exchange	<del>£40,000</del> <u>£50,000</u>	1 July <del>2011</del> <u>2012</u>
Sydney Futures Exchange Limited	<del>£40,000</del> <u>£50,000</u>	1 July <del>2011</del> <u>2012</u>
ICE Futures US Inc	<del>£40,000</del> <u>£50,000</u>	1 July <del>2011</del> <u>2012</u>
NYSE Liffe US	<del>£40,000</del> <u>£50,000</u>	1 July <del>2011</del> <u>2012</u>
SIS x-clear AG	<del>£100,000</del> <u>£125,000</u>	1 July <del>2011</del> <u>2012</u>
Eurex Clearing AG	<del>£70,000</del> <u>£85,000</u>	1 July <del>2011</del> <u>2012</u>
ICE Clear US Inc	<del>£70,000</del> <u>£85,000</u>	1 July <del>2011</del> <u>2012</u>
Chicago Mercantile Exchange (CME) (ROCH)	<del>£100,000</del> <u>£125,000</u>	1 July <del>2011</del> <u>2012</u>
European Multi-Lateral Clearing Facility	<del>£100,000</del> <u>£125,000</u>	1 July <del>2011</del> <u>2012</u>
Cassa di Compensazione e Garanzia (CC&G)	<del>£70,000</del> <u>£85,000</u>	1 July <del>2011</del> <u>2012</u>
LCH Clearnet SA	<del>£100,000</del> <u>£125,000</u>	<del>1 July 2011</del> <u>2012</u>
...		

**4 Annex 7R Periodic fees in relation to the Listing Rules for the period 1 April ~~2011~~ 2012 to 31 March ~~2012~~ 2013**

Fee type	Fee amount
Annual fees for the period 1 April <del>2011</del> <u>2012</u> to 31 March <del>2012</del> <u>2013</u>	
...	

Table 1

Annual fees for issuers of *securitised derivatives*, depository receipts and global depository receipts

Issuer	Fee amount
<i>Issuers of securitised derivatives</i>	<del>£3,700</del> <u>£4,200</u>
<del>Issuers of depository receipts and global depository receipts</del>	<del>£4,440</del>

Table 2

## Tiered annual fees for all other issuers

Fee Payable	
Minimum Fee (£)	<del>3,700</del> <u>4,200</u>
£ million of Market Capitalisation as at the last <i>business day</i> of the November prior to the <i>FSA</i> financial year in which the fee is payable	Fee (£/£m of part £m of Market Capitalisation as at <i>last business day</i> of the November prior to the <i>FSA</i> financial year in which the fee is payable)
0 – 100	0
> 100 – 250	<del>23.593356</del> <u>26.778459</u>
> 250 – 1,000	<del>9.436716</del> <u>10.710673</u>
> 1,000 – 5,000	<del>5.808686</del> <u>6.592859</u>
> 5,000 – 25,000	<del>0.141692</del> <u>0.160820</u>
> 25,000	<del>0.045777</del> <u>0.051957</u>

There is deducted from the fee specified in this Annex ~~4.7%~~ 0.0% of the fee payable to take into account financial penalties received by the *FSA* under section 91 of the *Act* in the previous financial year.

...

**4 Annex 8R Periodic fees in relation to the disclosure rules and transparency rules for the period 1 April ~~2011~~ 2012 to 31 March ~~2012~~ 2013**

Annual fees for the period 1 April <del>2011</del> <u>2012</u> to 31 March <del>2012</del> <u>2013</u>
--

...	
-----	--

Table 1

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

Issuer	Fee amount
<i>Issuers of securitised derivatives</i>	<del>£2,960</del> <u>£3,360</u>
<i>Issuers of depositary receipts and global depositary receipts</i>	<del>£3,552</del> <u>£2,688</u>

Table 2

Fee Payable	
Minimum Fee (£)	<del>2,960</del> <u>3,360</u>
£ million of Market Capitalisation	Fee (£/£m of part £m of Market Capitalisation)
0 – 100	0
> 100 – 250	<del>18.874685</del> <u>21.422767</u>
> 250 – 1,000	<del>7.549373</del> <u>8.568538</u>
> 1,000 – 5,000	<del>4.646949</del> <u>5.274287</u>
> 5,000 – 25,000	<del>0.113353</del> <u>0.128656</u>
> 25,000	<del>0.036620</del> <u>0.041565</u>

There is deducted from the fee specified in this Annex ~~4.7%~~ 0.0% of the fee payable to take into account financial penalties received by the *FSA* under section 91 of the *Act* in the previous financial year.

#### 4 Annex 9R Periodic fees in respect of securities derivatives for the period from 1 April ~~2011~~ 2012 to 31 March ~~2012~~ 2013

##### Part 1

...

For the purposes of this Annex, a “relevant contract” is any contract entered into or settled by *firms* on or through *LIFFE* or *Eurex Clearing AG* in *securities derivatives* and the “relevant period” is 1 January ~~2010~~ 2011 to 31

December ~~2010~~ 2011 inclusive.

The fee shown in the table below for *firms* (but not *market operators*) will be subject to a deduction of ~~16.7%~~ 1.3%, as if that fee were a periodic fee charged under *FEES* 4.3.3R, and the deduction were a deduction set out in Part 2 of *FEES* 4 Annex 2R.

...

Fee amount for <i>firms</i>	
Number of relevant contracts entered into by the <i>firm</i> during the relevant period	Fee amount
0 – 100	£0
101 - 1,000	<del>£585</del> <u>£700</u>
1,001 - 100,000	<del>£2,950</del> <u>£3,520</u>
100,001 - 1,000,000	<del>£8,875</del> <u>£10,575</u>
1,000,001 - 5,000,000	<del>£21,300</del> <u>£25,400</u>
5,000,001 - 20,000,000	<del>£37,750</del> <u>£45,000</u>
>20,000,000	<del>£57,500</del> <u>£68,600</u>
Fee amount for <i>market operators</i>	
<i>Market operators</i> providing facilities for trading in <i>securities derivatives</i> that do not identify those <i>securities derivatives</i> using an <i>International Securities Identity Number</i> .	<del>£11,000</del> <u>£13,125</u>

...

**4 Annex  
10R** **Periodic fees for MTF operators payable in relation to the period 1 April ~~2011~~ 2012 to 31 March ~~2012~~ 2013**

Name of <i>MTF</i> operator	Fee payable (£)	Due date 1 July <del>2011</del> <u>2012</u>
Barclays Bank Plc	<del>4,000</del> <u>5,000</u>	
Baltic <u>Exchange</u> Derivatives Trading Ltd	<del>20,000</del> <u>25,000</u>	
BATS Trading Ltd	<del>80,000</del> <u>115,000</u>	

BGC Brokers L.P	<del>4,000</del> <u>5,000</u>	
Cantor Index Limited	<del>8,000</del> <u>10,000</u>	
Chi-X Europe Limited	<del>130,000</del> <u>185,000</u>	
EuroMTS Limited	<del>30,000</del> <u>37,500</u>	
GFI Brokers Limited	<del>4,000</del> <u>5,000</u>	
GFI Securities Limited	<del>4,000</del> <u>5,000</u>	
ICAP Electronic Broking Limited	<del>6,250</del> <u>7,800</u>	
ICAP Energy Limited	<del>4,000</del> <u>5,000</u>	
ICAP Europe Limited	<del>4,000</del> <u>5,000</u>	
ICAP Shipping Tanker Derivatives Limited	<del>4,000</del> <u>5,000</u>	
ICAP Securities Limited	<del>4,000</del> <u>5,000</u>	
ICAP WCLK Limited	<del>4,000</del> <u>5,000</u>	
<u>J.P.Morgan Cazenove Limited</u>	<del>4,000</del> <u>5,000</u>	
Liquidnet Europe Limited	<del>70,000</del> <u>87,500</u>	
MF Global UK Limited	<del>4,000</del> <u>5,000</u>	
My Treasury Limited	<del>4,000</del> <u>5,000</u>	
<u>iSWAP Euro Ltd</u>	<u>5,000</u>	
Nomura <u>International Plc</u>	<del>4,000</del> <u>5,000</u>	
<u>Credit Agricole Cherveux International</u>	<del>4,000</del> <u>5,000</u>	
<del>Sigma X MTF</del>	<del>4,000</del>	
SmartPool Trading Limited	<del>22,500</del> <u>28,000</u>	
TFS-ICAP Limited	<del>4,000</del> <u>5,000</u>	
Tradeweb Europe Limited	<del>13,000</del> <u>16,000</u>	
Tradition (UK) Limited	<del>4,000</del> <u>5,000</u>	

Tradition Financial Services Limited	4,000 <u>5,000</u>	
Tullett Prebon (Europe) Limited	4,000 <u>5,000</u>	
Tullett Prebon (Securities) Limited	4,000 <u>5,000</u>	
Turquoise Global Holdings Ltd	140,000 <u>175,000</u>	
<u>Goldman Sachs International</u>	<u>5,000</u>	
UBS Ltd	4,000 <u>5,000</u>	
...	<p>In the case of an <i>EEA firm</i> that:</p> <p>(a) has not carried on the activity of <i>operating a multilateral trading facility</i> in the <i>UK</i> at any time in the calendar year ending 31 December <del>2009</del> <u>2011</u>; and</p> <p>(b) notifies the <i>FSA</i> of that fact by the end of March <del>2010</del> <u>2012</u>;</p> <p>the fee is zero.</p> <p>.....</p> <p>In any other case <del>£3,500</del> <u>£4,400</u></p>	<p>...</p> <p>In any other case, 1 July <del>2011</del> <u>2012</u></p>

There is deducted from the fee specified in this Annex ~~16.7%~~ 10.0% of the fee payable to take into account financial penalties received by the *FSA* under section 66, 123 and 206 of the *Act* in the previous financial year.

...

#### 4 Annex 11R

**Periodic fees in respect of payment services carried on by fee-paying payment service providers under the Payment Services Regulations and electronic money issuance by fee-paying electronic money issuers under the Electronic Money Regulations and issuance of regulated covered bonds by issuers in relation to the period 1 April ~~2011~~ 2012 to**

**31 March ~~2012~~ 2013**

...

Part 3	
This table indicates the tariff base for each fee-block. The tariff base is the means by which the FSA measures the 'amount of business' conducted by <i>fee-paying payment service providers</i> , <del>and</del> <i>fee-paying electronic money issuers</i> <u>and issuers of regulated covered bonds</u> .	
Activity group	Tariff base
...	
G.11	...
<u>G.15</u>	<u>Regulated covered bonds in issue.</u>

Part 4 – Valuation period	
This table indicates the valuation date for each fee-block. A <i>fee-paying payment service provider</i> , <del>and</del> a <i>fee-paying electronic money issuer</i> <u>and a regulated covered bond issuer</u> can calculate tariff data by applying the tariff bases set out in Part 3 with reference to the valuation dates shown in this table.	
Activity group	Valuation date
...	
G.11	...
<u>G.15</u>	<u>31 December unless the issuer became registered as an issuer after 31 December, in which case its valuation date will be 31 March.</u>

Part 5 – Tariff rates		
Activity group	Fee payable in relation to <del>2011/12</del> 2012/13	
G2	Minimum fee (£)	400
	£ million or part £m of Modified Eligible Liabilities (MELS)	Fee (£/£m or part £m of MELS)
	> 0.1	<del>0.45265</del> <u>0.29344</u>
	> 0.25	<del>0.45265</del> <u>0.29344</u>

	> 1.0	<del>0.45265</del> <u>0.29344</u>
	> 10.0	<del>0.45265</del> <u>0.29344</u>
	> 50.0	<del>0.45265</del> <u>0.29344</u>
	> 500.0	<del>0.45265</del> <u>0.29344</u>
G.3	Minimum fee (£)	400
	£ thousands or part £ thousand of Relevant Income	Fee (£/£thousand or part £ thousand of Relevant Income)
	> 100	<del>0.29950</del> <u>0.19604</u>
	> 250	<del>0.29950</del> <u>0.19604</u>
	> 1000	<del>0.29950</del> <u>0.19604</u>
	> 10,000	<del>0.29950</del> <u>0.19604</u>
	> 50,000	<del>0.29950</del> <u>0.19604</u>
	> 500,000	<del>0.29950</del> <u>0.19604</u>
...		
G.10	Minimum fee (£)	1,500
	£million or part £m of average outstanding electronic money (AOEM)	Fee (£/£m or part £m of AOEM)
	>5.0	<del>150.00</del> <u>180.00</u>
G.11	<del>£1,000</del> <u>£1,500</u>	
G.15	<u>Minimum fee</u>	<u>£83,144</u>
	<u>£million of part £m of <i>regulated covered bonds in issue</i></u>	<u>Fee (£/£m or part £m of <i>regulated covered bonds in issue</i>)</u>
	<u>&gt;0.00</u>	<u>3.41</u>

Part 6 – Permitted deductions for financial penalties pursuant to regulation 85 of the *Payment Services Regulations* and regulation 51 of the *Electronic Money Regulations*, as applicable

*Fee-paying payment service providers* and *fee-paying electronic money issuers* may make deductions as provided in this Part.

Activity group	Nature of deduction	Amount of deduction
G.2	Financial penalties received	<del>0.1%</del> <u>0.0%</u>
G.3	Financial penalties received	<del>0.1%</del> <u>0.0%</u>
G.4	Financial penalties received	<del>0.1%</del> <u>0.0%</u>
G.5	Financial penalties received	<del>0.1%</del> <u>0.0%</u>
G.10	Financial penalties received	<del>0.1%</del> <u>0.0%</u>
G.11	Financial penalties received	<del>0.1%</del> <u>0.0%</u>

...

## 5 Financial Ombudsman Service Funding

...

### 5 Annex 1R Annual General Levy Payable in Relation to the Compulsory Jurisdiction for ~~2011/12~~ 2012/13

Introduction: annual budget

1. The *annual budget* for ~~2011/12~~ 2012/13 approved by the FSA is £127.9m.
2. The total amount expected to be raised through the *general levy* in ~~2011/12~~ 2012/13 will be ~~£42.7m~~ £17.7m (net of ~~£1.8m~~ £1.5m to be raised from consumer credit firms).

Compulsory jurisdiction – general levy

Industry block	Tariff base	General levy payable by firm
1 –Deposit acceptors, <i>home finance providers, home finance administrators</i> (excluding <i>firms</i> in block 14) and <i>dormant account fund operators</i>	...	<del>£0.0643648</del> <u>£0.0321</u> per relevant account, subject to a minimum levy of £100
2-Insurers - general (excluding <i>firms</i> in blocks 13 and 15)	...	<del>£0.21626</del> <u>£0.1286</u> per £1,000 of relevant annual gross premium income, subject to a minimum levy of £100

3-The <i>Society</i> (of Lloyd's)	...	£48,116 <del>£20,000</del> to be allocated by the <i>Society</i>
4-Insurers - life (excluding <i>firms</i> in block 15)	...	£0.038445 <del>£0.0146</del> per £1,000 of relevant adjusted annual gross premium income, subject to a minimum levy of £100
5 – Fund managers (including those holding <i>client money/assets</i> and not holding <i>client money/assets</i> )	...	Levy of £485 <del>£200</del>
6 – <i>Operators, trustees and depositaries of collective investment schemes</i> and <i>operators of personal pension schemes</i> or <i>stakeholder pension schemes</i>	...	Levy of £120 <del>£50</del>
7 – Dealers as principal	...	Levy of £125 <del>£50</del>
8-Advisory <i>arrangers, dealers</i> or <i>brokers</i> holding and controlling <i>client money</i> and/or assets	...	£36.98 <del>£15</del> per relevant <i>approved person</i> subject to a minimum levy of £35
9-Advisory <i>arrangers, dealers</i> or <i>brokers</i> not holding and controlling <i>client money</i> and/or assets	...	£30.02 <del>£10.00</del> per relevant <i>approved person</i> subject to a minimum levy of £35
10 – Corporate finance advisers	...	Levy of £130 <del>£50</del>
11-fee-paying <i>payment service providers</i> (but excluding <i>firms</i> in any other Industry block except Industry block 18)	...	£0.040854 <del>£0.0153</del> per £1,000 of relevant income subject to a minimum levy of £75
	...	Levy of £150 <del>£50</del>
12	N/A for 2010/11 <u>2012/13</u>	

13 – Cash plan health providers	...	Levy of <del>£125</del> <u>£50</u>
14 – <i>Credit unions</i>	...	Levy of <del>£125</del> <u>£50</u>
15 – <i>Friendly societies</i> whose tax-exempt business represents 95% or more of their total relevant business	...	Levy of <del>£125</del> <u>£50</u>
16- <i>Home finance providers, advisers and arrangers</i> (excluding <i>firms</i> in blocks 13, 14 & 15)	...	Levy of <del>£110</del> <u>£50</u>
17-General insurance mediation (excluding <i>firms</i> in blocks 13, 14 & 15)	...	<del>£1.649277</del> <u>£0.3582</u> per £1,000 of <i>annual income</i> (as defined in <i>MIPRU</i> 4.3) relating to <i>firm's relevant business</i> subject to a minimum levy of £85
18 – <i>fee-paying electronic money issuers</i>	For all <i>fee-paying electronic money</i> issuers except for <i>small electronic money institutions</i> , a flat fee <u>average outstanding electronic money as described in <i>FEES</i> 4 Annex 11R Part 3</u>  For <i>small electronic money institutions</i> , a flat fee	<del>£180</del> <u>£0.0466</u> per <u>£1,000 of average outstanding electronic money</u> subject to a <u>minimum levy of £75</u>  <del>£180</del> <u>£50</u>

...

**7 Annex 1R CFE levies for the period from 1 April ~~2011~~ 2012 to 31 March ~~2012~~ 2013**

Part 1

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

Activity Group	<i>CFEB</i> levy payable			
A.1	<b><u>Column 1</u></b> <b><u>Money advice levy</u></b>		<b><u>Column 2</u></b> <b><u>Debt advice levy</u></b> <b><u>(Notes 3 – 4)</u></b>	
	Band Width (£ million of Modified Eligible Liabilities (MELs))	Fixed sum (£/£m or part £m of MELs)	<u>Bandwidth</u> [tbc]	[tbc]
	> 10 - 140	<del>5.01</del> <u>5.24</u>		
	> 140 - 630	<del>5.01</del> <u>5.24</u>		
	>630 - 1,580	<del>5.01</del> <u>5.24</u>		
	>1,580 - 13,400	<del>5.01</del> <u>5.24</u>		
	>13,400	<del>5.01</del> <u>5.24</u>		
	<p>Note 1</p> <p>For a <i>firm</i> in A.1 which has a limitation on its <i>permission</i> to the effect that it may <i>accept deposits</i> from <i>wholesale depositors</i> only, this levy is calculated as above less 30%.</p>			
A.2	<b><u>Column 1</u></b> <b><u>General levy</u></b>		<b><u>Column 2</u></b> <b><u>Debt advice levy</u></b> <b><u>(Notes 5 – 6)</u></b>	
	Band Width (no. of mortgages and/or <i>home finance transactions</i> )	Fixed sum (£/mortgage)	<u>Bandwidth</u> [tbc]	[tbc]
	>50 – 130	<del>0.142</del> <u>0.147</u>		
	>130 – 320	<del>0.142</del> <u>0.147</u>		
	>320 – 4,570	<del>0.142</del> <u>0.147</u>		

	>4, 570 – 37,500	<del>0.142</del> <u>0.147</u>		
	>37,500	<del>0.142</del> <u>0.147</u>		
A.3	<b>Gross premium income (GPI)</b>			
	Band Width (£ million of GPI)		Fixed sum (£/£m or part £m of GPI)	
	>0.5 – 10.5		<del>55.74</del> <u>56.77</u>	
	>10.5 - 30		<del>55.74</del> <u>56.77</u>	
	>30 - 245		<del>55.74</del> <u>56.77</u>	
	>245 - 1, 900		<del>55.74</del> <u>56.77</u>	
	>1,900		<del>55.74</del> <u>56.77</u>	
	PLUS			
	<b>Gross technical liabilities (GTL)</b>			
	Band Width (£ million of GTL)		Fixed sum (£/£m of part £m of GTL)	
	>1 – 12.5		<del>3.01</del> <u>2.97</u>	
	>12.5 - 70		<del>3.01</del> <u>2.97</u>	
	>70 - 384		<del>3.01</del> <u>2.97</u>	
	>384 - 3,750		<del>3.01</del> <u>2.97</u>	
	>3,750		<del>3.01</del> <u>2.97</u>	
A.4	<b>Adjusted annual gross premium income (AGPI)</b>			
	Band Width (£ million of AGPI)		Fixed sum (£/£m or part £m of AGPI)	
	>1 - 5		<del>72.65</del> <u>76.59</u>	
	>5 - 40		<del>72.65</del> <u>76.59</u>	
	>40 - 260		<del>72.65</del> <u>76.59</u>	

	>260 - 4,000	<del>72.65</del> <u>76.59</u>
	>4,000	<del>72.65</del> <u>76.59</u>
	PLUS	
	<b>Mathematical reserves (MR)</b>	
	Band Width (£ million of MR)	Fixed sum (£/£m or part £m of MR)
	>1 – 20	<del>1.57</del> <u>1.61</u>
	>20 - 270	<del>1.57</del> <u>1.61</u>
	>270 - 7,000	<del>1.57</del> <u>1.61</u>
	>7,000 - 45,000	<del>1.57</del> <u>1.61</u>
	>45,000	<del>1.57</del> <u>1.61</u>
A.5	Band Width (£ million of Active Capacity (AC))	Fixed sum (£/£m or part £m of AC)
	>50 - 150	<del>5.63</del> <u>5.92</u>
	>150 - 250	<del>5.63</del> <u>5.92</u>
	>250 - 500	<del>5.63</del> <u>5.92</u>
	>500 - 1,000	<del>5.63</del> <u>5.92</u>
	>1,000	<del>5.63</del> <u>5.92</u>
A.6	Flat levy	<del>£159,941.90</del> <u>£169,223.02</u>
A.7	For class 1(C), (2) and (3) <i>firms</i> :	
	Band Width (£ million of Funds under Management (FuM))	Fixed sum (£/£m of part £m of FuM)
	>10 - 150	<del>0.79</del> <u>0.85</u>
	>150 - 2,800	<del>0.79</del> <u>0.85</u>
	>2,800 - 17,500	<del>0.79</del> <u>0.85</u>
	>17,500 - 100,000	<del>0.79</del> <u>0.85</u>

	>100,000	<del>0.79</del> <u>0.85</u>
	...	
A.9	Band Width (£ million of Gross Income (GI))	Fixed sum (£/£m of part £m of GI)
	>1 - 4.5	<del>83.73</del> <u>90.32</u>
	>4.5 - 17	<del>83.73</del> <u>90.32</u>
	>17 - 145	<del>83.73</del> <u>90.32</u>
	> 145 - 750	<del>83.73</del> <u>90.32</u>
	>750	<del>83.73</del> <u>90.32</u>
A.10	Band Width (no. of traders)	Fixed sum (£/trader)
	2 - 3	<del>318.75</del> <u>352.36</u>
	4 - 5	<del>318.75</del> <u>352.36</u>
	6 - 30	<del>318.75</del> <u>352.36</u>
	31 - 180	<del>318.75</del> <u>352.36</u>
	>180	<del>318.75</del> <u>352.36</u>
A.12	Band Width (no. of persons)	Fixed sum (£/person)
	2 - 5	<del>43.13</del> <u>45.76</u>
	6 - 35	<del>43.13</del> <u>45.76</u>
	36 - 175	<del>43.13</del> <u>45.76</u>
	176 - 1,600	<del>43.13</del> <u>45.76</u>
	>1,600	<del>43.13</del> <u>45.76</u>
	...	
A.13	For class (2) firms	
	Band Width (no. of persons)	Fixed sum (£/person)
	2 - 3	<del>160.79</del> <u>153.88</u>
	4 - 30	<del>160.79</del> <u>153.88</u>

	31 - 300	<del>160.79</del> <u>153.88</u>
	301 - 2,000	<del>160.79</del> <u>153.88</u>
	>2,000	<del>160.79</del> <u>153.88</u>
	...	
A.14	Band Width (no. of persons)	Fixed sum (£/person)
	2 – 4	<del>126.34</del> <u>131.12</u>
	5 - 25	<del>126.34</del> <u>131.12</u>
	26 - 80	<del>126.34</del> <u>131.12</u>
	81 - 199	<del>126.34</del> <u>131.12</u>
	>199	<del>126.34</del> <u>131.12</u>
A.18	Band Width (£ thousands of Annual Income (AI))	Fixed sum (£/£ thousand or part £ thousand of AI)
	>100 - 180	<del>1.36</del> <u>1.51</u>
	>180 - 1,000	<del>1.36</del> <u>1.51</u>
	>1,000 - 12,500	<del>1.36</del> <u>1.51</u>
	>12,500 - 50,000	<del>1.36</del> <u>1.51</u>
	>50,000	<del>1.36</del> <u>1.51</u>
A.19	Band Width (£ thousands of Annual Income (AI))	Fixed sum (£/£ thousand or part £ thousand of AI)
	>100 - 325	<del>0.256</del> <u>0.254</u>
	>325 - 10,000	<del>0.256</del> <u>0.254</u>
	>10,000 - 50,750	<del>0.256</del> <u>0.254</u>
	>50,750 - 250,000	<del>0.256</del> <u>0.254</u>
	>250,000	<del>0.256</del> <u>0.254</u>
<u>G.3</u>	<u>Minimum fee (£)</u>	<u>10</u>
	£ thousands or part £ thousand of Relevant Income	Fee (£/£thousand or part £ thousand of Relevant Income)

	>100	<del>0.04787</del> <u>0.05145</u>
	>250	<del>0.04787</del> <u>0.05145</u>
	>1,000	<del>0.04787</del> <u>0.05145</u>
	>10,000	<del>0.04787</del> <u>0.05145</u>
	>50,000	<del>0.04787</del> <u>0.05145</u>
	>500,000	<del>0.04787</del> <u>0.05145</u>
G.4	A flat fee of <del>£10</del> <u>£50</u>	
G.10	<u>Minimum fee (£)</u>	<u>10</u>
	£ million or part £m of average outstanding electronic money (AOEM)	Fee (£/£m or part £m of AOEM)
	> 5.0	<del>12.00</del> <u>18.00</u>
...		
Notes		
(1)...		
...		
<p>(3) The tariff base for column 2 in activity group A.1:</p> <p><u>for credit unions:</u></p> <p><u>the total sterling value of all loans LESS total sterling value of any residential loans.</u></p> <p><u>for banks and building societies:</u></p> <p><u>the sterling value of all outstanding loans to individuals in the UK, excluding bridging loans and loans secured on dwellings and land. The firm must include:</u></p> <p><u>(a) any credit card lending:</u></p> <p><u>(b) any charge card lending, even if the outstanding balance has to be paid off in full at the end of each charging period;</u></p> <p><u>(c) any other loans and advances to individuals that are not bridging loans or secured on dwellings or land.</u></p>		

(4) The valuation date for column 2 in activity group A.1 is the 31 December before the start of the period to which the fee applies. Credit unions may instead use the valuation as disclosed by the most recent annual return made prior to the 31 December.

(5) The tariff base for column 2 in activity group A.2 is the sterling value of any residential loans to individuals being the sum of gross unsecuritised and securitised balances (applying the definitions in the Mortgage Lending and Administration Return – SUP 16 Annex 19B, lines A3.2 and A3.3).

(6) The valuation date for column 2 in activity group A.2 is 31 December before the start of the period to which the fee applies.

...

## Annex B

## Amendments to the Supervision manual (SUP)

In this Annex, 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

	<b>FSA</b> <u>Annual Regulated</u> <u>Income</u>	<b>FOS</b> <u>Relevant Annual</u> <u>Income</u>	<b>FSCS</b> <u>Annual Eligible</u> <u>Income</u>
Home Finance Mediation	see <i>FEES</i> 4 Annex 1R Part 2 fee block A18	<i>FEES</i> 5 Annex 1R industry block 16	<i>FEES</i> 6 Annex 3R sub-class E2
Non-investment insurance mediation	see <i>FEES</i> 4 Annex 1R Part 2 fee block A19	<i>FEES</i> 5 Annex 1R industry block 17	<i>FEES</i> 6 Annex 3R sub-class B2
Life and pension intermediation	n/a <u><i>FEES</i> 4 Annex 11AR, 12G</u>	n/a <u><i>FEES</i> 5 Annex 1R industry block 8, 9</u>	<i>FEES</i> 6 Annex 3R sub-class C2
Investment intermediation	n/a <u><i>FEES</i> 4 Annex 11AR, 12G</u>	n/a <u><i>FEES</i> 5 Annex 1R industry block 8, 9</u>	<i>FEES</i> 6 Annex 3R sub-class D2
Number of relevant CF30s	n/a	<del><i>FEES</i> 5 Annex 1R industry block 8/9</del>	n/a

...

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

...

## Section J: data required for calculation of fees

...

<b>Data for fees calculations</b>	<i>Firms</i> will need to report data for the purpose of calculating <i>FSA</i> , <i>FOS</i> and <i>FSCS</i> levies.
<b>FSA</b>	The relevant information required is the tariff data set out in <i>FEES</i> 4 Annex 1R Part 2 under fee blocks A.12, A.13, A.18 and A.19 and in <i>FEES</i> 4 Annex 11R and 12G for fee-blocks <u>A.12 and A.13</u> . Note that <i>firms</i> are required to report tariff data information relating to all business falling within fee blocks <u>A 12/A13/A18/A19</u> and not simply that relating to retail investments.
...	

## Appendix 3

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# Draft rules unauthorised mutuals response by 2 April 2012

**PERIODIC FEES (UNAUTHORISED MUTUAL SOCIETIES REGISTRATION)  
(2012/2013) INSTRUMENT 2012**

**Powers exercised**

- A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 156 (General supplementary powers); and
  - (2) paragraph 17 (Fees) of Schedule 1 (The Financial Services Authority).
- B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

**Commencement**

- C. This instrument comes into force on 1 June 2012.

**Amendments to the FSA’s rules**

- D. The Unauthorised mutuals registration fees rules are amended in accordance with the Annex to this instrument.

**Citation**

- E. This instrument may be cited as the Periodic Fees (Unauthorised Mutual Societies Registration) (2012/2013) Instrument 2012.

By order of the Board  
26 May 2012

## Annex

### Amendments to the Unauthorised mutuals registration fees rules

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

Amend Annex 1R as shown.

#### ANNEX 1R

#### PERIODIC FEES PAYABLE FOR THE PERIOD 1 APRIL ~~2011~~ 2012 TO 31 MARCH ~~2012~~ 2013

##### Part 1

Periodic fee payable by Registered Societies (on 30 June ~~2011~~ 2012)

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

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

##### Part 2

##### Methods of payment of periodic fees

A periodic fee must be paid using either direct debit, credit transfer (BACS/CHAPS), cheque, switch or by credit card (Visa/Mastercard only). Any payment by permitted credit card must include an additional 2% of the sum paid.

**PUB REF: 002809**

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