BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

Consultation Paper | CP3/13

Prudential Regulation Authority Regulated fees and levies: rates proposals 2013/14

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This Consultation Paper proposes the fee rates to meet the Prudential Regulation Authority's 2013/14 Annual Funding Requirement.

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Appendix 1: PRA periodic fees (2013/14) and other fees instrument 2013

1 Overview

1. From April 2013, the Prudential Regulation Authority (PRA) — as part of the Bank of England (the Bank) — has become the United Kingdom's prudential regulator for deposit-takers, insurance companies and major investment firms, in accordance with the amendments to the Financial Services and Markets Act 2000 (FSMA) introduced by the Financial Services Act 2012. The PRA has two statutory objectives:

- To promote the safety and soundness of all the firms it supervises by (a) seeking to ensure that the business of those firms is carried on in a way which avoids any adverse effect on the stability of the UK financial system; and (b) seeking to minimise the adverse effect that the failure of a firm could be expected to have on the stability of the UK financial system.

- And specifically for insurers, to contribute to the securing of an appropriate degree of protection for those who are, or may become, policyholders.

2. Both of these objectives are underpinned by the principle that a stable financial system, which is resilient in providing the critical financial services the economy needs, is a necessary condition for a healthy and successful economy — and that firms can affect the stability of the financial system through the way they carry on their business and by failing in a disorderly manner.

3. It is not, however, the PRA's role to ensure that no firm fails. Indeed, a key principle underlying the PRA's approach is that it does not seek to operate a 'zero-failure' regime. Rather, the PRA seeks to ensure that any firms that fail do so in a way that avoids significant disruption to the supply of critical financial services. The PRA expects all firms to meet, and continue to meet, the statutory 'Threshold Conditions', which are the minimum requirements that firms must meet to engage in regulated activities. The PRA's approach to supervision[1] has three defining characteristics:

- *Judgement-based*. The PRA uses judgement in determining if firms pose risks to its objectives and are likely to continue to meet the Threshold Conditions.

- *Forward-looking*. The PRA assesses firms not just against current risks but also against those that could plausibly arise in the future. Where the PRA judges it necessary to intervene, it will seek to do so at an early stage.

- *Focused*. The PRA focuses on those issues and those firms that pose the greatest risk to its objectives.

4. The following business plan will drive the work to establish the PRA and implement the new regime over the coming year and beyond.

PRA strategic priorities

5. For 2013/14, the PRA has four strategic priorities which apply across the whole organisation and cover the main areas of change on the transition to steady state:

- ensure the implementation of the new regulatory regime and other changes to domestic, European and international law governing regulation;

- deliver a forward-looking, judgement-based supervisory approach and affirm the PRA's authority with PRA-authorised firms;

- lead and shape the development and implementation of domestic and international policy to advance the PRA's objectives; and

- ensure the PRA has the right people and processes to carry out its statutory objectives and that it operates as an effective part of the Bank.

Business aims

6. To support the achievement of these strategic priorities, the PRA has five major business aims, each with associated initiatives and deliverables:

- To deliver effective banking supervision and work with other supervisory authorities in the United Kingdom and overseas (eg the Financial Conduct Authority (FCA)), including by:
  - embedding the new PRA approach for supervision of banks;

(1) As set out in The PRA's approach to banking supervision and The PRA's approach to insurance supervision, April 2013, available at www.bankofengland.co.uk/pra/Pages/supervision/approach/default.aspx.

  - working with the Financial Policy Committee (FPC), including providing analysis and acting on relevant recommendations;
  - engaging with and influencing overseas regulators, as well as implementing further work on recovery and resolution planning for individual firms.

- To deliver effective insurance supervision and work with other regulatory bodies (eg the FCA) to advance the fulfilment of the PRA's general objective and policyholder protection objective, including by:

  - embedding the new PRA approach for supervision of insurance firms;
  - engaging with and influencing overseas regulators.

- To influence and implement policy to advance the fulfilment of the PRA regulatory agenda, including in relation to:

  - Solvency II and the Capital Requirements Regulation/Capital Requirements Directive IV (CRR/CRD IV);
  - the Independent Commission on Banking (ICB);
  - the European Banking Union;
  - the European Banking Authority;
  - the European Insurance and Occupational Authority;
  - the Basel Committee, Financial Stability Board and International Association of Insurance Supervisors;
  - new legislation relating to building societies and credit unions.

- To equip the PRA to anticipate risks in the firms it regulates and in the environment in which they operate, to enable the PRA to deliver its objectives and contribute to the FPC's macroprudential objectives, including by:

  - investment in analytics (through the *Business Transformation Programme* — see below) that enable the PRA's technical specialists to provide effective support to supervisors to enable them to make forward looking, judgement based decisions;

- to establish the PRA with the desired culture and the right people, supported by appropriate and effective processes, including by:

  - recruitment, retention and development of staff to enable the organisation to fulfil its statutory objectives;
  - delivery of a data strategy and associated IT changes required to support the new regulatory approach under the Business Transformation Programme.

The Business Transformation Programme

7. The Business Transformation Programme will build on the work done leading up to the creation of the PRA and further enhance the capability of the PRA as an effective prudential regulator. To achieve this, the programme will:

- complete the transition to the new supervision, policy and authorisation processes;

- deliver the data strategy and IT changes that support the new regulatory approach; and

- improve working methods and approach so that the PRA can:

  - achieve a forward looking, judgement based approach to analysis and decision making; and
  - integrate with, and contribute to, the wider Bank.

Risks

8. The major risks to delivery are:

- to implement the new approach, the PRA needs to be able to recruit and retain high quality people in a range of disciplines and technical expertise, and to provide sufficient development opportunities to retain staff;

- micro and/or macroprudential risks within a firm or the system could increase significantly (eg because of an intensification of the euro-area crisis) requiring the PRA to reprioritise resources;

- legislative and policy delay and uncertainty could obstruct delivery of the business plan, and make it harder for the PRA to deliver its desired supervisory approach. Risks include delay and uncertainty in:

  - the final outcome of Solvency II, CRR/CRD IV and Common Reporting legislation; and
  - the legislation enacting the recommendations of the ICB; plans for a Banking Union in the EU; and the final rules resulting from the implementation of the Dodd-Frank Act in the United States.

Value for Money considerations

9. The PRA will adhere to the principles of good regulation including the efficient and effective use of resources. Supervisory and policy resources will be focused on those risks and issues most material to the PRA's objectives. In addition, the National Audit Office, as the PRA's auditor, will be able to instigate Value for Money reviews into different aspects of the PRA's operations as will HM Treasury under FSMA.

Summary of key proposals

10. Set out below is a summary of the key proposals in this consultation paper and a timetable for consultation.

Annual Funding Requirement (AFR) and allocation to fee blocks

11. The PRA's proposed AFR for the eleven-month period from 1 April 2013 to 28 February 2014 is set to £214.2 million. This includes an estimated £14.8 million of transition costs through which the accumulated regulatory reform costs of the Bank of England are being recovered over a period of five years. 68% of the AFR (£146.1 million) will be recovered from the A1 fee block (deposit acceptors). Insurance fee blocks (A3–A6) will be charged a total of £57.3 million, whereas firms dealing as principal (A10) will be charged £10.2 million. The minimum fee block will fund £0.6 million of the PRA's AFR for 2013/14.

12. There will be no financial penalty discount for dual-regulated firms in 2013/14, as the PRA has not imposed any financial penalties on firms. However, in this consultation paper the PRA is consulting on a financial penalty scheme in respect of the treatment of future retained penalties.

Periodic fees for PRA firms

13. The minimum fee for firms previously regulated by the Financial Services Authority (FSA) for 2013/14 will be split equally between the FCA and the PRA[(1)] and will be maintained at £1,000, the same level as set by the FSA in the past three years. Accordingly, it is proposed that the PRA minimum fee for the firms it regulates is £500. The minimum fee is paid by all authorised firms in the PRA-regulated fee blocks, with 50% of PRA-regulated firms paying the minimum fee only. The PRA's reduced minimum fees for smaller credit unions (£80 or £270, depending on size) and smaller friendly societies (£215) will be 50% of the FSA's respective minimum fees charged in 2012/13.

Q1: Do you have any comments on the proposed PRA 2013/14 minimum fees and periodic fee rates for authorised firms?

Special project fees for Solvency II

14. The PRA proposes to follow the FSA approach and levy two separate Solvency II (SII) Special Project Fees (SPF).[(2)] These proposals will impact on firms in fee blocks A3, A4 and A6.

15. The £3.1 million estimated Internal Model Approval Process (IMAP) SPF costs for 2013/14 allocated to the A3 and A4 fee blocks will be recovered from the firms to which this fee applies. The fee will be in proportion to these firms' size, based on the same measures of size used to calculate their periodic fees (premium income and liabilities), and allocated in proportion to the total periodic fees levied in 2012/13. This method is in line with the method used by the FSA in previous years and continues to ensure that small and medium-sized firms will pay proportionally less. For the A6 (Lloyd's) fee block, whose periodic fees are calculated on an individual basis, the PRA will allocate £327,600.

Q2: Do you have any comments on the proposed IMAP SPF for 2013/14 or the proposed circumstances (see paragraph 74) under which it will be payable by firms?

16. The estimated non-IMAP budget for 2013/14 is £6.1 million after adjustment for an eleven month fee period. Taking into account the estimated 2012/13 underspend of £9 million, the 2013/14 budget can be funded from the 2012/13 fees already paid by non-IMAP firms. The PRA proposes to return the remaining over-recovery of an estimated £2.9 million to firms who paid non-IMAP fees for 2012/13 as a credit against their other fees payable in 2013/14. The proposal is to allocate the estimated £2.9 million credit in the same way as non-IMAP SPF costs were allocated for 2012/13 — allocated to the A3, A4 and A6 fee blocks in proportion to the total periodic fees raised in 2012/13.

Q3: Do you have any comments on the proposed basis for treating the 2012/13 over recovery of the non-IMAP fees?

Financial penalty scheme

17. Financial penalties received by the PRA must be paid to HM Treasury net of certain enforcement costs incurred in the financial year in which the penalties are received. These enforcement costs represent the 'retained penalties'. The PRA proposes to apply retained penalties paid in any financial year as a rebate to the periodic fees paid in the following financial year by firms in the A1, A3, A4, A5, A6 and A10 fee blocks. The total retained penalties from any financial year will be allocated across these fee blocks in proportion to the allocation of fees for Ongoing Regulatory Activity (ORA).

18. Enforcement costs (and retained penalties) will not be allocated to the A0 (minimum fee) fee block or the PT.1 PRA transition costs fee block. Additionally, it is proposed that a penalised firm will not receive any rebate to their periodic fees paid in the following financial year.

Q4: Do you have any comments on the proposed PRA financial penalty scheme?

Consultation period

19. The proposals are subject to a consultation period of two months and which closes on 9 June 2013. The PRA expects the proposed rules in Appendix 1 to be finalised in June 2013.

(1) See PRA/FCA minimum fees proposals at page 17 of FSA CP 12/28: Regulatory fees and levies, available at www.fsa.gov.uk/static/pubs/cp/cp12-28.pdf.
(2) See SII SPF proposals at page 16 of FSA CP 12/03: Regulatory fees and levies, available at www.fsa.gov.uk/static/pubs/cp/cp12-03.pdf.

Compatibility statement and cost benefit analysis

20. When the PRA issues rules for consultation, the PRA is required by section 138J(2)(d) of FSMA (as amended by the Financial Services Act 2012) to include an explanation of its reasons for believing that making the proposed rules is compatible with its duties — a compatibility statement.

21. Section 138J(6)(d) exempts the PRA from having to carry out a cost benefit analysis (CBA) on its draft fees rules.

Compatibility statement — PRA general duties and principles of good regulation

22. The draft periodic fee rates rules will enable the PRA to fund the strategic priorities and business aims set out in this chapter during 2013/14 and meet its responsibilities under FSMA. The PRA therefore believes that these proposals are compatible with its duties to promote the safety and soundness of PRA-authorised firms and, in the context of insurance, to contribute to policyholder protection. For these reasons, the proposals are compatible with the requirement on the PRA to act in a way that advances its objectives.(1)

23. The proposals are consistent with the general principles of good regulation as endorsed by the compliance to the regulatory principles and no significant detrimental impacts on competition have been identified.(2)

Consultation: mutual societies

24. Section 138J(2)(c) of FSMA requires that a consultation carried out by the PRA must include a statement prepared under section 138K(2). Section 138K(2) applies to where the PRA proposes to make rules which impact on both:
(a) authorised persons which are mutual societies; and
(b) other authorised persons. Where this applies the PRA must make a statement setting out whether or not the impact of the proposed rules on persons under (a) will be significantly different from its impact on persons under (b), and if so, detail the difference.

25. This consultation paper includes proposed fee rates that apply to persons under both (a) and (b). The PRA believes that the impact of these proposed fee rates on persons under (a) is not generally significantly different from their impact on persons under (b). However, the proposed minimum fees for smaller credit unions and smaller friendly societies that fall under (a) are lower than those levied on other authorised persons under (b).

Equality and diversity

26. The FSA carried out an equality impact assessment (EIA) of its fees policy in 2011. For proposals in this consultation paper which are an adaption of the FSA's fees policy, the EIA determined that there were no issues relevant to the equalities agenda or which might influence detrimental behaviour towards disability, gender and racial equality. Accordingly, the PRA has concluded that its fee proposals do not give rise to any equality or diversity issues.

(1) See 138J(2) FSMA.
(2) Statement made in compliance to s.2H FSMA.

2 Fees timetable and invoicing arrangements

27. The FCA acts as collection agent for PRA fees and is responsible for the administrative arrangements for invoicing, data collection and payment of PRA fees.

PRA fees timetable

28. **Table 2.A** shows the indicative annual FCA collection timetable in relation to PRA periodic fees.

Tariff data collection

29. Each fee-payer's invoice is calculated using the fee-tariff data for all the PRA fee blocks to which the fee-payer belongs, and also according to its permission to undertake regulated activities. Where the FCA does not have the information it needs to charge PRA fees it will write to firms to request such information. Tariff data requests are sent to firms in January each year and must be completed and returned by 28 February.

Variation/cancellation of Part 4A permission

30. Firms are allocated to PRA 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. The PRA does not refund periodic fees if a firm applies to reduce the scope of its Part 4A permission, or cancel it altogether, once a new fee year has started (a PRA fee year is from 1 March to 28 February the following year).(1)

31. Any firm that wishes to vary its permission to narrow its scope, or cancel it altogether, must submit its written application to the PRA (and the FCA where relevant) so that the PRA receives it by 28 February and the application must be approved by the PRA (and the FCA where relevant) by 30 June — otherwise the firm will be liable for the following year's periodic fees on the basis of its previous scope of permission.

(1) For the 2013/14 transitional year the PRA fee year will be 1 April 2013 to 28 February 2014.

Table 2.A Fees timetable

Date	Event	Description	Action needed by firms	Reference in this chapter
January	Tariff data collection exercise	The FCA contacts all relevant applicable fee-payers with a written request for their tariff data on which their PRA fees will be based.	Complete and return tariff data sheets to the FCA by 28 February.	Paragraph 29
28 February	Applications to vary or cancel Part 4A permissions	Dual-regulated firms(a) that want to vary or cancel their PRA permission and do not wish to be liable for the full periodic fees in the following PRA fee year.	Written applications to vary or cancel permissions must be received by 28 February. If such applications are approved by the PRA (and the FCA where relevant) by 30 June, no periodic fees will be payable in the following fee year.	Paragraphs 30–32
30 April	'On account' fee due from higher fee-payers	Firms that paid combined periodic fees to the PRA and FCA of at least £50,000 in the previous year must pay 50% of the amount paid in that year 'on account' towards their PRA and FCA fees in the following year. See note (i) below for transitional arrangements for fee year 2013/14.	Pay 'on-account' invoices no later than 30 April.	Paragraph 34
July onwards	Invoicing for all other firms	The FCA issue invoices to all firms who do not make 'on account' payments.	Pay invoices within 30 days of receiving them.	Paragraph 35
August	Balance due from 'on account' fee-payers	The FCA will invoice 'on account' firms for the remainder of their periodic fees.	Pay invoices by 1 September.	Paragraph 34

Note (i): For the fee year 2013/14, the £50,000 threshold that triggers the payment of 'on account' fees will be based on the fees paid to the FSA in 2012/13 and the 'on account' payment based on 50% of those fees paid. The FSA sent out invoices for the 'on account' payments before 1 April 2013. If a firm has paid its 'on account' fees for 2013/14 before 1 April, it will not be liable to pay an 'on account' fee to either the PRA or the FCA.

(a) Firms authorised by and subject to the prudential supervision of the PRA and conduct supervision by the FCA (so-called 'dual-regulated firms').

32. A firm seeking to increase the scope of its Part 4A 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.

New joiners

33. A firm applying for PRA and FCA dual-regulation authorisation during the fee year is liable to pay regulatory fees and levies for the full year pro-rated according to the quarter in which authorisation begins. The fee years for the PRA (1 March to 28 February) and FCA (1 April to 31 March) are different. Therefore PRA new joiners, in their first year only, will pay PRA fees as set out in **Table 2.B**.

Table 2.B New joiner fees for 2013/14

PRA firms authorised	Proportion of periodic fees payable
1 April to 30 June inclusive	100%
1 July to 30 September inclusive	75%
1 October to 31 December inclusive	50%
1 January to 28 February inclusive	25%

'On account' fee-payers

34. Dual-regulated firms that paid £50,000 or more in total PRA and FCA fees in the previous year must pay 50% of those fees 'on account' against their fees for the following year by 30 April. Their fees for the following year will be finalised in June. By 1 September dual-regulated firms must pay the balance of their fees. See note (i) in **Table 2.A** for 2013/14 transitional year arrangements.

Other fee-payers

35. The FCA will start invoicing dual-regulated firms who paid combined PRA and FCA fees of less than £50,000 the previous year for the full amount of their following year fees from July. Firms will have 30 days from the date of the invoice in which to pay.

Online fees calculator

36. The FCA will provide a facility on its website to enable firms to calculate their periodic fees for the forthcoming year based on the draft PRA consultative rates in Appendix 1 of this consultation paper. The fees calculator for 2013/14 fees and levies is available from 9 April 2013 for firms to use.

3 PRA 2013/14 Annual Funding Requirement (AFR) and allocation to fee blocks

37. This chapter sets out the factors that determine the PRA's proposed AFR for 2013/14. The AFR is the amount of money that the PRA needs to raise to fund its regulatory activities. The key regulatory activities for the coming year are set out in an outline of the PRA's strategy and priorities for 2013/14 in Chapter 1.

38. **Table 3.A** shows the calculation of the AFR for 2013/14 and covers eleven months from April 2013 to February 2014: the PRA acquired its legal powers on 1 April and its financial year will end on 28 February 2014, in line with that of the Bank of England. In future years, the PRA's AFR will cover a twelve-month period, from March to February the following year.

Table 3.A Composition of AFR for April 2013–February 2014

£ million	2013/14
Ongoing Regulatory Activity (ORA)	**199.4**
Non-capital transition costs	14.8
Annual Funding Requirement (AFR)	**214.2**

39. The majority of the PRA's funding needs reflect the budget for ORA, which amounts to £199.4 million in the eleven months of the PRA's first financial year 2013/14. Prior to the commencement of the budget and business plan round for 2013/14, the Bank of England worked with the FSA to assess the future cost of prudential regulation on the basis that the FSA had not been disbanded. This counterfactual cost estimate anchored the PRA's budget for the financial year 2013/14. The budget now required by the PRA for its ORA during 2013/14 is below the cost estimate developed during this Value for Money assessment.

40. The allocation of the ORA across the six PRA-regulated fee blocks (and the minimum fee block) is set out in **Table 3.B**. The allocation is largely based on staff activity data, which reflects the PRA's focus on the firms that pose the greatest risk to the PRA's objectives. Accordingly, the A1 fee block (deposit acceptors) accounts for 68% of the ORA (£136.0 million). The insurance fee blocks (A3–A6) are allocated a further £53.3 million, and the firms dealing as principal fee block (A10) accounts for £9.5 million.

Table 3.B Proposed 2013/14 ORA allocation, transition costs and AFR

Fee block	Allocation (£ million)
A0 Minimum fee	0.6
A1 Deposit acceptors	136.0
A3 Insurers — general	22.6
A4 Insurers — life	28.1
A5 Managing agents at Lloyd's	1.2
A6 The Society of Lloyd's	1.4
A10 Firms dealing as principal	9.5
Total ORA	**199.4**
PT1 PRA Transition costs[a]	**14.8**
Total AFR	**214.2**

(a) These transition costs will be recovered through a separate PT1 PRA transitional fee block in proportion to the fees firms pay in the other fee blocks — excluding minimum fees.

41. Within each fee block, the costs to be recovered from individual firms are based on the size of their business. Consequently, those firms that could potentially cause the greatest harm to the stability of the UK financial system will be the main contributors to the PRA's funding needs. As was the case in the past for FSA fees, cost recovery from the A1 fee block will be weighted further towards these higher-impact firms. Any firm authorised to carry out any of the regulated activities covered by the 'A' fee blocks is also subject to the A0 minimum fee.[1]

42. There is no financial penalty discount for PRA-regulated firms for 2013/14, as the PRA has not imposed any financial penalties on firms. However, in this consultation paper the PRA is consulting on a financial penalty scheme in respect of the treatment of future retained penalties.

(1) Except the A6 fee block, which consists of The Society of Lloyd's only and is invoiced on an individual basis.

43. Paragraph 31 of Schedule 1ZB of FSMA provides that the PRA may make rules for the payment of fees to cover, *inter alia*, costs incurred in preparation for the exercise of, or to facilitate the exercise of, the PRA's functions under the Act. The Bank of England is expecting to spend £74.1 million (excluding capital expenditure) on regulatory reform and the creation of the PRA.

44. The PRA Board has agreed to recover these transition costs over a period of five years from 2013/14 to 2018/19, from all fee blocks (except the minimum fee block), in proportion to the allocation of fees for ongoing regulatory activity (**Table 3.C** below). This approach is consistent with the way in which the FSA's transition costs in 2011/12 and 2012/13 have been recovered from all its fee blocks.

Table 3.C Proposed 2013/14 AFR including allocation of transition costs

Fee block	ORA (£ million)	Transition cost (£ million)	AFR (£ million)
A0 Minimum fee	0.6	–	0.6
A1 Deposit acceptors	136.0	10.1	146.1
A3 Insurers — general	22.6	1.7	24.3
A4 Insurers — life	28.1	2.1	30.2
A5 Managing agents at Lloyd's	1.2	0.1	1.3
A6 The Society of Lloyd's	1.4	0.1	1.5
A10 Firms dealing as principal	9.5	0.7	10.2
Total	**199.4**	**14.8**	**214.2**

45. The majority of the PRA's costs reflect supervision of deposit acceptors which account for around 68% of the AFR. Recovery over a five-year period implies that an amount of £14.8 million per year is expected to be added to the PRA's AFR. Capital expenditure incurred by the Bank during the transition period is being recovered from PRA-regulated firms as part of the costs of ongoing regulatory activity.

How costs are allocated

46. Costs are allocated across fee blocks in two ways:

- Direct costs: these are costs that the PRA is able to allocate to individual fee blocks, eg individual firm supervision and sector-specific policy development. These direct costs include the costs of staff and premises.

- Indirect costs: these are costs that cannot be directly allocated to individual fee blocks, eg thematic supervision, non sector-specific policy development. Fee blocks are also charged a share of overhead costs. These include the cost of shared Information Technology and Human Resource services, as well as other operational support costs needed to support the PRA. All indirect costs are allocated to fee blocks in proportion to the direct cost allocations.

47. As noted above, transition costs are allocated across fee blocks in proportion to the allocation of the ORA.

4 Combined FCA and PRA 2013/14 AFR compared with FSA 2012/13 AFR

48. This chapter explains the factors determining how the combined FCA and PRA AFR for 2013/14 has been calculated and the principal movements from the FSA AFR in 2012/13. The combined AFR is the amount of money that the FCA and the PRA need to raise to fund the regulatory activities of both organisations in 2013/14.

2013/14 AFR

49. **Table 4.A** shows the calculation of the total £646.3 million combined FCA and PRA AFR for 2013/14, an increase of 15% on the FSA AFR in 2012/13. The underlying 2013/14 annual combined FCA and PRA costs of Ongoing Regulatory Activity (ORA) will increase by £127.8 million (24%) from 2012/13, although after adjusting for eleven months of PRA costs from 1 April 2013 to 28 February 2014, the increase reduces to 21%.

50. The £127.8 million (24%) increase in the combined FCA and PRA ORA is attributable to a number of factors as follows (**Table 4.B**):

- **£34.4 million increase in front-line staff costs**: The increase largely reflects the need to embed the judgement-based, forward-looking and risk-focused supervision approach for both the PRA and the FCA. In particular, the FCA will have to deliver on its new market integrity, consumer protection and competition objectives. This is reflected in a 6% increase in FCA staff numbers in front line delivery which includes the resources needed for dual mechanisms, for example in Authorisations, and accounts for £19.4 million of the increase. The PRA will have staff numbers in its areas of prudential supervision that are 5% higher than the FSA equivalent to deliver the new supervision approach. In addition PRA resources include staff reallocated from the Solvency II programme to front

Table 4.A Combined AFR across FCA and PRA

£ million	FCA 2013/14	PRA 2013/14	FCA plus PRA 2013/14	FSA 2012/13	Change
Ongoing regulatory activity (ORA)					
FSA twelve months to 31 March 2013				535.5	
FCA twelve months to 31 March 2014	445.7		445.7		
PRA twelve months to 28 February 2014		217.6	217.6		
Total ORA	**445.7**	**217.6**	**663.3**	**535.5**	**127.8**
Year on year change in annual ORA					*24%*
PRA adjustment to eleven months		-18.2	-18.2		-18.2
Total ORA adjusted	**445.7**	**199.4**	**645.1**	**535.5**	**109.6**
Year on year change in adjusted ORA					*21%*
Additions:					
Recovery of scope change costs	3.3		3.3	2.4	0.9
FCA regulatory reform implementation	2.6		2.6	32.5	-29.9
Bank of England transition costs		14.8	14.8		14.8
Subtractions:					
Surplus in previous year(a)	-19.5		-19.5	-10.6	-8.9
AFR	**432.1**	**214.2**	**646.3**	**559.8**	**86.5**
Year on year change in AFR					*15%*
Financial penalty discount	**-40.6**		**-40.6**	**-70.7**	**30.1**
Percentage year on year change in chargeable fees taking account of financial penalties discount					*24%*

(a) To be finalised on completion of the statutory audit.

Table 4.B Increase in Ongoing Regulatory Activity (ORA)

£million	FCA plus PRA 2013/14	FSA 2012/13	Change	
Front-line staff costs	**259.4**	**225.0**	**34.4**	**15%**
Support costs:				
IT and depreciation	165.4	121.5	43.9	36%
Central and support services	142.6	115.2	27.4	24%
Accommodation and office services	45.5	36.9	8.6	23%
Other	50.4	36.9	13.5	36%
Total support costs	**403.9**	**310.5**	**93.4**	**30%**
Total ORA	**663.3**	**535.5**	**127.8**	**24%**

line supervision. The estimated cost increase associated with the latter is £10.0 million and is partially offset by a reduction in the 2013/14 SPF for Solvency II. Underlying pay increases have been limited to 2.5% for both the PRA and the FCA.

- **£43.9 million increase in Information Technology (IT) costs and depreciation**: The FSA's IT costs (including associated staff costs) in 2012/13 were £77.2 million. The FSA outlined in its 2012/13 business plan significant investment in information systems and capability over a number of years to ensure that core technology platforms remained supported and able to underpin key regulatory systems. The FCA has committed to continuing this investment and expects to incur £85.7 million in IT and associated costs in 2013/14. Likewise the PRA's Business Transformation Programme will complete the transition to the new supervision approach and deliver the associated data strategy and IT changes that support the new approach. The PRA's IT and expensed project costs for 2013/14 are budgeted at £28.7 million. In addition the FCA has inherited the FSA's depreciation costs in respect of these systems. The 2013/14 depreciation costs for the FCA and PRA are £44.0 million and £7.0 million respectively (FSA 2012/13 depreciation charge was £44.3 million).

- **£27.4 million increase in central services and support functions**: The FSA's central services and support functions costs were £115.2 million in 2012/13 and for the FCA are expected to be £103.9 million in 2013/14. The PRA expects to incur £38.7 million in central services costs in 2013/14. The FCA expects to make some savings over time as it realigns and rebalances its current infrastructure and capacity to the demands of the new organisation and the dual regulatory model. Immediate savings are not achievable due to the need to support the business while strategic organisational change is implemented, particularly with respect to the changes in consumer credit regulation from 1 April 2014.

- **£8.6 million increase in accommodation and office services costs**: As part of the reorganisation the PRA has moved into new premises at 20 Moorgate, London at a cost of £12.6 million per annum. The FCA has reduced its floor space and premises costs by £4.0 million from £36.9 million in 2012/13 to £32.9 million in 2013/14 but must retain sufficient additional capacity to absorb the people required to regulate consumer credit from 1 April 2014.

- **£13.5 million increase in other costs**: This is driven mainly by the increase in expected London interbank offered rate (Libor) case costs (other than staff costs) in FCA Enforcement. These costs are expected to peak in 2013/14.

51. Because the PRA's year end is 28 February 2014, it will need only to recover eleven months of its £217.6 million annual ORA in 2013/14, requiring a downwards adjustment of £18.2 million. This reduces the overall ORA fee increase to 21%.

52. Other factors reducing the combined FCA and PRA AFR increase to 15% include:

- **Regulatory Reform**: FSA regulatory reform implementation costs have fallen by £29.9 million — the project effectively ending at legal cutover. The Bank of England will recover £14.8 million of transition costs in 2013/14.

- **£19.5 million surplus**: The FSA is expected to deliver a 2012/13 surplus of £19.5 million to be returned to fee payers in 2013/14. This surplus takes into account the FSA's decision to make a one-off contribution of £22.0 million to reduce the defined benefit pension scheme deficit that will be inherited by the FCA. The deficit is expected to increase to approximately £200 million (last valuation £156 million) at the next Scheme Specific Valuation (SSV) on 31 March 2013 and an additional contribution made now will reduce the FSA legacy and mitigate the risks of significantly increased future annual deficit-funding contributions.

Financial penalties

53. The amount of financial penalties collected by the FSA in 2012/13 were £381.8 million. Following changes made by the 2012 Act these financial penalties, net of certain enforcement costs, will be paid to the Exchequer in April 2013. As a result the amount of financial penalties retained (representing the associated costs of Enforcement) will be reduced substantially to £40.6 million. This means that the 15% increase in the combined FCA and PRA AFR will become a 24% increase in the overall level of combined fees paid by fee payers in 2013/14 from 2012/13.

Value for Money

54. The PRA does not plan to increase its costs in real terms except in relation to specific new policy initiatives, such as the implementation of the Banking Reform Bill. The PRA's Solvency II SPF to be recovered from firms for 2013/14 are £0.2 million compared to £15.0 million for 2012/13 reflecting the new planning horizon to 31 December 2015 (see Chapter 6).

55. The PRA will make every effort to reduce its costs and take advantage of sharing support costs with the Bank of England and seek efficiencies in its operations as part of any Bank-wide Value for Money initiatives. The FCA is fully committed to improving the Value for Money of the services it provides to stakeholders and the FCA's published business plan provides details of its Value for Money framework. Both the PRA and FCA will be subject to Value for Money audits by the National Audit Office.

Changes in AFR allocations to fee blocks relative to 2012/13

56. Minimum fees have been held at the same level with fees for dual-regulated firms being split between the two organisations. The slight fall in projected recovery from the minimum fee block reflects an expected lower number of firms and not a reduction in the fees paid. Firms dealing as principal, deposit acceptors and general insurers will face above-average increases in fees in 2013/14 (**Table 4.C**).

Table 4.C Allocation of costs to fee blocks

Fee blocks £ million	FCA[(a)] 2013/14	PRA[(b)] 2013/14	FCA plus PRA 2013/14	FSA 2012/13	Change
A0 Minimum fee	18.0	0.6	18.6	18.8	-1%
A1 Deposit acceptors	59.9	146.1	206.0	171.2	20%
A3 General insurers	22.1	24.3	46.4	38.9	20%
A4 Life insurers	37.3	30.2	67.5	59.2	14%
A5 Managing Agents	0.2	1.3	1.5	1.3	13%
A6 The Society of Lloyd's	0.3	1.5	1.8	1.6	14%
A10 Firms dealing as principal	49.6	10.2	59.8	48.1	24%
Other (FCA-only) fee blocks	244.7	–	244.7	220.7	11%
Total	**432.1**	**214.2**	**646.3**	**559.8**	**15%**

(a) Including a share of the AP00 Prudential Fee Block where appropriate.
(b) Including a share of the PT01 PRA Transition Costs Fee Block where appropriate.

A1 Deposit acceptors

57. The increase in the PRA's AFR allocation to the A1 fee block largely reflects the fact that all costs of banking sector prudential regulation will be allocated to deposit acceptors in 2013/14. Previously the cost of prudential regulation of other business activities eg proprietary trading, mortgage lending, advising and arranging was distributed across the relevant FSA fee blocks. In addition, part of the increased PRA allocation to the A1 fee block is explained by the resources needed to support the Financial Policy Committee.

58. The FCA's increased allocation to deposit acceptors reflects overseeing the review and redress process in respect of the interest rate swaps mis-selling, technological resilience including implementing the lessons learned from the RBS Group systems failure, complaints handling, authorisations and anti-money laundering.

A3 General insurers and Life insurers

59. The consolidated FCA/PRA allocation to general insurers will rise by 20%. The costs in the PRA are required to embed the new supervisory approach and to work with other regulatory bodies to advance the fulfilment of the PRA's policyholder protection objective. The comparatively larger increase in general insurers is due to additional front line supervision resources in departments that allocate the majority of their costs to general insurers, such as London Markets and Non Life & Insurance Companies.

60. In addition, the FCA's cost increases impact general insurers as a result of the additional resources focused on the supervision of price comparison web sites which have been responsible for major structural changes in the way the industry manufactures prices and distributes retail insurance products. The FCA plans a market study into general insurance add-ons sold to consumers when they purchase a product of some value.

A10 Firms dealing as principal

61. Firms dealing as principal will overall be charged 24% higher fees than in 2012/13. The cost of prudentially regulating the nine dual-regulated firms dealing as principal will rise in 2013/14 as a result of increased focus on the risk assessment of what are systemically important firms.

62. The FCA's increased allocation to the A10 fee block in 2013/14 reflects higher costs of the Libor investigation and enforcement action, the regulation of algorithmic trading, high-frequency trading and trading platforms as the FCA seeks to increase the standards of market conduct and take action against those guilty of market abuse.

5 Periodic fees for authorised firms

63. This chapter sets out the PRA's proposals for the 2013/14 periodic fees of authorised firms. The corresponding draft rules are set out in FEES 4, Annex 2BR in Appendix 1.

Proposed minimum periodic fees 2013/14

64. It is proposed that all PRA-regulated firms be subject to the A0 minimum fee, so ensuring that all PRA firms contribute to the cost of regulation. Having a minimum fee payable by all firms will ensure that the minimum fee is not too high (which would impede competition) and not too low (which would prejudice existing fee-payers).

65. The minimum fee for 2013/14 will be split equally between the FCA and the PRA[1] and will be maintained at £1,000, the same level as set by the FSA in the past three years. Accordingly, it is proposed that the PRA minimum fee for the firms it regulates is £500 and will be paid by all authorised firms in the PRA-regulated fee blocks, with 50% of PRA-regulated firms paying the minimum fee only.

66. Exceptions from paying the standard minimum fee are proposed (i) where an exception can be justified and (ii) where the firm is a small low-impact firm. So for example, FSA exceptions are applied to smaller credit unions (reduced minimum fee of £80 or £270, depending on size) and smaller friendly societies (reduced minimum fee of £215) and the PRA proposes to continue to apply the exception to these types of firms. Additionally, the PRA's minimum fees for these firms are half of the FSA's minimum fees charged in 2012/13.

Proposed variable periodic fees

67. Costs allocated to the A fee blocks are recovered on a straight-line basis, that is, in direct proportion to the size of the permitted business firms undertake in these fee blocks(see **Table 5.A**). The estimated proposed 2013/14 periodic fee rates have been calculated using the latest data on firm populations and tariff data (which is a measure of size of permitted business undertaken by firms in the fee blocks).

Table 5.A Data used to estimate 2013/14 periodic fee rates for consultation

		2013/14 (estimate)		
Fee block	Tariff base	AFR (£ million)	No of fee payers	Tariff base
A0	Minimum fee	0.6	1,598	n.a.
A1	Modified eligible liabilities	136.0	919	£2,893.6 billion
A3	Gross premium income	22.6	391	£53.7 billion
	Gross technical liabilities			£110.4 billion
A4	Adjusted gross premium income	28.1	219	£56.6 billion
	Mathematical reserves			871.7 billion
A5	Active capacity	1.2	60	£24.0 billion
A10	Traders	9.5	9	2,118
PT01	Transition costs	14.8	1,599	n.a.

Calculating the actual periodic fees for 2013/14

68. To calculate the actual periodic rates to recover the final AFR allocations from the fee blocks, the PRA proposes to update **Table 5.A** to analyse (i) the number of fee payers in each fee block as at 1 April 2013 and (ii) the tariff data for each fee-payer, which is generally based on the fee-payer's activity as reported to the FSA in 2012 or as at 31 December 2012. The updated data are used to calculate the revised periodic fee rates, which are finalised in light of responses to this consultation and subject to the PRA Board's approval, and then published in the PRA's consolidated policy statement for fees in June 2013.

69. Fee-payers should be aware that this means that final periodic fee rates for 2013/14 — which will be determined by the PRA Board at its June 2013 meeting — could vary materially from the estimated rates presented in this consultation paper.

(1) See PRA/FCA minimum fees proposals on page 17 of *FSA CP12/28: Regulatory fees and levies: policy proposals for 2013/14*, available at www.fsa.gov.uk/static/pubs/cp/cp12-28.pdf.

6 Special project fees for Solvency II

70. This chapter sets out proposals for the recovery of the project development and implementation costs of Solvency II (SII) through a SPF, the costs of which fall outside the PRA's AFR. The proposals are reflective of the two types of SII SPF used previously by the FSA, namely the Internal Model Approval Process (IMAP) SPF and the Non-IMAP SPF. These proposals will impact firms in fee blocks A3 (Insurers — general), A4 (Insurers — life) and A6 (The Society of Lloyd's). The corresponding draft rules are set out in FEES 4, Annex 2BR see Appendix 1.

Overall SII SPF budget for 2013/14

71. The PRA's SPF budget for 2013/14 reflects the new planning horizon to 31 December 2015, which was announced on 22 October 2012. This revised timetable, from the expectation last year, also accounts for the projected underspend against the 2012/13 budget.

72. **Table 6.A** sets out the estimated 2013/14 budget and impact of the estimated 2012/13 underspend.

Table 6.A Estimated 2013/14 SII SPF budget

	IMAP (£ million)	Non-IMAP (£ million)	Total
2012/13 final recovery from firms	7.0	8.0	15.0
2012/13 actual (costs)/recovery	-4.6	1.0	-3.6
Estimated 2012/13 underspend (A)[(a)]	**2.4**	**9.0**	**11.4**
2013/14 budgeted costs	6.0	6.7	12.7
Adjustment for eleven-month period[(b)]	-0.5	-0.6	-1.1
2013/14 eleven-month period budgeted costs (B)	**5.5**	**6.1**	**11.6**
2013/14 eleven-month estimated budgeted costs/(recovery) (B-A)	**3.1**	**-2.9**	**0.2**

(a) The actual underspend for 2012/13 will not be finalised until April 2013.
(b) To reflect that the PRA's financial year is 1 March to 28 February (the FSA's was 1 April to 31 March) and that for 2013/14 the PRA's fee period will be eleven months from 1 April 2013.

IMAP SPF for 2013/14

73. For 2013/14, it is envisaged the IMAP SPF will continue to recover the costs of developing and implementing the framework relating to IMAP; and costs incurred when considering internal models submitted for review by firms.

74. It is proposed that the 2013/14 IMAP SPF is payable if before 1 June 2013:

- 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 the PRA (or previously from the FSA), that it has met the criteria for entry into the internal model pre-application process; and
- the recipient has not informed the PRA (or previously the FSA) in writing that it wishes to withdraw from that internal model pre-application process, or has been informed by the PRA (or previously the FSA) in writing that it is no longer in that process.

75. The above communications will, for the majority of firms, have taken place before April 2011 by the FSA.

Allocating IMAP costs across A3, A4 and A6 fee blocks

76. The PRA proposes to allocate the 2013/14 estimated IMAP SPF costs on the same basis as 2012/13. The PRA will therefore allocate these costs to A3 and A4 in proportion to the total periodic fees levied in 2012/13. For the A6 (Lloyd's) fee block, whose periodic fees are calculated on an individual basis, the PRA will allocate £327,600.

Recovering the IMAP SPF allocation from A3 and A4 fee blocks

77. The £3.1 million estimated IMAP SPF costs for 2013/14, which have been allocated to the A3 and A4 fee blocks, are proposed to be recovered from the firms to which this fee applies (as set out in paragraph 74), in proportion to their size (straight line recovery) using the same measures of size used to calculate their periodic fees (premium income and liabilities), as in previous years. This approach will continue to ensure that small and medium-sized firms pay proportionally less than larger firms, and so will broadly reflect the level of engagement the PRA expects to have with firms. As with periodic fees the amount of IMAP SPF will not directly relate to the actual resources applied to individual firms.

78. The calculation of the IMAP SPF rates in the draft instrument in Appendix 1 is based on the PRA's projection of the number of firms that will be in the pre-application process as at 1 June 2013. 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 2013 and will then be used to calculate the actual IMAP SPF rates for 2013/14. Therefore, the actual 2013/14 IMAP SPF rates may differ from those consulted on in this consultation paper.

Non-IMAP SPF for 2013/14

79. The non-IMAP SPF recovers the other costs the PRA incurs 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.

80. As set out in **Table 6.A** above the estimated non-IMAP budget for 2013/14 is £6.7 million. Taking into account the estimated 2012/13 underspend and the adjustment for an eleven month fee period, the 2013/14 budget can be funded from the 2012/13 fees already paid by non-IMAP firms. This leaves an over-recovery amounting to an estimated £2.9 million.

81. The PRA proposes to return this over-recovery of fees to firms who paid non-IMAP fees for 2012/13 as a credit against their other fees payable in 2013/14. The PRA proposes to allocate this estimated £2.9 million credit in the same way as non-IMAP SPF costs were allocated for 2012/13 — allocated to the A3, A4 and A6 fee blocks in proportion to the total periodic fees raised in 2012/13.

82. The apportionment of the credit allocated to firms within the A3 and A4 fee blocks will be in proportion to the same tariff data (measures of size) used to calculate 2013/14 periodic fees levied.

83. No non-IMAP SPF will be levied for 2013/14.

Table 6.B Mapping of SII terms

Terms in this consultation paper		Terms in the draft rules in Appendix 1
'IMAP SPF'	Relate to	'Solvency 2 Special Project fee'
'non-IMAP SPF'	Relate to	'Solvency 2 Implementation fee'
'pre-application process'	Relate to	'pre-IMAP status'

7 Financial penalty scheme

84. This chapter sets out proposals for a PRA financial penalty scheme. This scheme is made pursuant to paragraph 28 of Schedule 1ZB of FSMA, and which sets out how the PRA should treat financial penalties it imposes on firms. The key statutory requirements include:

- Financial penalties received by the PRA must be paid to HM Treasury net of certain enforcement costs incurred in the financial year in which the penalties were received. These enforcement costs, which are subject to HM Treasury approval, represent the 'retained penalties';

- In relation to retained penalties, the PRA must prepare and operate a scheme (the 'Financial Penalty Scheme') for ensuring that retained penalties are applied for the benefit of firms; and

- Firms that have become liable to pay any penalty to the PRA in any financial year do not receive any benefit from any penalty imposed on any firm under the scheme in the following financial year.

85. The PRA is proposing to apply retained penalties paid in any financial year as a rebate to the periodic fees paid in the following financial year by firms in the following fee blocks:

- A1 Deposit acceptors;
- A3 Insurers — general;
- A4 Insurers — life;
- A5 Managing Agents at Lloyd's;
- A6 The Society of Lloyd's; and
- A10 Firms dealing as principal.

86. The total retained penalties from any financial year will be allocated across these fee blocks in proportion to the allocation of fees for ongoing regulatory activity for the following financial year except for the firm(s) upon whom any penalty was levied.

87. Enforcement costs are not allocated to the A0 minimum fee block or the PT.1 PRA Transition costs fee block. Retained penalties will not therefore be allocated to these fee blocks.

88. The firms on which any penalty was imposed in a financial year will not receive any rebate to their periodic fees paid, in relation to any retained penalties, in the following financial year.

89. Each year the PRA will publish a schedule setting out the:

- total retained penalties in the previous year;
- amount of retained penalties allocated to each fee block; and
- percentage rebate that will be applied in the following year to the periodic fees paid by the firms in those fee blocks.

90. A draft of this schedule will be published in the annual PRA fees rates consultation paper and the final schedule will be published in the subsequent policy and feedback statement to that consultation.

91. Subject to responses received on this proposed financial penalty scheme, it will be applied to penalties retained for the eleven-month period 1 April 2013 to 28 February 2014 and thereafter to each subsequent PRA financial year — 1 March to 28 February the following year.

Appendix 1

PRA PERIODIC FEES (2013/2014) AND OTHER FEES INSTRUMENT 2013

Powers exercised by the Prudential Regulation Authority

A. The Prudential Regulation 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 137G (The PRA’s general rules);

(2) section 137T (General supplementary powers); and

(3) paragraph 31 (Fees) of Part 3 (Penalties and Fees) of Schedule 1ZB (The Prudential Regulation Authority) of the Act.

B. The rule making powers listed above are specified for the purpose of section 138G (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on [*date*].

Amendments to the Handbook

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

Citation

E. This instrument may be cited as the PRA Periodic Fees (2013/2014) and Other Fees Instrument 2013.

By order of the Board of the Prudential Regulation Authority

[*date*]

Annex

Amendments to the Fees manual (FEES)

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

3 Application, Notification and Vetting Fees

…

Method of payment

3.2.3 [PRA] R (1) …

…

(3) The sum payable under *FEES* 3.2.1R by a *firm* applying for a variation of its *Part 4A permission* (*FEES* 3.2.7R(p) and *FEES* 3.2.7AR(c)) must be paid by any of the methods described in (1) or by Maestro, Visa Debit or credit card (Visa/Mastercard only). Any payment by a permitted credit card must include an additional 2% of the sum paid.

…

4 Periodic fees

4.1 Introduction

…

Background

…

[Note: ~~References to the fee period 1 April 2012 to 31 March 2013 have been updated to 1 April 2013 to 31 March 2014 in respect of the *FCA* and 1April 2013 to 28 February 2014 in respect of the *PRA* to put into effect the rule changes contained in the Legal Cutover (Fees) Instrument 2013 only. The tariff rates set out in the *FEES* 4 Annexes have not yet been updated for the 2013/2014 fee year. The rates for the 2013/2014 fee year will be made by the *FCA* and *PRA* boards in June, following a consultation on a separate fees rates instrument expected to be published in April 2013.]~~ [deleted].

...

4.2 Obligation to pay periodic fees

…

Method of payment

4.2.4 [PRA] R (1) Unless (2) applies, a periodic fee must be paid using either direct debit, credit transfer (BACS/CHAPS), cheque, Maestro, Visa Debit or by credit card (Visa/Mastercard only). Any payment by permitted credit card must include an additional 2% of the sum paid

(2) …

…

4.3 Periodic fees payable by firms (other than ICVCs and UCITS qualifiers)

…

Time of payment

4.3.6 [PRA] R …

(5A) Paragraphs (1A) and (2) do not apply to any Solvency 2 Special Project fee or Solvency 2 Implementation fee (as defined in *FEES* 4 Annex 2BR) and such fees are not taken into account for the purposes of the split in (1A). Instead any Solvency 2 Special Project fee or Solvency 2 Implementation fee is payable on the date specified in (1A)(b) or (2) (depending on which applies to the rest of its periodic fee) or any earlier date required by (3) or (4).

4 Annex 2BR [PRA] PRA fee rates and EEA/Treaty firm modifications for the period from 1 April 2013 to 28 February 2014

Part 1 This table shows the tariff rates applicable to each of the fee blocks set out in Part 1 of *FEES* 4 Annex 1BR.		
…		
Note	In the case of activity groups A.3 and A.4 there are three tariff rates. The rate in column 1 applies to all *firms* in their respective fee-blocks. The rate in column 2 relates to the Solvency 2 Implementation fee and *firms* must determine their obligation to pay this fee by reference to Part 5 of this Annex. The rate in Column 3 relates to the Solvency 2 Special Project fee and *firms* must determine their obligation to pay this fee by reference to Part 4 of this annex. The total periodic fee for each of these fee-blocks is determined by adding the amounts obtained under all three columns, as applicable.	
Activity group	Fee payable	
A.1	Band width (£ million of Modified Eligible Liabilities (MELs))	Fee (£/£m or part £m of MELs)
		General Periodic fee
	>10 – 140	32.70
	>140 – 630	32.70

	>630 – 1,580	32.70		
	>1,580 – 13,400	40.87		
	>13,400	53.95		
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	0.00	25.00
	Band Width (£ million of GPI)	Fee (£/£m or part £m of GPI)		
	>0.5 – 10.5	379.98	-18.47	25.93
	>10.5 – 30	379.98	-18.47	25.93
	>30 – 245	379.98	-18.47	25.93
	>245 – 1,900	379.98	-18.47	25.93
	>1,900	379.98	-18.47	25.93
	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	20.54	-1.00	1.56
	>12.5 – 70	20.54	-1.00	1.56
	>70 – 384	20.54	-1.00	1.56
	>384 – 3,750	20.54	-1.00	1.56
	>3,750	20.54	-1.00	1.56
	For *UK ISPVs* the tariff rates are not relevant and a flat fee of £430.00 is payable in respect of each fee year.			
A.4	Adjusted annual gross premium income (AGPI)	Column 1 General periodic fee	Column 2 Solvency 2 implementation	Column 3 Solvency 2 special project

			fee	fee
	Minimum fee (£)	Not applicable	0.00	25.00
	Band Width (£ million of AGPI)	Fee (£/£m or part £m of AGPI)		
	>1 – 5	373.40	-22.19	31.69
	>5 – 40	373.40	-22.19	31.69
	>40 – 260	373.40	-22.19	31.69
	>260 – 4,000	373.40	-22.19	31.69
	>4,000	373.40	-22.19	31.69
	PLUS			
	Mathematical reserves (MR)	General Periodic fee	Column 2 Solvency 2 implementation fee	Column 3 Solvency 2 special project fee
	Minimum fee (£)	Not applicable	0.00	25.00
	Band Width (£ million of MR)	Fee (£/£m or part £m of MR)		
	>1 –20	8.07	-0.48	0.63
	>20 – 270	8.07	-0.48	0.63
	>270 – 7,000	8.07	-0.48	0.63
	>7,000 – 45,000	8.07	-0.48	0.63
	>45,000	8.07	-0.48	0.63
A.5	Band Width (£ million of Active Capacity (AC))	Fee (£/£m or part £m of AC)		
	>50 – 150	56.10		
	>150 – 250	56.10		
	>250 – 500	56.10		
	>500 – 1,000	56.10		
	>1,000	56.10		
A.6	Flat fee	1,394,436.00		

	Solvency 2 Special Project Flat Fee (£) Solvency 2 Implementation Flat Fee (£)	327,600.00 -44,159.81
A.10	Band Width (No. of traders)	4,487.30
	2 – 3	4,487.30
	4 – 5	4,487.30
	6 – 30	4,487.30
	31 – 180	4,487.30
	>180	4,487.30

Part 2 This table sets out the tariff rate applicable to each of the fee blocks set out in Part 2 of *FEES* 4 Annex 1BR			
PA.0	(1)	The minimum fee payable by any *firm* referred to in (3) is 500 unless:	
		(a)	it is a *credit union* that meets the conditions in (2), in which case the minimum fee payable is as set out in (2); or
		(b)	it is a *non-directive friendly society* that falls into the A.3 activity group but not the A.4 activity group and meets the conditions set out in (3)(a), in which case the minimum fee payable is 215; or.
		(c)	it is a *non-directive friendly society* that falls into the A.4 activity group but not the A.3 activity group and meets the conditions in (3)(b), in which case the minimum fee payable is 215; or
		(d)	it is a *non-directive friendly society* that falls into the A.3 and A.4 activity groups and meets the conditions in (3)(a) and (3)(b), in which case the minimum fee payable is 215;
	(2)	The conditions referred to in (1)(a) are that the *credit union* has a tariff base (Modified Eligible Liabilities) of:	
		(a)	0 to 0.5million, in which case a minimum fee of 80 is payable; or
		(b)	greater than 0.5millon but less than 2.0million, in which case a minimum fee of 270 is payable.
	(3)	The conditions referred to in (1) are that:	
		(a)	…

PT.1	Periodic fees payable under Part 1 multiplied by rate 0.075

Part 4		
This part sets out when a Solvency 2 Special Project fee is due for *firms* falling into fee block A.3 or A.4.		
(1)	The Solvency 2 Special Project fee forms part of the periodic fee payable under fee blocks A.3 and A.4.	
(2)	The Solvency 2 Special Project fee is only payable by a *firm* if it meets the conditions in Part 5 and the condition set out in paragraph (3) of this Part.	
(3)	The condition is that before 1 June 2013 the *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 the *FSA* or, on or after 1 April 2013, the *PRA* that it has met the criteria for entry into pre-Internal Model Approval Process status (pre-IMAP) and the recipient remains in pre-IMAP status on 1 June 2013.	
(4)	For the purposes of (3), the recipient will be deemed to remain in pre-IMAP status unless, before 1 June 2013:	
	(a)	the recipient informs the *FSA* or, on or after 1 April 2013, the *PRA* in writing that it wishes to withdraw from pre-IMAP status; or
	(b)	the recipient has been informed by the *FSA* or, on or after the 1 April 2013, the *PRA* in writing that it is no longer in pre-IMAP status.
(5)	For the purposes of this Part, a reference to pre-IMAP means the status achieved by the recipient by joining the process established by the *FSA* whereby the *FSA* or, on or after 1 April 2013, the *PRA* and the recipient engage with a view to the *FSA* or, on or after 1 April 2013, the *PRA* establishing whether an internal model developed by the recipient is likely to meet the tests and standards specified in the *Solvency 2 Directive*.	
(6)	*FEES* 4.2.6R and *FEES* 4.2.7R do not apply to the Solvency 2 Special Project Fee.	

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 *firm* if it meets all the conditions in (2) and neither of the conditions in (3).	
(2)	The conditions in this paragraph are:	
	(a)	*FEES* 4.3.13R (Firms Applying to Cancel or Vary Permission Before Start of Period) does not apply with respect to the relevant fee blocks;
	(b)	the *firm* has not notified the *FSA* before the start of the 2013/2014 fee year that it intends to migrate out of the *United Kingdom* for regulatory purposes before the *Solvency 2 Directive* is implemented;

	(c)	it meets either of the following conditions:	
		(i)	its gross premium income or adjusted gross premium income, as appropriate, referred to in *FEES* 4 Annex 1R Part 2, exceeds EUR 5 million at the end of the financial year ended in the calendar year ending 31 December prior to the 2013/2014 *fee year*; or
		(ii)	its gross technical liabilities or mathematic reserves, as appropriate, referred to in *FEES* 4 Annex 1R Part 2, exceed EUR 25 million at the end of the financial year ended in the calendar year ending 31 December prior to the 2013/2014 *fee year*;
	(d)	it was in one or both of the insurance fee blocks at the start of the 2013/2014 *fee year*;	
	(e)	it is not an *incoming EEA firm* or an *incoming Treaty firm*;	
(3)	The conditions in this paragraph are:		
	(a)	the *firm* is a *reinsurance undertaking* that has, by 10 December 2007, ceased to conduct a new *insurance business* and only administers its existing portfolio in order to terminate its activity as a *reinsurance undertaking*;	
	(b)	it is a *reinsurance undertaking* whose *insurance business* is conducted or fully guaranteed by the *United Kingdom* government for reasons of substantial public interest in the capacity of the *reinsurer* of last resort.	
(4)	Where a *firm* has notified the *FSA* or, on or after 1 April 2013, the *PRA* that it intends to migrate out of the *United Kingdom* for regulatory purposes before the *Solvency 2 Directive* is implemented in the *United Kingdom* but when the *Solvency 2 Directive* is implemented that *firm* remains in the *United Kingdom* for regulatory purposes, it must pay the Solvency 2 Implementation fee for each *FSA* financial year and each *PRA fee year* commencing 1 April 2013 for which the Solvency 2 Implementation fee would have applied to the *firm* but for the *firm* notifying the *FSA* or the *PRA* of its intention to migrate.		
(5)	Where a *firm* is required to pay a Solvency 2 Implementation fee because of the circumstances described in (4) it must pay this fee within 30 *days* of the date of the invoice.		
(6)	For the purposes of this Part, the exchange rate from the Euro to the pound sterling is calculated as at the last day of October preceding the financial year of the *FSA* or, on or after 1 April 2013, the *PRA fee year* in question for which the exchange rates for the currencies of all European Union member states were published in the Official Journal of the European Union.		
(7)	*FEES* 4.2.6R and *FEES* 4.2.7R do not apply to the Solvency 2 Implementation fee.		