



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Consultation Paper | CP30/16

PRA fees and FSCS levies for insurers: proposals for a transitional approach in 2017/18

September 2016

Prudential Regulation Authority
20 Moorgate
London EC2R 6DA

Prudential Regulation Authority, registered office: 8 Lothbury, London EC2R 7HH.
Registered in England and Wales No: 07854923



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Consultation Paper | CP30/16

PRA fees and FSCS levies for insurers: proposals for a transitional approach in 2017/18

September 2016

The Bank of England and the Prudential Regulation Authority (PRA) reserve the right to publish any information which it may receive as part of this consultation.

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 the PRA's statutory functions.

Please indicate if you regard all, or some of, the information you provide as confidential. If the Bank of England or the PRA receives a request for disclosure of this information, the Bank of England or the PRA will take your indication(s) into account, but cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system on emails will not, of itself, be regarded as binding on the Bank of England and the PRA.

Responses are requested by Wednesday 9 November 2016.

Please address any comments or enquiries to:

John Cunningham
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

Email: CP30_16@bankofengland.co.uk

Contents

1	Overview	5
2	Background	6
3	Proposals	7
4	The PRA's statutory obligations	9
	Appendices	11

1 Overview

1.1 In this Consultation Paper (CP) the Prudential Regulation Authority (PRA) sets out proposals for a one year transitional arrangement for insurance firms' PRA fees and Financial Services Compensation Scheme (FSCS) levies for the 2017/18 fee and levy years.

1.2 The CP is relevant to insurance firms falling into the A3 (general insurance) and A4 (life insurance) fee blocks and FSCS levy classes B1 (general insurance) and C1 (life insurance), the FSCS, (for the purposes of the FSCS levy only) the Society of Lloyd's and policyholders. Fee blocks A5 (managing agents at Lloyd's) and A6 (Society of Lloyd's) are not affected. This CP is in addition to the usual, annual consultations on fees and the FSCS management expenses levy limit.¹ It should be read alongside the Fees and Policyholder Protection Parts of the PRA Rulebook.

1.3 Currently, the Fees and Policyholder Protection Parts refer to data reported by firms in accordance with the previous ('Solvency I')² insurance reporting regime. Following the introduction of Solvency II³ and the policy for non-Solvency II firms set out in PRA Policy Statement (PS) 19/16 'Reporting requirements for non-Solvency II insurance firms',⁴ the PRA needs to amend those references for firms within the scope of Solvency II ('Directive firms') and make consequential amendments for other firms not within the scope of Solvency II ('non-Directive firms' or 'NDFs') so that PRA fees and FSCS levies are calculated on the basis of data available under the new regulatory reporting requirements.

1.4 To achieve a sustainable approach, the PRA plans to use datasets already received from insurance firms in respect of each firm's financial year ending in the calendar year 2015 to establish a fair and proportionate basis upon which 2017/18 fees and levy calculations should be based. As full year-end 2016 data sets for the majority of Directive firms will not be received until May 2017, the PRA proposes a transitional arrangement for the 2017/18 fees and levy years. The PRA will carry out an impact assessment of the calculation of Directive firms' PRA fees and FSCS levies during the 2017/18 fee and levy year.

1.5 This CP sets out proposals to supplement and amend the Fees and Policyholder Protection Parts of the PRA Rulebook⁵ to create transitional arrangements that will be applied to the 2017/18 PRA fee and FSCS levy years for all insurance firms subject to fee blocks A3 and A4, and levy classes B1 and C1. Draft rules can be found in Appendix 1 (Fees) and Appendix 2 (FSCS levies).

Implementation

1.6 Following the end of the consultation, the PRA will publish final transitional rules in December 2016 in time for the 2017/18 fee and levy years. The PRA plans to consult on an updated approach for the 2018/19 fee and levy years and onwards in Q3 2017.

1 For 2016, PRA Consultation Paper 4/16 'Financial Services Compensation Scheme – Management Expenses Levy Limit 2016/17', January 2016: www.bankofengland.co.uk/prarulebook/cp/2016/cp416.aspx.

2 For the purpose of this consultation the term 'Solvency I' refers collectively to the individual insurance directives that applied under the regime which was replaced by the implementation of the Solvency II Directive (2009/138/EC) (as amended) on and with effect from 1 January 2016.

3 The new prudential solvency regime for insurers known as Solvency II (meaning the Directive 2009/138/EC, as amended), which came into force on and with effect from 1 January 2016.

4 June 2016, www.bankofengland.co.uk/prarulebook/ps/2016/ps1916.aspx.

5 www.prarulebook.co.uk/.

Responses and next steps

1.7 This consultation closes on Wednesday 9 November 2016. The PRA invites feedback on the proposals set out in this consultation. Please address any comments or enquiries to CP30_16@bankofengland.co.uk.

2 Background

2.1 PRA fees and FSCS levies are determined by rules set by the PRA in the Fees and Policyholder Protection Parts of the PRA Rulebook, with assurance of data and calculation of firms' individual fees and levies contracted out to the Financial Conduct Authority (FCA) as collection agent. In the usual annual fees and levies cycle, data are requested in December for the next fee and levy years, firms respond between January and March and invoices are issued in July.

2.2 This process is run concurrently for PRA fees, FCA fees and FSCS levies (for both the PRA and FCA). The PRA considers that it is important to maintain this simultaneous approach given the benefits for firms and the PRA, FCA and the FSCS. In particular, firms avoid having to deal with multiple requests for data shared (with some modifications) by fees and levies. Furthermore both PRA fees and FSCS levies for insurance use figures related to premiums and gross technical liabilities (non-life) and mathematical reserves (life), and FSCS levies include a component (management expenses levy base costs) based on firms' overall regulatory costs, which in turn are broadly derived from fees calculations.

2.3 The PRA and FSCS have previously used firm-level data derived under Solvency I reporting requirements to calculate the fees and levies required for insurance firms. Following the introduction of Solvency II on 1 January 2016 the PRA needs to amend the Fees and Policyholder Protection Parts of the PRA Rulebook, to specify how fees and levies will be calculated for Directive firms that are subject to Solvency II reporting requirements and non-Directive firms that will continue to report regulatory data on a similar basis to previous years, as set out in PS19/16.

2.4 The annual fees and levy tariff data collection process begins each December for the following financial year, which means that a solution for calculating the fees for 2017/18 needs to be agreed and implemented by December 2016.

2.5 There are, however, a number of issues that need to be resolved before the PRA can make proposals for final rule changes for insurance firm fees and levies. Namely:

- Not all Directive firms will submit Solvency II data early enough during 2017 to allow the FCA (as the PRA's and FSCS's collection agent) to calculate draft PRA fee rates for consultation in March 2017 under the normal fees timetable. For example, around 80% of the first Solvency II year-end returns are expected to be submitted by 20 May 2017 (the Solvency II deadline for submission). This will not leave sufficient time to verify the data, carry out the final PRA fee and FSCS levy calculations, and issue invoices.
- When establishing a new fees and levies approach based on Solvency II data, it is important that the PRA understands the impact of any changes to the fees and levies calculation on the proportion of the overall fee and levy paid by each insurer and the relative proportions paid by Directive and non-Directive firms. This analysis cannot be completed in time for the 2017/18 fees and levies process, due to the timing of the receipt

of Solvency II data. Without proper modelling, the impact on some (Directive and non-Directive) firms will be unclear and potentially disproportionate.

2.6 This CP therefore sets out proposals to supplement and/or amend certain provisions of the Fees and Policyholder Protection Parts of the PRA Rulebook to create transitional arrangements that will be applied to the 2017/18 PRA fee and FSCS levy years for all insurance firms subject to fee blocks A3 and A4 and levy classes B1 and C1.

2.7 The PRA proposes to use this transitional approach for the 2017/18 fee and levy years only.¹ The PRA plans to consult on an updated approach for the 2018/19 fee and levy years and onwards in Q3 2017.

3 Proposals

3.1 The PRA is proposing transitional arrangements for the 2017/18 fee and levy years whereby the calculations for the 2017/18 fee and FSCS levy years, for both Directive and non-Directive firms, are based on the last set of Solvency I data received. This means that fees and levies for both the 2016/17 and 2017/18 fee years will be based on the returns received for the relevant insurance firm's financial year ending during 2015 ('Solvency I data'). This is data that the PRA and FSCS (and FCA as their collection agent) already have, so firms will not be required to provide any new data for the 2017/18 fee and levy calculation, unless an adjustment is appropriate as described below.

3.2 To capture potentially significant variances in a relevant insurance firm's fee and levies tariff data due to an insurance business transfer under Part VII of the Financial Services and Markets Act (FSMA) (or other such transfer under Part VIII of the Friendly Societies Act 1992) that occurs between the end of the firm's financial year ending in 2015 and 31 December 2016, relevant insurance firms will be required to (i) notify the FCA (as agent of the PRA and FSCS) of any transfers of business; and (ii) provide such information to the FCA as may be required by the PRA or FSCS to establish the extent to which the Solvency I data has increased or decreased as a result of the transfer. Any adjustment shall be based on the Solvency I data. This information will need to be provided to the FCA by 28 February 2017.

3.3 The PRA also proposes to allow submissions of updated data on a Solvency I calculation basis for the year ending in 2016, where a relevant insurance firm has gone into run-off between the end of the firm's financial year ending in 2015 and 31 December 2016. Such a resubmission is optional. Firms that take up the option will need to provide relevant data on a Solvency I basis to the FCA by 28 February 2017.

3.4 The PRA considers the proposed approach to be proportionate; in particular, relevant insurance firms will not need to continue reporting Solvency I data nor maintain the previous regime's reporting systems, unless a firm that has gone into run-off opts to re-submit data as described in paragraph 3.3 above. While the PRA recognises that the proposals to allow adjustments in respect of Part VII of FSMA transfers (or other such transfers under Part VIII of the Friendly Societies Act 1992) and for firms going into run-off between the end of the firm's financial year ending in 2015 and 31 December 2016, will not accommodate changes driven by market movements (mathematical reserves) or customer behaviour (premiums), the PRA considers that this approach balances the desire to recognise material changes in firm size with the potential burden of requiring relevant insurance firms to calculate data on a Solvency I basis. The proposed approach would enable the current timetable for calculating fees and

¹ The fee year under the PRA fee regime is 1 March to end-February. The FSCS levy year is 1 April to end-March.

levies to be maintained while a workable end-state proposal for fees and levies is developed with the FCA and FSCS.

3.5 This approach means that the PRA will receive data whilst the transitional arrangement is in place (received by May 2017) on which an impact assessment of potential end-state solutions can be based. This will guide the PRA, in formulating proposals, as to the most appropriate approach for calculating Directive firms' fees and levies on an ongoing basis using Solvency II data, as well as ensuring that the proportion of fees paid by non-Directive firms is fair and proportionate.

3.6 In addition, Directive and non-Directive firms' fees and levies will be calculated on a consistent Solvency I basis during the transitional arrangement. This eliminates the risk that the proportion of fees and levies paid by Directive and non-Directive firms is significantly (and possibly unfairly) altered by the introduction of Solvency II reporting requirements until the impact of those changes has been properly assessed.

3.7 By using data already available to the PRA and the FSCS (or the FCA as their collection agent) and that has already been validated, the potential for data quality issues in the first Solvency II reporting submissions that may lead to distortions in the allocation of fees and levies between individual insurance firms, will be reduced.

3.8 A firm's volume of business moves year-on-year, therefore, to keep the fees and levies as fair as possible, the calculation should be based on the latest data wherever possible. Transitional arrangements covering the 2017/18 fee and levy years only are seen as the best way of keeping the transition period to a minimum, while maintaining a realistic prospect of a new approach being developed by the end of the arrangements.

New entrants and extension of permissions

3.9 The Fees and Policyholder Protection Parts of the PRA Rulebook already contain provisions setting out how newly, or recently, authorised firms, or firms who have extended their permissions, should calculate their fees¹ and levies² respectively. The PRA has sought to preserve these provisions so far as possible, with minor modifications. The effect is that:

- under the PRA fees regime, 2017-18 fees will be based on first year projections submitted by the firm with its application for permission, adjusted using the appropriate formula in Fees 3.7 to reflect the period since authorisation; and
- in the case of FSCS levies, projections or annualised data will also be used but where firms have submitted data for the 2016/17 levy year, this data will be used for the 2017/18 levy calculation to maintain consistency with other participant firms.

4 The PRA's statutory obligations

4.1 Before making any rules, FSMA³ requires the PRA to publish a draft of the proposed rules accompanied by:

- a cost-benefit analysis (where applicable);

1 See Fees 3.7 to 3.10 of the PRA Rulebook.

2 See chapter 21 and 22 (as applicable) of the Policyholder Protection Part in the PRA Rulebook.

3 Section 138J of FSMA.

- a statement as to whether the impact of the proposed rules will be significantly different for mutual societies than other authorised persons;¹
- an explanation of the PRA's reasons for believing that making the proposed rules is compatible with the PRA's duty to act in a way that advances its general objective,² insurance objective³ (if applicable), and secondary competition objective;⁴ and
- an explanation of the PRA's reasons for believing that making the proposed rules are compatible with its duty to have regard to the regulatory principles.⁵

4.2 The PRA is also required by the Equality Act 2010⁶ to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out its policies, services and functions.

Cost benefit analysis

4.3 The PRA is exempt from having to carry out a cost benefit analysis on its draft fees rules⁷ and as such, the cost-benefit analysis in this section covers the proposed transitional provisions in relation to FSCS levies only.

4.4 The proposal is for a transitional arrangement for the 2017/18 levy year whereby the 2017/18 levies will be set using the tariff data provided by relevant insurance firms for the financial year ending 31 December 2015. The majority of insurance firms will not be required to submit further data for levy purposes for the 2017/18 year, unless relevant insurance firms that have been party to a Part VII of FSMA transfer (or other such transfer under Part VIII of the Friendly Societies Act 1992) and will need to provide information to the FSCS so that Solvency I data provided in respect of the 2016/17 levy year can be adjusted as a result of the transfer. Insurance firms that went into run-off during 2016 will have the option to submit updated data on a Solvency I basis. Resubmission of data in the event of Part VII of FSMA transfers (or other such transfers under Part VIII of the Friendly Societies Act 1992) or run-off will enable the PRA to reflect significant business changes, as a result of these, in the 2017/18 FSCS levies.

4.5 The PRA expects that the potential costs of its FSCS proposals to insurers falling within the B1 and C1 levy classes for the transitional arrangement covering the 2017/18 levy year will not be material, which would not have been the case had the PRA required all relevant insurance firms to maintain Solvency I systems to report data for the year ending in 2016 for the purpose of a Solvency I basis levy calculation. The proposed approach for the 2017/18 levy year therefore seeks to avoid potential distortion of competition in insurance markets.

Compatibility with the PRA's objectives

4.6 The PRA considers that the proposed transitional rules for PRA fees and FSCS levies set out in the Appendices will enable the PRA to fund the regulatory activities required to advance its statutory objectives during 2017/18 and ensure the FSCS is capable of discharging its functions as required under FSMA. The proposed fee and levy transitional arrangements are not expected to have a material impact on the PRA's secondary competition objective since costs will be spread proportionately (as they would be in any fee or levy year) across all PRA-

1 Section 138K of FSMA.

2 Section 2B of FSMA.

3 Section 2C of FSMA.

4 Section 2H(1) of FSMA.

5 Sections 2H(2) and 3B of FSMA.

6 Section 149.

7 Section 138J(6)(d) of FSMA.

regulated entities and are therefore not expected to act as a deterrent to new entrants to the industry or hinder 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.

Regulatory principles

4.7 In making its rules and establishing its practices and procedures, the PRA must have regard to the regulatory principles set out in FSMA¹. 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, transparency and the desire to enable sustainable growth in the economy of the United Kingdom in the long term.

Impact on mutuals

4.8 In the PRA's opinion, the impact of the proposed rule changes on mutuals is expected to be no different from the impact on other firms.

Equality and diversity

4.9 The PRA has performed an assessment of the policy proposals and does not consider that the proposals give rise to equality and diversity implications.

1 See Section 3B of FSMA

Appendices

-
- 1 Draft PRA RULEBOOK: FEES (INSURANCE FIRMS TRANSITIONAL RULES) INSTRUMENT 2016**
-
- 2 Draft PRA RULEBOOK SOLVENCY II FIRMS; NON SOLVENCY II FIRMS; NON-AUTHORISED PERSONS: POLICYHOLDER PROTECTION INSTRUMENT 2016**

Appendix 1

PRA RULEBOOK: FEES (INSURANCE FIRMS TRANSITIONAL RULES) 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); and
 - (3) paragraph 31 of Schedule 1ZB (Fees);
- B. The rule-making powers referred to above are specified for the purpose of section 138G (2) (Rule-making instruments) 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 proposed rules and had regard to representations made.

PRA Rulebook: Fees (Insurance Firms Transitional Rules) Instrument 2016

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

Commencement

- E. This instrument comes into force on [DATE].

Citation

- F. This instrument may be cited as the PRA Rulebook: Fees (Insurance Firms Transitional Rules) Instrument 2016.

By order of the Board of the Prudential Regulation Authority

[DATE]

Annex

Amendments to the Fees Part

In this Annex new text is underlined and deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

...

gone into run-off

means that an *insurer* has acquired the following characteristics:

(1) it has ceased to effect new *contracts of insurance*;

(2) its *permission for effecting contracts of insurance* has been cancelled;

(3) its exclusive remaining business is administering its remaining insurance liabilities;

and

(4) if required to do so, it has submitted a run-off plan to the *PRA*.

...

3 PERIODIC FEES

...

Transitional rules (A3 and A4 fee payers) for the 2017/18 fee year

3.19 The transitional rule at 3.20 applies only to *fee payers* liable to pay *periodic fees* in the *A3 general insurance fee block* or the *A4 life insurance fee block*. Unless otherwise provided, it supplements all other Part rules relating to the calculation of *periodic fees*.

3.20 The following shall apply to the calculation of *periodic fees* for the *fee year* commencing on 1 March 2017:

(1) Except as provided in 3.20(5)(a), for the purposes of calculating *periodic fees* payable under 3.3(3) in the *fee year* commencing on 1 March 2017 the following adjusted *tariff base* shall be used:

(a) for firms in the general insurance fee block (A3):

(i) if the *firm* is an *insurer*, the sum of its annual *gross premium income* for, and *gross technical liabilities* at the end of, the *firm's* financial year which ended in the calendar year to 31 December 2015 and not the calendar year to 31 December prior to commencement of the *fee year*.

(ii) if the firm is a non-directive friendly society the value of contributions as income receivable in respect of UK business included in its income and expenditure account at the end of the firm's financial year which ends in the calendar year to 31 December 2015 and not the calendar year to 31 December prior to commencement of the fee year.

(iii) if the firm is a directive friendly society the value of gross premiums written in respect of UK business included in its income and expenditure account at the end of the firm's financial year which ends in the calendar year to 31 December 2015 and not the calendar year to 31 December prior to commencement of the fee year.

and

(b) for firms in the life insurance fee block (A4), the sum of adjusted gross premium income for, and mathematical reserves for fees purposes valued at the end of, the firm's financial year ending in the calendar year to 31 December 2015 and not the calendar year to 31 December prior to commencement of the fee year.

(2) Firms subject to this rule must on or before 28 February 2017:

(a) notify the PRA's collection agent of any insurance business transfer, either to or from the firm, that has taken place using the procedure under Part VII FSMA or Part VIII of the Friendly Societies Act 1992 during the period specified in 3.20(4);

and

(b) provide such information as the PRA acting through its collection agent may require to establish the extent to which the tariff data referred to in 3.20(4) has increased or decreased as a result of the transfer and the amended data so provided will form the basis of the periodic fees calculation for the fee year commencing on 1 March 2017.

(3) Firms may on or before 28 February 2017 voluntarily submit amended tariff data to reflect the fact that the firm has gone into run-off during the period specified in 3.20(4).

(4) The period referred to in 3.20(2) and 3.20(3) is from:

(a) the date in the 2015 calendar year that, under Fees 3.4, was the last day of the firm's valuation point for the tariff data that would form the basis of periodic fees calculations in the fee year commencing on 1 March 2016.

to

(b) 31 December 2016.

(5) The following rules relating to periodic fees will not apply so long as the transitional rule remains in force:

(a) 3.9 and 3.10. The periodic fees calculation based on projected valuations in 3.7 will instead be applied to all firms (whether in their first fee year, second fee

year or a subsequent fee year) that did not submit, or submitted insufficient, tariff data as at the December 2015 valuation point to enable 3.20(1) to be given effect, subject to the modification that, for firms in their second and subsequent fee years, the formula in 3.7(2) is A+B and not (A+B) x C;

and

(b) 3.12.

(6) To assist with the formulation of fees policy, for the fee year commencing on 1 March 2018 and subsequent fee years, firms will comply with the requests of the PRA or its collection agent for tariff data in respect of their financial years ending 31 December 2016 and 31 December 2017.

Appendix 2

PRA RULEBOOK SOLVENCY II FIRMS; NON SOLVENCY II FIRMS; NON-AUTHORISED PERSONS: POLICYHOLDER PROTECTION INSTRUMENT 2016

Powers exercised

- D. 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”):
- (4) section 137G (The PRA’s general rules) of the Act;
 - (5) section 137T (General supplementary powers) of the Act;
 - (6) section 213 (The compensation scheme) of the Act;
 - (7) section 214 (General) of the Act;
 - (8) section 218A (Regulators power to require information) of the Act.
- E. The rule-making powers referred to above and related provisions are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Pre-conditions to making

- F. 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 proposed rules and had regard to representations made.

PRA Rulebook Solvency II Firms; Non-Solvency II Firms; Non-Authorised Persons: Policyholder Protection Instrument 2016

- G. The PRA makes the rules in the Annex to this instrument.

Commencement

- H. This instrument comes into force on [DATE].

Citation

- I. This instrument may be cited as the PRA Rulebook Solvency II Firms; Non-Solvency II Firms; Non-Authorised Persons: Policyholder Protection Instrument 2016.

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

In this Annex, the new text is underlined.

Part

POLICYHOLDER PROTECTION

Chapter content

1. APPLICATION AND DEFINITIONS
2. FSCS
3. QUALIFYING CONDITIONS FOR PAYING COMPENSATION
4. SECURING CONTINUITY OF LONG-TERM INSURANCE COVER
5. RELEVANT PERSONS IN FINANCIAL DIFFICULTIES
6. LIMITS WHEN SECURING CONTINUITY AND TAKING MEASURES IN RELATION TO RELEVANT PERSONS IN FINANCIAL DIFFICULTIES
7. ELIGIBLE CLAIMANTS
8. EXCEPTIONS
9. PROTECTED CLAIMS
10. RELEVANT PERSONS IN DEFAULT
11. SUCCESSORS IN DEFAULT
12. ASSIGNMENT (AUTOMATIC, ELECTRONIC AND IN WRITING)
13. AUTOMATIC SUBROGATION
14. RECOVERIES
15. REJECTION OF APPLICATION FOR, AND WITHDRAWAL OF OFFER OF, COMPENSATION
16. TIME LIMITS ON PAYMENT AND POSTPONING PAYMENT
17. LIMITS ON COMPENSATION PAYABLE
18. PAYMENT OF COMPENSATION
19. CALCULATING COMPENSATION – GENERAL
20. THE COMPENSATION CALCULATION
21. FSCS LEVIES
22. TRANSITIONAL ARRANGEMENTS
23. TRANSITIONAL ARRANGEMENTS FOR FSCS LEVY YEAR 2017/18

Links

In this Annex, the new text is underlined:

23. TRANSITIONAL ARRANGEMENTS FOR FSCS LEVY YEAR 2017/18

23.1 The rules in this Chapter shall apply to the *FSCS, participant firms* (and, where applicable under 21.26, the *Society*), in respect of the *FSCS 2017/18 financial year* which commences on 1 April 2017 and ends on 31 March 2018, and unless otherwise provided, shall supplement all other Part rules relating to a *participant firm's* (and, where applicable under 21.26, the *Society's*) share of the *compensation costs levy and management expenses levy* for the *FSCS 2017/18 financial year*.

23.2 Subject to 23.3 and 23.4, and for the purpose of calculating a *participant firm's* share of the *compensation costs levy and management expenses levy* for the *FSCS 2017/18 financial year*:

- (1) subject to 23.2(2), the FSCS shall use the total amount of business (measured in accordance with the appropriate tariff base or tariff bases as specified in Annex 2) of a participant firm which it conducted and provided to the FSCS in its statement in respect of the valuation period which ended in the calendar year to 31 December 2015, and not the calendar year to 31 December prior to commencement of the FSCS 2017/18 financial year and 21.42, 21.43 and 21.44 shall not apply;
- (2) where 21.34 applied in respect of the calculation of a participant firm's specific costs levy and compensation costs levy for the FSCS 2016/17 financial year, which commenced on 1 April 2016 and ends on 31 March 2017, the FSCS shall use the information and tariff base that was used for the purposes of the calculation of the participant firm's specific costs levy and compensation costs levy for the FSCS 2016/17 financial year and accordingly, 21.34 shall not apply to a participant firm which had its permission extended in the FSCS 2016/17 financial year and 21.42, 21.43 and 21.44 shall also not apply; and
- (3) references in 21.32 and 21.38 to "the statement of business most recently supplied under 21.42" shall be replaced by a reference to the tariff data applicable under 23.2(1) or 23.2(2) (as the case may be) and 21.32 and 21.38 shall be construed so as to give effect to the rules in this Chapter.

23.3 For the purpose of calculating a *participant firm's* share of the *compensation costs levy and management expenses levy* for the *FSCS 2017/18 financial year*:

- (1) 21.24 shall not apply to the calculation of the levies of a firm (A) for the FSCS 2017/2018 financial year, where A falls within 21.24(1)(a)(i);
- (2) for participant firms who have acquired or disposed of insurance business by way of an insurance business transfer scheme under Part VII of FSMA (or other such transfers under Part VIII of the Friendly Societies Act 1992), during the period referred to in 23.5:
 - (a) on or before 28 February 2017 participant firms must:
 - i. notify the FSCS if they have acquired or disposed of any insurance business by way of an insurance business transfer scheme under Part VII of FSMA (or other such transfers under Part VIII of the Friendly Societies Act 1992); and
 - ii. provide to the FSCS such information as the FSCS may require to establish the extent to which the tariff data referred to in 23.2(1) or 23.2(2) (as the case may be) shall be adjusted in order to reflect any increase or decrease as a result of the acquisition or disposal.

The amount of any adjustment shall be based on the tariff data referred to in 23.2(1) or 23.2(2) (as the case may be); and

(b) the tariff data so adjusted under 23.3(2) shall form the basis for the calculation of the *participant firm's* share of the *compensation costs levy* and *management expenses levy* for the *FSCS* 2017/2018 financial year;

(3) 21.24 shall continue to apply to the calculation of the levies of a *firm* (A), where A falls within 21.24(1)(a)(ii) and references to the “most recent statement of business under 21.42”, the “most recent information supplied by B under 21.42” and the “statement of business under 21.42” shall be read as references to the relevant *firm's* tariff data referred to in 23.2(1) or 23.2(2) (as the case may be) and 21.24 shall be construed so as to give effect to the rules in this Chapter.

23.4 For *participant firms* that have gone into run-off (referred to in 22.8(3)) during the period stated at 23.5:

(1) 22.8 applies for the purpose of calculating the *participant firm's* share of the *compensation costs levy* and *management expenses levy* for the *FSCS* 2017/2018 financial year; and

(2) the tariff data referred to in 23.2(1) or 23.2(2) (as the case may be) shall be used for the purposes of 22.8; unless, on or before 28 February 2017 a *participant firm* voluntarily submits updated tariff data to reflect the changes to its tariff data referred to in 23.2(1) or 23.2(2) (as the case may be) as a result of run-off.

23.5 The period referred to in this Chapter, runs from:

(1) such date in the 2015 calendar year, that was the last day of the *participant firm's* valuation period for the tariff data, that formed the basis for the calculation of a the *participant firm's* share of the *compensation costs levy* and *management expenses levy* for the *FSCS* financial year commencing on 1 April 2016;

(2) until 31 December 2016.

23.6 To assist with the formulation of *FSCS* levies policy for the *FSCS* financial year commencing on 1 April 2018 and subsequent financial years, *participant firms* will comply with the requests of the *PRA* or the *FSCS* for data in respect of their financial years ending in the calendar years to 31 December 2016 and 31 December 2017.