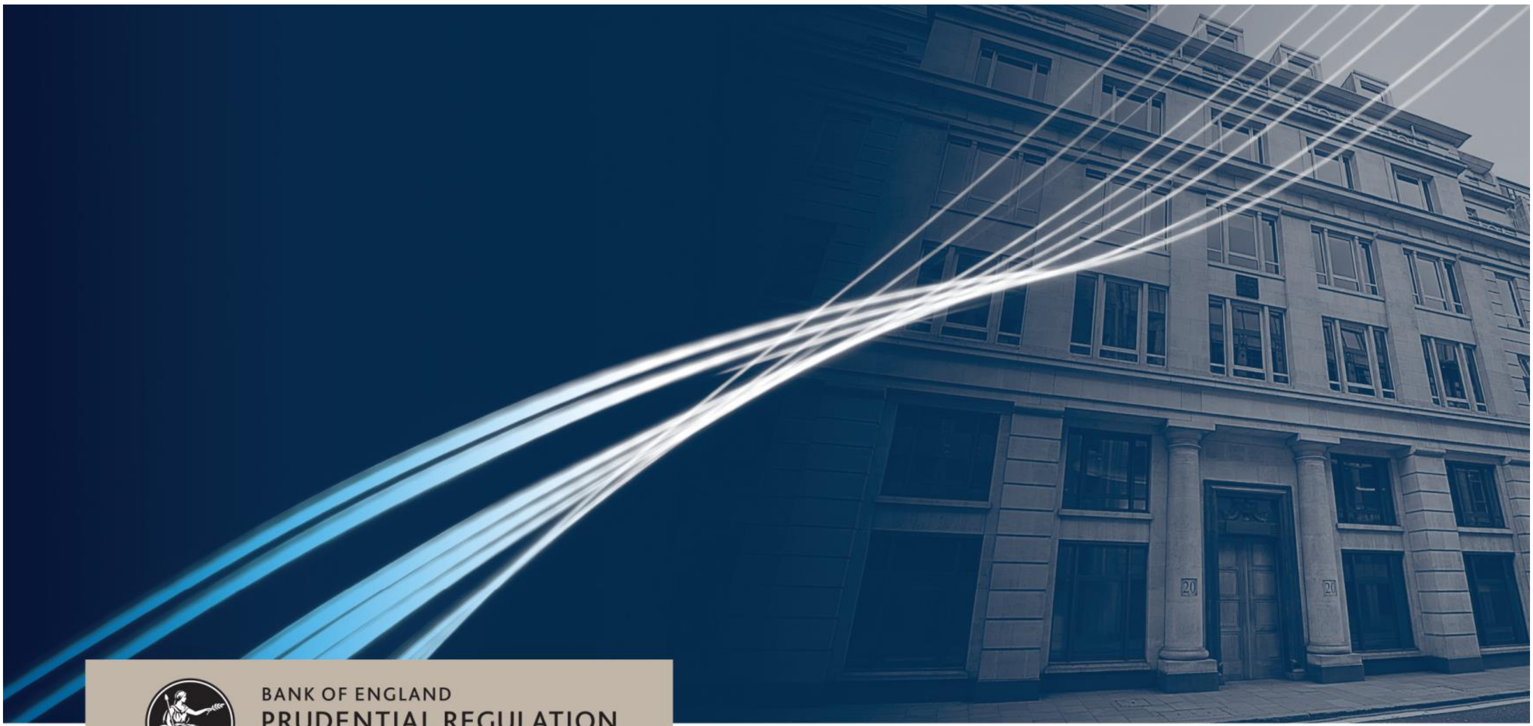

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

Consultation Paper | CP10/16

Regulated fees and levies: rates proposals 2016/17

March 2016

Prudential Regulation Authority
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Registered in England and Wales No: 07854923

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Information provided in response to this consultation, including personal information, may be subject to publication or release to other parties or to disclosure, in accordance with access to information regimes under the Freedom of Information Act 2000 or the Data Protection Act 1998 or otherwise as required by law or in discharge of our statutory functions.

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Responses are requested by Tuesday 24 May 2016.

Please address any comments or enquiries to:

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Contents

1 Overview

1.1 This consultation paper (CP) consults on proposals for the PRA's fees and levies for 2016/17. It includes:

(a) the fee rates to meet the PRA's 2016/17 Annual Funding Requirement (AFR);

(b) proposed rules for introducing a ring-fencing implementation fee;

(c) how the PRA intends to distribute a refund from the 2015/16 AFR and the retained penalties for 2015/16; and

(d) a consequential amendment to the fees rules as a result of recent policy changes for credit unions.

1.2 This consultation applies to all PRA-authorised firms.

Summary of proposals

1.3 The PRA's AFR for 2016/17 is made up of the budgeted cost of Ongoing Regulatory Activities (ORA) and a proportion of transition costs arising from establishing the PRA. Further information on these can be found in Chapter 2. The proposed AFR for 2016/17 is £257.3 million.

1.4 The proposed PRA AFR for 2016/17 is broadly similar to last year's (a slight decrease of £0.5 million or 0.2%). However, changes in the balance of activities within the PRA and to the way that some of these activities are funded in 2016/17 leads to differing impacts on specific fee blocks, with some fee blocks increasing and others decreasing. The overall costs to be recovered from every fee block this year, once the removal of the Solvency II special project fee (SPF) and the proposed ring-fencing implementation fee are taken into account, is less than the overall costs charged in 2015/16.

1.5 There will be no SPF for Solvency II in 2016/17 as implementation of this European Directive is now embedded into 'business-as-usual' activities. The relevant rules were removed as part of the Rulebook transposition effective from 1 March 2016.

1.6 The implementation of the Financial Services (Banking Reform) Act 2013 (the 'Banking Reform Act') requires a significant amount of work to be undertaken by the PRA through to 2019 when the new ring-fencing regime takes effect. Starting from 2016/17, the PRA proposes to recover the costs associated with this work through a ring-fencing implementation fee. This will apply to firms that are ring fencing their core activities in line with the Act. The PRA's budgeted costs associated with the implementation of ring fencing in 2016/17 are £7.9 million, compared to £3.5 million in 2015/16. Chapter 3 explains this fee in more detail.

1.7 The PRA estimates there will be a refund to fee payers of the AFR in 2015/16 amounting to £4.5 million. Information on the reasons for this and how it will be refunded to fee payers is in Chapter 4.

1.8 In June 2013, the PRA published its Financial Penalty Scheme (FPS) describing how it will treat fines and other financial penalties paid by firms. This was amended in June 2015[1]

1 PRA Policy Statement 13/15 'PRA Regulated fees and levies: rates proposals', June 2015, page 15 and appendix 2; www.bankofengland.co.uk/pra/Pages/publications/ps/2015/ps1315.aspx.

following consultation and is summarised in Chapter 5. The PRA collected financial penalties in 2015/16 and there are estimated retained penalties[1] of £1.3 million that will be paid to all eligible PRA-authorised firms. The PRA proposes to allocate retained penalties across fee blocks using firm population data from 2015/16. Details of the distribution of retained penalties to firms are in Chapter 5.

1.9 Fee payers should be aware that the final rates for 2016/17 and the final refunds for 2015/16, which will be published by the PRA in June 2016, may vary from those presented in this CP. The following may have a material effect on the final figures:

- the estimated number of fee payers and estimated tariff data for each fee payer, as set out in Table 2.C, which is used to calculate the rates proposed in this CP are draft and may be subject to change;

- the proposed refunds set out in Table 4.A and Table 5.A are draft, unaudited figures and hence may be subject to change; and

- the proposed rates and refunds will be reviewed in light of any responses to this CP.

1.10 Chapter 6 outlines the proposals for a new single rate authorisation fee for credit unions as a consequential change to fees rules as a result of the recent removal of the version distinction for credit unions elsewhere in the PRA's rules.

Changes to fees rules

1.11 The Fees Part of the PRA Rulebook[2] took effect on 1 March 2016 following consultation.[3] This converts FEES 1-4 of the former PRA Handbook to the new Rulebook format, as part of a wider project that has been ongoing since the PRA acquired its statutory functions in 2013. The draft rules instrument in the appendix to this consultation, if adopted, will amend the Fees Part.

1.12 Periodic fees calculations rely on data extracted, to a significant extent, from the data firms submit to the PRA as part of normal supervision. Solvency II has led to significant changes in regulatory reporting for many insurance firms and the PRA is currently considering how this might impact on fees collection. Any proposed rule changes will be consulted on in late summer or early autumn 2016.

Bank of England and Financial Services Bill

1.13 Under the Bank of England and Financial Services Bill currently making its way through Parliament, it is proposed that the PRA will become an authority within the Bank of England and operate as part of the Bank. This legislation, if passed, is likely to take effect during the 2016/17 fee year. Firms should, however, experience no change in relation to fees. All rules will remain in the name of the PRA as at present. Invoicing will continue to be undertaken by the Financial Conduct Authority as the collection agent for PRA fees.

1 'Retained penalties' are the amounts representing enforcement costs which the PRA is entitled to retain from fines and other financial penalties received as a result of its regulatory enforcement activity.
2 See www.prarulebook.co.uk.
3 See PRA Policy Statement 7/16 'PRA Rulebook: Fees Part and Responses to CP40/15', February 2016; www.bankofengland.co.uk/pra/Pages/publications/ps/2016/ps716.aspx.

Responses and next steps

1.14 The proposals are subject to a consultation period of two months which closes on Tuesday 24 May 2016. Please address any comments or enquiries to PRAFeesConsultation@bankofengland.co.uk.

1.15 Feedback on the consultation and final rules will be published in a policy statement in June 2016.

2 Regulated fees and levies for 2016/17

2.1 This chapter sets out the proposals on the fee rates to meet the PRA's 2016/17 AFR.

2016/17 Annual Funding Requirement and comparison to 2015/16

2.2 The AFR is the budget required by the PRA to advance its statutory objectives. The PRA's proposed AFR for 2016/17 is £257.3 million. This is marginally lower than the AFR for 2015/16. The AFR is made up of:

- the budget for ORA, which amounts to £242.5 million; and
- recovery of transition costs, which amounts to £14.8 million.

2.3 Table 2.A shows the calculation of the PRA's total AFR for 2016/17 compared to the PRA's AFR for 2015/16.

Table 2.A Estimated Annual Funding Requirement for 2016/17 and movement from 2015/16 Annual Funding Requirement

£ million	2016/17	2015/16	Change	Percentage Change
Ongoing Regulatory Activities	242.5	243.0	(0.5)	(0.2)
Transition costs	14.8	14.8	-	-
Annual Funding Requirement	**257.3**	**257.8**	**(0.5)**	**(0.2)**

2016/17 Ongoing Regulatory Activities

2.4 The PRA's 2016/17 proposed budget for ORA is £242.5 million compared to £243 million for 2015/16. While the total budget is similar to last year, there is some movement in the activities within this. In particular:

- a decision has been made to fund only half of the annual concurrent bank stress testing exercise from PRA fees starting from 2015/16;
- some specialist banking sector staff have been moved onto the programme to implement the Banking Reform Act and will be funded in 2016/17 through the new ring-fencing implementation fee described in Chapter 3;
- the Solvency II implementation project has ended and ongoing work associated with Solvency II is now embedded within 'business-as-usual' insurance firm supervision; and
- the PRA has updated the proportions used to allocate its 'back office' support functions to the fee blocks.

Transition costs

2.5 The PRA's AFR for 2016/17 includes an amount of £14.8 million to recover a proportion of transition costs, which were incurred in preparation for the establishment of the PRA as consulted on and set out in PS4/13[1]. These costs are being recovered over a period of five

1 PRA Policy Statement 4/13 'PRA Regulated fees and levies: rates proposals', June 2013: www.bankofengland.co.uk/pra/Pages/publications/regulatedfeelevies.aspx.

years from 2013/14 to 2017/18 from all fee blocks except the minimum fee block, in proportion to the allocation of fees for ORA as set out in Table 2.B. Recovery of the outstanding amount will continue until 2017/18.

Allocation of 2016/17 Ongoing Regulatory Activities to fee blocks

2.6 The proposed allocation of the ORA across the seven PRA-regulated fee blocks including the minimum fee block is set out in Table 2.B. Firms are allocated to PRA fee blocks based on the regulated activities for which they hold permissions and pay a periodic fee for each fee block into which they fall. This proposed allocation to fee blocks is based on the anticipated work to be performed within each area, which reflects the PRA's focus on the firms that pose the greatest risk to the PRA's objectives.

2.7 The cost of ORA is allocated across fee blocks taking into account the proportion of the PRA's frontline staff undertaking activities relating to each fee block.

2.8 Within each fee block, the costs to be recovered from individual firms are based on the size of their business. The aim is to ensure that those firms that could potentially cause the greatest harm to the stability of the UK financial system are the main contributors to the PRA's AFR. As for previous years, cost recovery within the A1 fee block will be weighted further towards higher-impact firms.

2.9 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, with the exception of the A6 fee block which consists of the Society of Lloyd's only and is invoiced on an individual basis.

Changes in Annual Funding Requirement allocations to fee blocks relative to 2015/16

2.10 Table 2.B sets out the change from 2015/16 to 2016/17 in the allocation of: i) the PRA's AFR and, ii) its total costs to fee blocks. The table shows that, even though the PRA's overall AFR is slightly decreasing, changes in the balance of activities within the PRA are leading to an increase for the A3 and A4 fee blocks and decrease for the A1 and A10 fee blocks compared to the AFR related charges last year. However, when considering total costs,[1] the PRA is proposing a lower amount than last year to be collected from each fee block.

2.11 The changes driving the differences across fee blocks are as follows:

- **Bank stress testing.** The PRA levy will fund just 50% of the annual concurrent bank stress testing exercise from 2015/16. This is because the work contributes to both the PRA's objectives and those of other areas of the Bank. Last year when consulting on the AFR the assumption was that this activity would be 100% funded by the PRA levy. This decision therefore contributes to the amount of unspent levies for 2015/16 as well as the observed decrease for the A1 fee block in Table 2.B.

- **Embedding Solvency II in insurance firm supervision.** As the project to prepare for the implementation of Solvency II completes, many of the relevant staff are being redeployed in ongoing insurance firm supervision. Although the table shows an increase in the AFR for fee blocks A3 and A4, the total costs to those fee blocks are lower in 2016/17 when considering both the AFR and the Solvency II SPF (see Table 2.B) because the increase in AFR shown in Table 2.B is more than offset by the cessation of the Solvency II SPF.

1 Total costs are the AFR and all implementation fees (including the Solvency II special project fee and ring-fencing implementation fee).

- **Ring-fencing implementation fee.** Some banking sector experts from within the PRA have been transferred to the programme to implement the ring-fencing aspects of the Banking Reform Act and will be funded in 2016/17 via the proposed ring-fencing implementation fee (see Chapter 4). This has contributed to the observed decrease in the A1 fee block.

- **Allocation of 'back office' supervisory support costs.** The PRA has also updated this year the allocation of costs relating to 'back office' supervisory support functions[1] to the fee blocks. This allocation takes into account the proportion of frontline staff undertaking activities relating to each fee block and also consideration of how these functions are broadly planning to split their time across the populations within each fee block in the coming year. The updated allocation has led to an increase in the costs allocated to fee blocks A3 and A4 and a reduction for fee blocks A1 and A10.

Table 2.B Proposed 2016/17 Annual Funding Requirement allocation and movement from 2015/16 Allocation

£ million	2016/17 AFR	2015/16 AFR	Change	Percentage Change	2016/17 AFR and Implemen-tation Fees	2015/16 AFR and Implemen-tation Fees	Change	Percentage Change
A0 Minimum fee	0.6	0.6	-	-	0.6	0.6	-	-
A1 Deposit Takers	149.8	158.6	(8.8)	(5.5)	157.7	162.1	(4.4)	(2.7)
A3 Insurers - general	34.8	30.8	4.0	13.0	34.8	35.8	(1.0)	(2.8)
A4 Insurers - life	43.4	38.7	4.7	12.1	43.4	46.8	(3.4)	(7.3)
A5 Managing agents at Lloyd's	1.4	1.4	-	-	1.4	1.4	-	-
A6 The Society of Lloyd's	1.8	1.9	(0.1)	(5.3)	1.8	2.2	(0.4)	(18.2)
A10 Firms dealing as principal	10.7	11.0	(0.3)	(2.7)	10.7	11.0	(0.3)	(2.7)
PT1 Transition costs	14.8	14.8	-	-	14.8	14.8	-	-
Total	**257.3**	**257.8**	**(0.5)**	**(0.2)**	**265.2**	**274.7**	**(9.5)**	**(3.5)**

Online fees calculator

2.12 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 the appendix. The fees calculator for 2016/17 fees and levies will be available to firms from Tuesday 5 April 2016.

Changes to tariff data used in Annual Funding Requirement allocations to fee blocks relative to 2015/16

2.13 Table 2.C sets out the analysis of tariff data used for allocating the PRA's AFR to firms within fee blocks for 2016/17 and a comparison to 2015/16.

2.14 The PRA proposes an increase in fee rates for 2016/17 compared to 2015/16 for the A3 and A4 fee blocks and a decrease for the A1, A5 and A10 fee blocks. The proposed changes are due to the movement in the allocation of the ORA to fee blocks between the two years as set

1 Examples include the Supervisory Oversight Function, Chief Operating Officer Unit, and the office of the Chief Executive.

out in Table 2.B. The impact of this change is lessened where there is an increase in tariff data within the fee blocks and magnified where there is a decrease in tariff data. For example if the combined total Modified Eligible Liabilities for all firms within the A1 fee block increase, the rate charged to each firm per £ million of Modified Eligible Liabilities will decrease, and vice versa.

2.15 Table 2.C additionally sets out the number of firms in each fee block for the purposes of transparency as the proposed fee each firm would pay may be impacted by the number of firms included in the relevant fee blocks.

2.16 The proposed allocations within the PT1 Transition Costs fee block increase as the total cost of ORA decreases leading to the transition costs being spread over lower tariff data.

Table 2.C Analysis of tariff data for allocation of fees within fee blocks compared to 2015/16

Fee Block	Tariff basis	2016/17 Number of firms	2015/16 Number of firms	Mvt (%)	2016/17 draft tariff data	2015/16 tariff data	Mvt (%)	Movement in fee rates from 2016/17 (%)
A0	Minimum Fee	1,456	1,486	(2.0)	n.a.	n.a.	n.a.	-
A1	Modified Eligible Liabilities	868	878	(1.1)	£2,833.9 bn	£2,818.6 bn	0.5	(5.9)
A3	Gross Premium Income	346	357	(3.1)	£64.4 bn	£63.9 bn	0.8	12.5
	Gross Technical Liabilities				£133.2 bn	£133.1 bn	0.1	13.3
A4	Adjusted Gross Annual Premium Income	189	196	(3.6)	£59.7 bn	£58.8 bn	1.5	10.1
	Mathematical Reserves				£952.5 bn	£952.4 bn	-	12.0
A5	Active Capacity	64	64	-	£27.0 bn	£26.8 bn	0.7	(1.5)
A10	Traders	8	8	-	1,868	1,910	(2.2)	(0.2)
PT1	ORA Fee	1,457	1,487	(2.0)	n.a.	n.a.	n.a.	0.2

3 Ring-fencing implementation fees for 2016/17

3.1 The ring-fencing implementation fee will apply to firms that are ring fencing their core activities in line with the requirements of the Banking Reform Act ahead of the Government's 1 January 2019 deadline. The fee will recover PRA costs associated with the implementation of ring fencing. The implementation of the new regime requires a significant amount of work to be undertaken by the PRA through to 2019. The PRA's budgeted costs associated with this work in 2016/17 are £7.9 million, compared to £3.5 million in 2015/16.

3.2 2015/16 costs associated with ring fencing (also known as 'structural reform') were recovered through an existing fee mechanism (the special project fee for restructuring), but as the work moves to a more complex phase, a tailored solution is deemed appropriate. Firms which pay the special project fee for 2015/16 (in-scope firms') should expect to pay the implementation fee in 2016/17. Draft rules can be found in the appendix.

3.3 The PRA's budgeted costs for 2016/17 include the costs of:

- finalisation of the PRA's rules and supervisory statements in relation to the implementation of ring fencing;
- consulting on the PRA's proposed additional reporting requirements for groups subject to ring fencing;
- identifying and defining changes to the PRA's supervisory model that will apply to groups subject to ring fencing;
- supervisory review of near-final ring-fencing plans received from groups subject to ring fencing, including heightened support to this work by risk specialists, policy specialists and other PRA experts;
- preparatory work on banks' applications for ring-fencing transfer schemes (RFTS), review of banks' proposed RFTS skilled persons and ongoing engagement with the banks, skilled persons and courts in respect of RFTS; and
- preparatory work on banks' applications for regulatory transactions connected with ring fencing, including (where applicable) preparatory work on banks' applications for new bank authorisations.

3.4 These activities are specific to the requirements to implement the Banking Reform Act and are not part of the PRA's normal supervisory activity. The PRA will consult each year on further costs to be charged by this mechanism after 2016/17.

3.5 The allocation of the PRA's ring-fencing implementation costs to groups will reflect two equally-weighted factors: i) how their core deposits compare with the core deposits of all in-scope banking groups; and ii) how their total group assets outside their proposed ring-fenced body subgroups compare with the non-ring fenced assets of all in-scope banking groups.[1] Calculations will be based on data from these banking groups' ring-fencing plans as at February 2016. The PRA considers these metrics to be an appropriate proxy for the balance of work the PRA will need to do across these banking groups to implement ring fencing.

1 Total group assets' refers to assets of the relevant resolution group.

4 Annual Funding Requirement refund for 2015/16

4.1 The PRA proposes to refund the difference between fees collected and actual spend in relation to the 2015/16 financial year. The amount of the AFR to be refunded to fee payers is estimated to be £4.5 million. This is a draft, unaudited figure and therefore will be subject to change, with the final figure to be confirmed in the policy statement to be published following the close of this consultation.

4.2 It is the PRA's policy to refund all unspent AFR levies unless the PRA Board determines that a portion should be retained as reserves. The PRA Board has determined that no portion of the unspent AFR levies should be retained for the purpose of reserves in 2016/17. In general, unspent levies can arise for a number of reasons including:

- over-collection of fees due to changes in tariff data or firm population throughout the fee year;
- changes to planned PRA expenditure; and
- savings attributable to the PRA's continued commitment to provide value for money.

4.3 There was a small difference between the fees collected in relation to the Non-IMAP Solvency II SPF and the actual spend for 2015/16 of £13,000. The PRA considers that it would not be proportionate or cost effective to allocate such a small sum to individual affected firms and proposes to include this in the unspent AFR to be returned to all fee payers as set out in this chapter.

4.4 The refund will be allocated to firms in two stages:

Stage 1 – Allocation to fee blocks. The PRA proposes to allocate the AFR refund across all fee blocks, with the exception of the A0 minimum fee block, in proportion to the AFR for the 2015/16 fee year.

Stage 2 – Allocation to individual firms. Within each fee block the AFR refund is allocated with reference to fee block population and tariff data for the 2015/16 fee year, excluding firms that are no longer PRA fee payers.

4.5 Table 4.A sets out the proposed allocation of the AFR refund for 2015/16 to fee blocks and comparison to 2014/15.

Table 4.A Proposed allocation in 2016/17 of Annual Funding Requirement refund for 2015/16 to fee blocks and comparison to 2014/15 allocation

£ million	2015/16	2014/15	Change
A0 Minimum fee	-	-	-
A1 Deposit Takers	3.0	2.7	0.3
A3 Insurers - general	0.6	0.5	0.1
A4 Insurers - life	0.7	0.6	0.1
A5 Managing agents at Lloyd's	<0.1	<0.1	<0.1
A6 The Society of Lloyd's	<0.1	<0.1	<0.1
A10 Firms dealing as principal	0.2	0.2	-
Total	**4.5**	**4.0**	**0.5**

5 Financial Penalty Scheme and Application of Retained Penalties for 2015/16

5.1 The legislative framework for financial penalties is set out in the Financial Services and Markets Act 2000 (FSMA).[1] Under FSMA, the PRA must:

- pay any fines and other financial penalties received as a result of regulatory enforcement activity to HM Treasury after deducting certain enforcement costs (these costs referred to as 'retained penalties'[2]);

- publish and operate a financial penalty scheme (the 'Financial Penalty Scheme') to ensure that retained penalties are applied for the benefit of PRA-authorised firms; and

- ensure that any firm that has had a penalty imposed does not share in the distribution of retained penalties for the relevant fee year.

5.2 The PRA's Financial Penalty Scheme provides for retained penalties to be refunded as a rebate to the periodic fees payable by firms in the six fee blocks indicated in Table 5.A. There is no allocation to the A0 minimum fee or the PT1 Transition Costs fee blocks as they do not bear any share of enforcement costs.

Application of Retained Penalties for 2015/16

5.3 In 2015/16 enforcement activity by the PRA resulted in fines and penalties of £1.3 million, all of which is being retained by the PRA. Therefore £1.3 million will be refunded to firms across all the fee blocks indicated, excluding those firms that incurred the fines.

Table 5.A Proposed allocation of Financial Penalty Scheme refund for 2015/16 to fee blocks and comparison to 2014/15

£ million	2015/16	2014/15	Change
A1 Deposit Takers	0.8	1.0	(0.2)
A3 Insurers - general	0.2	0.2	-
A4 Insurers - life	0.2	0.2	-
A5 Managing agents at Lloyd's	<0.1	<0.1	-
A6 The Society of Lloyd's	<0.1	<0.1	-
A10 Firms dealing as principal	0.1	0.1	-
Total	**1.3**	**1.5**	**(0.2)**

1 Paragraphs 28 and 29 of Schedule 1ZB FSMA.
2 See footnote 2 on page 6.

6 New single rate authorisation fee for credit unions

6.1 The PRA proposes to make a consequential amendment to the Fees Part of the PRA Rulebook as a result of recent changes to the PRA's rules relating to credit unions.

6.2 The distinction between 'version 1' and 'version 2' credit unions has been removed. Historically authorisation fees have reflected the category or 'version' to which the applicants belonged (ie £150 for version 1 and £900 for version 2, being half of the combined fee payable to the PRA and FCA in each case). From 1 July 2016 the PRA proposes to withdraw the version 2 fee and charge £150 for all credit union authorisations. The FCA is proposing a similar approach in its rules, so the combined total would be the former version 1 authorisation fee of £300.

6.3 For any applications received before the new rate takes effect, fees will reflect the category to which firms would have been assigned had they applied prior to Wednesday 3 February 2016.

7 The PRA's statutory obligations

7.1 The PRA considers the proposals to be compatible with the PRA's statutory objectives under FSMA:

- to promote the safety and soundness[1] of PRA-authorised firms;
- in the context of insurance, to contribute to policyholder protection;[2] and
- as a secondary objective to facilitate effective competition in the markets for services provided by PRA-authorised persons in carrying out regulated activities.[3]

7.2 The PRA considers that the proposed PRA Periodic Fees (2016/2017) and Other Fees Instrument 2016 set out in the Appendix will enable the PRA to fund the regulatory activities required to advance its statutory objectives during 2016/17. The proposed fees levels are not expected to have a material impact on the PRA's secondary competition objective since the cost will be spread proportionately across all PRA-regulated entities and is therefore not expected to act as deterrent for new entrants to the industry or the expansion of small firms. For these reasons, the PRA considers the proposals to be compatible with the requirements on the PRA to act in a way that advances its objectives.[4]

Cost benefit analysis

7.3 The PRA is exempt from having to carry out a cost benefit analysis on its draft fee rates.[5]

Regulatory Principles

7.4 In making its rules and establishing its practices and procedures, the PRA must have regard to the Regulatory Principles.[6] This involves assessing which, if any, of the Regulatory Principles apply to its proposals and ensuring that they are aligned. The PRA considers the proposals in this CP to be compatible with the PRA's duties under the Regulatory Principles, in particular as to the efficient use of resources, proportionality, and the desire to enable sustainable growth in the economy of the United Kingdom in the long term.[7]

Impact on mutuals

7.5 Within each fee block, the costs to be recovered from individual firms are based on the size of their business. Therefore, the PRA does not expect the impact of these proposed fee rates on mutual societies to be significantly different from their impact on other types of authorised persons.[8]

Equality and diversity

7.6 The PRA has had due regard to equality and diversity issues that may arise from the proposals in this consultation and has concluded that the proposals do not give rise to any discrimination issues and are of low relevance to the equality agenda.

1 See s.2B(1) and 2B(2) FSMA.
2 See s.2C FSMA.
3 See s.2H FSMA.
4 See s.138J(2) FSMA.
5 See s.138J(6)(d) FSMA.
6 Statement made in compliance with s.2H(2) and 3B FSMA.
7 See s.3B1(b) and s.3B1(c) FSMA.
8 See s.138K FSMA.

Appendix: PRA Rulebook: PRA Periodic Fees (2016-17) and Other Fees Instrument 2016

PRA RULEBOOK: PRA PERIODIC FEES (2016/17) AND OTHER FEES INSTRUMENT 2016

Powers exercised

A. The Prudential Regulation Authority ("PRA") 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);
(3) section 166 and 166 A (Reports by skilled persons); and
(4) paragraph 31 (Fees) of Part 3 (Penalties and Fees) of Schedule 1ZB (The Prudential Regulation Authority) of the Act.

B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

Pre-conditions to making

C. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of the proposed rules and had regard to representations made.

PRA Rulebook: PRA Periodic Fees (2016/17) and Other Fees Instrument 2016

D. The PRA makes the rules in the Annex to this instrument.

Commencement

E. This instrument comes into force on [ ] **2016**.

Citation

F. This instrument may be cited as the PRA Rulebook: PRA Periodic Fees (2016/17) and Other Fees Instrument 2016.

By order of the Board of the Prudential Regulation Authority
[DATE]

PRA PERIODIC FEES (2016/2017) AND OTHER FEES INSTRUMENT 2016

Annex

Amendments to the Fees Part of the PRA Rulebook

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

1. APPLICATION AND DEFINITIONS

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1.2 In this Part, the following definitions shall apply:

assets outside expected RFB subgroups

means assets of a *ring-fencing fees group* which its *ring-fencing business plan* indicated were not intended to be held within a *ring-fenced body* or its *UK* sub-group for *ring-fencing* purposes on 1 January 2019.

core deposit

means core deposits within the meaning of article 2(2) of the *FSMA* (Ring-Fenced Bodies and Core Activities) Order 2014.

ring-fencing fees group

means a banking group, or part of a banking group, which (i) has submitted a *ring-fencing business plan* and (ii) was notified by the *PRA* on or prior to 1 May 2016 that a fee relating to *ring-fencing* would be payable by one or more members of its group.

ring-fencing business plan

means the near-final business plans submitted to the *PRA* on or before 1 March 2016 setting out *firms'* proposals for *ring-fencing.*

ring-fenced body[1] *or RFB*

has the meaning in Section 142A of *FSMA*.

ring-fencing

means the *UK ring-fencing* regime as provided for in the Financial Services (Banking Reform) Act 2013, including statutory instruments and *PRA* rules made or to be made pursuant thereto.

ring-fencing implementation fee(s)

means the fee or fees in 3.18.

[1] This definition is for consultation purposes only. Final rules will link to the legislation.

~~Version 1 credit union~~

~~means a *credit union* whose *Part 4A permission* requires that it must not lend more than £15,000, or such lesser amount as may be specified in the permission, in excess of a member's shareholding, being any shares held by a member of the *credit union* in accordance with sections 5 and 7 of the Credit Unions Act 1979 or articles 14 and 23 of the Credit Unions (Northern Ireland) Order 1985 (as appropriate).~~

~~Version 2 credit union~~

~~means a *credit union* which is not a *Version 1 credit union*.~~

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3 PERIODIC FEES

3.3 *Periodic fee*s payable by *firm*s in any *fee year* will be the sum of the following (so far as applicable to them):

(1) a minimum *periodic fee* at the rate specified in Table I of the *Periodic Fees Schedule*;~~.~~

(2) a *transition costs* allocation calculated in accordance with Table II of the *Periodic Fees Schedule*;~~. and~~

(3) *periodic fees* at the rate specified in Table III, subject to any modifications in Table IV, of the *Periodic Fees Schedule* calculated as follows:

(a) applying the *tariff bases* and *valuation points* set out in 3.4 to the *tariff data* which they have supplied to the *PRA* or its *collection agent*;

(b) where applicable, grouping *tariff data* into the *tariff bands* shown in Column 3 of Table III of the *Periodic Fees Schedule;* and

(c) applying the appropriate *tariff rate* as shown in Column 4 of Table III of the *Periodic Fees Schedule;*

the fee being the total of sums payable in respect of all *tariff bands*; and

(4) the *ring-fencing implementation fee* if applicable.

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3.5 The *periodic fees* payable by:

(1) the *Society* are as specified in Table III of the *Periodic Fees Schedule; and*

(2) *fee-payers* subject to the *ring-fencing implementation fee* are as specified in 3.18.

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Ring-fencing implementation fee

3.18 In the *fee year* commencing on 1 March 2016 and subsequent *fee years*:

(1) The *PRA* will charge a *ring-fencing implementation fee* to recover the annual cost to the *PRA,* as determined by the *PRA*, of implementing *ring-fencing*.

(2) All *firms* within *ring-fencing fees groups* are subject to *ring-fencing implementation fees*. The *PRA* may require that a single *firm* pays all *ring-fencing implementation fees* due to the *PRA* by the group.

(3) In each *fee year* the *PRA* will allocate to each *ring-fencing fees group* the proportion referred to in 3.18 (4) of the cost referred to in 3.18 (1). An amount reflecting this proportion will be the total fee payable by the group.

(4) The proportion referred to in 3.18 (3) was determined by the *PRA* as at 1 March 2016 in accordance with the following formula (all figures rounded to the nearest whole number):

[(X + Y) ÷ 2] %

where

$$X = \frac{\textit{core deposits (ring-fencing fees group)}}{\textit{core deposits (all ring-fencing fees groups)}} \times 100$$

and

$$Y = \frac{\textit{assets outside expected RFB sub-group (ring-fencing fees group)}}{\textit{assets outside expected RFB sub-groups (}\text{all } \textit{ring-fencing fees groups)}} \times 100$$

(5) *Fee payers* must comply with directions from the *PRA* or its *collection agent* as to payment of *ring-fencing implementation fees* arising from any variance between the *PRA's* budgeted costs under 3.18 (1) and its actual costs once final, audited figures are available in relation to any *fee year*. A surplus of fee income against the *PRA's* actual costs may result in a credit to the *firms* making payment and a shortfall may necessitate a call for additional fees.

(6) Where an *application* for a *new authorisation* or variation of *Part 4A permission* is made in the context of *ring-fencing*, no *regulatory transaction fee* will be payable under 4.5 or 4.7 if a *ring-fencing implementation fee* is payable under 3.18 whether by the *applicant* or another *fee payer.*

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PERIODIC FEES SCHEDULE – FEE RATES AND EEA/TREATY FIRM MODIFICATIONS FOR THE PERIOD FROM ~~1 MARCH 2015 TO 29 FEBRUARY 2016~~ 1 MARCH 2016 TO 28 FEBRUARY 2017

This schedule sets out the *periodic fees* payable by *firm*s under Chapter 3.

TABLE 1 MINIMUM PERIODIC FEES RATES

Fee payer	Fee payable (£)
Credit unions with *MELs* under £2 million:	
With modified eligible liabilities of 0 – 0.5 million	**80.00**
With modified eligible liabilities greater than 0.5 million and less than 2.0 million	**270.00**
Non-directive friendly societies which either: (1) fall within the A3, but **not** the A4*, fee block* and have, in relation to their A3 activities, *gross premium income* of 0-£0.5million and *gross technical liabilities* of 0-£1.0million; or (2) fall within the A4, but **not** the A3, *fee block* and have, in relation to their A4 activities, *adjusted gross premium income* of 0-£1million and hold 0-£1million of *mathematical reserves for fees purposes* ~~of £1 million~~; or (3) fall within both the A3 and A4 *fee blocks* and meet condition (1) above in relation to their A3 activities and condition (2) above in relation to their A4 activities.	**215.00**
All other firms	**500.00**

TABLE II - TRANSITION COSTS ALLOCATION

Fee payer	Tariff base for allocations to firms
All *firms*, except those paying only the minimum fee and *insurance special purpose vehicles.*	Total *periodic fees*, excluding minimum fees, payable by the *firm* multiplied by **~~0.0626~~**0.0627

TABLE III – PERIODIC FEE RATES APPLICABLE TO PRA FEE BLOCKS OTHER THAN THE MINIMUM AND TRANSITION COSTS FEE BLOCKS

Column 1 *Fee block*	Column 2 *Tariff base*	Column 3 *Tariff bands*	Column 4 *Tariff rates*
A1 deposit acceptors fee block	***modified eligible liabilities***	Band width (£million of *MELs)*	Fee payable per million or part million of *MELs*(£)
		>10 - 140	~~38.87~~ 36.57
		>140 - 630	~~38.87~~ 36.57
		>630 - 1,580	~~38.87~~ 36.57
		>1,580 - 13,400	~~48.59~~ 45.71
		>13,400	~~64.14~~ 60.34
A3 general insurers fee block *gross premium income + gross technical liabilities*	***gross premium income (GPI)***	Band width (£million of GPI)	Fee payable per million of *GPI* (£)
		>0.5 ~~- 10.5~~	~~494.15~~ 556.10
		~~>10.5 – 30~~	~~494.15~~
		~~>30 - 245~~	~~494.15~~
		~~>245 - 1,900~~	~~494.15~~
		~~>1,900~~	~~494.15~~
	gross technical liabilities (GTL)	Band Width (£ million of GTL)	Fee payable per million of *GTL* (£)
		>1 ~~- 12.5~~	~~27.31~~ 30.95
		~~>12.5 - 70~~	~~27.31~~
		~~>70 - 384~~	~~27.31~~
		~~>384 - 3,750~~	~~27.31~~
		~~>3,750~~	~~27.31~~
		For *UK ISPVs* the *tariff rates* are not relevant and a flat fee of £430.00 is payable in respect of each *fee year*.	
A4 Life insurers fee block *adjusted gross annual income (AGPI) +mathematical reserves*	***adjusted gross annual premium income (AGPI)***	Band width (£million of AGPI)	Fee payable per million of *AGPI*(£)
		>1 ~~- 5~~	~~499.65~~ 550.00
		~~>5 - 40~~	~~499.65~~
		~~>40 - 260~~	~~499.65~~
		~~>260 - 4,000~~	~~499.65~~
		~~>4,000~~	~~499.65~~
	mathematical reserves	Band width [((£million of ~~MR~~ *mathematical reserves for fees purposes*)]	Fee per million or part million of *mathematical reserves for fees purposes* (£)
		>1 ~~- 20~~	~~10.24~~ 11.47
		~~>20 - 270~~	~~10.24~~
		~~>270 - 7,000~~	~~10.24~~
		~~>7,000 - 45,000~~	~~10.24~~
		~~>45,000~~	~~10.24~~

A5 managing agents at Lloyd's	***active capacity***	Band width (£million of active capacity)	Fee per million of *active capacity* (£)
		>50 ~~- 150~~	~~59.22~~ 58.35
		~~>150 - 250~~	~~59.22~~
		~~>250 - 500~~	~~59.22~~
		~~>500 - 1,000~~	~~59.22~~
		~~>1,000~~	~~59.22~~
A6 Society of Lloyd's	**flat fee**	**N/A**	**General periodic fee (£)** ~~1,895,574.68~~ 1,795,741.00
A10 Firms dealing as principal fee block	**fee per trader**	**Fee (£ per trader)**	~~5,776.00~~ 5,763.00

TABLE IV – MODIFICATIONS TO PERIODIC FEES FOR INCOMING EEA FIRMS AND INCOMING TREATY FIRMS WITH BRANCHES IN THE UK

Fee payer	Discount applied to *periodic fees*
A1 deposit acceptors fee block	50%
A3 general insurers fee block	90%
A4 life insurers fee block	90%
PT1 transition costs fee block	100%
***Incoming EEA firms* and *incoming Treaty firms* offering *cross border services* only**	100%

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4 REGULATORY TRANSACTION FEES

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4.5 Regulatory transaction fees for new authorisations are payable as follows:

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(2) *Credit unions* applying for *new authorisations* pay *fees* as follows:

(a) a~~ny~~ *credit union* applying for a *Part 4A permission* for *consumer credit related activities* £100.00;

(b) a *credit union* ~~which, prior to 3rd February 2016, would have been categorised as a *Version 1 credit union*~~ applying for <u>*Part 4A permission*</u> not limited to *consumer credit related activities* £150.00;

~~(c) a *credit union* which, prior to 3rd February 2016, would have been categorised as a *Version 2 credit union* applying for *Part 4A permission* not limited to *consumer credit related activities* £900.00.~~