BANK OF ENGLAND

Financial Market Infrastructure

Consultation Paper

Fees regime for financial market infrastructure supervision 2020/21

May 2020

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Responses are requested by Wednesday 29 July 2020.

In light of current measures to help prevent the spread of Covid-19, please address any comments or enquiries by email to: FMIFees@bankofengland.co.uk.

Alternatively, please send comments in writing to:

FMI Fees
Financial Market Infrastructure Directorate
Bank of England
20 Moorgate
London EC2R 6DA

1 Overview

1.1 This consultation paper (CP) sets out proposals for the Bank of England's (the Bank) supervisory fees for financial market infrastructure (FMI)[1] for 2020/21 and some amendments the Bank is proposing in relation to Special Project Fees (SPFs). The proposals include:

- The fee rates to meet the Bank's 2020/21 funding requirement (as set out in paragraph 1.3) for its FMI supervisory activity and the policy activity that supports this, as permitted by the Bank's fee-levying powers;
- How the Bank intends to apportion surpluses from the 2019/20 FMI fees; and
- Amendments to the SPF invoicing process and the SPF hourly rate to be charged, where applicable.

1.2 This consultation is relevant to all FMIs that currently pay FMI supervisory fees to the Bank or are expecting to do so within the 2020/21 fee year.[2]

Summary of proposals

1.3 The Bank's annual FMI supervisory fee includes the costs of FMI supervision staff together with relevant policy support, specialist resources, corporate services and other costs associated with the work of the FMI Directorate. The total cost for the 2020/21 fee year of the Bank's FMI supervisory activity, and policy activity that supports this that is within scope of the Bank's fee-levying powers, is expected to increase by 14% compared to the 2019/20 fee year. However, the Bank proposes to phase in this increase in the annual FMI supervisory fee over two years. Therefore, the proposed fees for 2020/21 are expected to total £9.1 million. Overall this is an increase of £0.6 million (7%) on the 2019/20 budget. This figure is provisional and may need to be revised at the end of the fee year.

1.4 The final fee for 2020/21 will reflect the level of supervisory resource expenditure over the course of the year and any adjustments required to phase in the fee increase.

1.5 In the 2020/21 fee year, the Bank expects to recover approximately £0.39 million through an SPF, which is for supervisory work associated with a significant activity that is time limited and requires additional supervisory resource. The Bank has informed the relevant FMI(s) of its intention to recover these costs in addition to the annual FMI fee.

1.6 The proposals in this CP have been prepared under a number of resource assumptions that were made prior to recent events in relation to Covid-19. Therefore, there may be variation in the final fee rates for the 2020/21 fee year. Any variances will be addressed at the conclusion of the 2020/21 fee year through either a rebate or a request for additional fees. The Bank will endeavour to keep FMIs within scope of the annual FMI fee regime updated on fee impacts that relate to the response to Covid-19.

1.7 In addition, the Bank intends to allocate a rebate in the 2019/20 fees collected among the FMI fee-blocks.

1.8 Finally, the CP proposes an amendment to the way that the Bank invoices SPFs, as well as a change to the rates charged for work undertaken on special projects. The Bank proposes that where an SPF is used to fund the Bank's work on a special project, then invoices will be issued on a quarterly basis. The Bank is also proposing to increase the hourly rates charged for work on special projects.

Implementation

1.9 The proposed implementation date for the proposals contained in this consultation is 2020 Q3, at which point invoices are expected to be issued for the 2020/21 fee year.

Responses and next steps

1.10 This consultation closes on 29 July 2020. The Bank invites feedback on the proposals set out in this consultation. Please address any comments or enquiries to FMIFees@bankofengland.co.uk.

(1) For the purposes of this CP, the term FMI refers to UK central counterparties (CCPs), UK central securities depositories (CSDs), recognised payment systems, and specified service providers to recognised payment systems.
(2) The 2020/21 fee year began on 1 March 2020 and will end on 28 February 2021.

1.11 The proposals set out in this CP have been designed in the context of the UK's withdrawal from the European Union and entry into the transition period, during which time the UK remains subject to European law. The Bank will keep the policy under review to assess whether any changes would be required due to changes in the UK regulatory framework at the end of the transition period, including those arising once any new arrangements with the European Union take effect.

1.12 The Bank has assessed that the proposals would not need to be amended under the European Union (Withdrawal) Act 2018. Please see *Policy Statement* (*PS*) *5/19* 'The Bank of England's amendments to financial services legislation under the European Union (Withdrawal) Act 2018' for further details.

2 FMI fees for 2020/21

2.1 This chapter sets out proposals on FMI fee rates to meet the Bank's 2020/21 funding requirement (as set out in paragraph 1.3) for its FMI supervisory activity, and the policy activity that supports this, as permitted by the Bank's fee-levying powers. The FMIs that are currently within scope of the annual FMI supervisory fee are recognised payment systems, specified service providers to recognised payment systems, UK CCPs and UK CSDs. More information can be found on the Bank's website.

2.2 The ratio for allocating fees between the different categories of FMIs remains the same as for the 2019/20 fee year and reflects the different challenges and resourcing requirements posed in supervising different types of FMI and their categories. The ratios of fees charged across the categories of FMI is set out in **Table A**.

2.3 The total FMI fees that are expected to be collected in the 2020/21 fee year are £9.1 million, which is a phased increase in fee as set out in paragraph 1.3. **Table B** sets out the expected charge for each category of FMI.[3]

Table A Fee ratio across FMI categories[a]

CCPs — the ratio between Category 1, Category 2 and Category 3 CCPs	1.75 : 1.00 : 0.57
CSDs — the ratio between Category 1, Category 2 and Category 3 CSDs	1.50 : 1.00 : 0.67
Recognised payment systems and specified service providers — the ratio between Category 1 and Category 2 firms	1.50 : 1.00

(a) The FMI categories are described as follows: Category 1 — most significant systems which have the capacity to cause very significant disruption to the financial system by failing or by the manner in which they carry out their business; Category 2 — significant systems which have the capacity to cause some disruption to the financial system by failing or by the manner in which they carry out their business; and Category 3 — systems which have the capacity to cause at most minor disruption to the financial system by failing or by the manner in which they carry out their business.

Table B Fees for **2020/21 fee year**

	CCPs	CSD	Payment systems and service providers
Category 1	£2.06 million	£1.11 million	£0.58 million
Category 2	£1.18 million		£0.39 million
Category 3			

2020/21 FMI fees and comparison with 2019/20

2.4 The 2020/21 CCP fee-block rate is expected to increase by 4%, the payment system and service provider fee-block rate by 3% and the CSD fee-block rate by 13%. The increase is primarily driven by a continued focus on, and increased resource allocated to, operational resilience, a recalibration of the resource dedicated to operational resilience work and the estimated increase in Bank pension costs. There is a further increase to the CSD fee-block as a result of increased resource allocated to CSD pre-authorisation activities.

2.5 In the June 2018 *Policy Statement*, the Bank stated that 'fees charged to FMIs could include work on special projects that fall under the Bank's supervisory remit for FMIs and are in the scope of the Bank's fee-levying powers'. It also stated that it 'considers special projects to be one-off or significant activities that may be time-limited and require additional supervisory resource'. As a result of a time-limited and significant project that

(3) These are rounded figures and FMIs within scope of the regime can expect to be billed exact amounts.

falls within scope of the fee-levying powers, the Bank intends to levy an SPF for the 2020/21 fee year and has discussed this bilaterally with the FMI(s) involved. It is expected that the Bank will recover approximately £0.39 million through levying this SPF in 2020/21.

3 Shortfall/surplus for 2019/20

3.1 As set out in the June 2018 *Policy Statement*, the Bank will set FMI fees based on the expected business-as-usual supervisory resource expenditure for the upcoming fee year. Where the Bank's spend is greater or less than anticipated, the Bank will consider adjusting its annual supervisory levy for the following fee year to account for any under or overspends. Following a final review of supervisory resource allocation in 2019/20, the Bank intends to rebate the difference between the total amount of fees collected and the actual spend for all fee-blocks in relation to the 2019/20 fee year. The proposed amount of the rebate is set out in **Table C**. This is a draft figure and may be subject to change, with the final figure confirmed when the final policy is published. The reason for the rebate is lower actual spend than budgeted on direct expenditure and staffing costs over the course of the 2019/20 fee year.

Table C Surplus in fees for the 2019/20 fee year

	CCPs	CSD	Payment systems and service providers
Category 1	£87,260	£48,652	£8,234
Category 2	£49,863		£5,490

4 An amendment to SPFs invoicing and hourly rates

4.1 The Bank is proposing an amendment to the invoicing process for SPFs. In the June 2018 *Policy Statement*, the Bank stated that SPFs would be collected on an annual basis at the same time as the annual supervisory fee. The Bank considers that greater clarity regarding project spend can be provided to FMIs that are undertaking a special project by invoicing for actual work carried out on a quarterly basis. The Bank therefore proposes to adopt a quarterly invoicing process for SPFs.

4.2 When calculating the estimated costs of an SPF, the Bank stated in the June 2018 *Policy Statement* that an estimated project fee would be set at the outset of the project. The Bank applies the same hourly charging methodology as set out in the Prudential Regulation Authority (PRA) Rulebook for special fees for restructuring, to estimate the appropriate fee for the project. The SPF hourly rates represent the approximate cost to the Bank of the resources and time spent on the special project and so are a combination of the cost of the resource used and the share of the overhead or corporate service costs (eg technology and premises) incurred.

4.3 The SPF hourly rates have remained unchanged for the past couple of years. Having reviewed the rates, the Bank proposes to increase the rates as shown in **Table D**. These rates are aligned with those proposed by the PRA in their recent consultation 'Regulated fees and levies: Rates proposals 2020/21'.

Table D Proposed SPF hourly rates

£/hour	Current rate	Proposed rate	Change
Administrator	50	55	5
Associate	105	115	10
Technical Specialist	155	170	15
Manager	195	215	20
Any persons employed by the Bank(a)	290	320	30

(a) The 'any other' category is predominantly used for senior management.