



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Consultation Paper | CP16/17

PRA fees and levies: model transaction fees, fees and FSCS levies for insurers and fees for designated investment firms

August 2017



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Consultation Paper | CP16/17

PRA fees and levies: model transaction fees, fees and FSCS levies for insurers and fees for designated investment firms

August 2017

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 24 October 2017.

Please address any comments or enquiries to:

Alexander Zaremba
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

Email: CP16_17@bankofengland.co.uk

Contents

1	Overview	5
2	Periodic fees	6
3	FSCS levies	12
4	Regulatory transaction fees: model approaches	14
5	The PRA's statutory obligations	17
	Appendices	21

1 Overview

1.1 This consultation paper (CP) sets out the Prudential Regulation Authority's (PRA) proposals relating to periodic fees for designated investment firms (DIFs), periodic fees and Financial Services Compensation Scheme (FSCS) levies for insurers, and fees in relation to models.

1.2 The proposals aim to ensure that the methodologies for determining PRA fees for DIFs, life insurers and general insurers are appropriate to the risks these firms pose to the PRA objectives and, in the case of PRA fees and FSCS levies for general insurers and life insurers, reflect the introduction of Solvency II. Other changes set out in the CP are intended to ensure that model application fees are appropriately calibrated for different fee payers, and that PRA costs associated with reviewing and maintaining firms' models and model changes are appropriately targeted at relevant firms.

1.3 This CP is relevant to insurers and DIFs, as well as firms which have, or intend to apply in the future for, Solvency II¹ or CRR² models. The proposals relating to FSCS levies are relevant to insurance firms falling within FSCS levy classes B1 (general insurance) and C1 (life insurance), the FSCS Ltd as scheme manager, the Society of Lloyd's and policyholders. This CP is in addition to the usual, annual consultations on fees and the FSCS management expenses levies limit.³

Background

1.4 In July 2017, the PRA published Policy Statement (PS) 17/17 'Regulated fees and levies: rates for 2017/18',⁴ which contained the final fee rates and rules to recover the PRA's Annual Funding Requirement (AFR), the ring-fencing implementation fee (RFIF) and the International Financial Reporting Standard (IFRS) 9 fee for the financial period 1 March 2017 to 28 February 2018. This consultation has been published after that PS to ensure that all firms have the time and opportunity to consider these proposals outside of the annual fees process.

1.5 Draft rules are set out in the appendices to this CP.

Implementation

1.6 The proposed implementation date for the changes to the periodic fees and the regulatory transaction fees: model approaches (excluding the change to CRR thresholds based on minimum eligible liabilities) is 1 March 2018. The proposed implementation date for the change to CRR thresholds based on minimum eligible liabilities is 6 December 2017. The proposed implementation date for the changes to FSCS levies which include the revised tariff base is 1 April 2018, whilst the changes to the FSCS levy rules relating to reporting dates are proposed to be implemented on 6 December 2017.

Responses and next steps

1.7 This consultation closes on 24 October 2017. The PRA invites feedback on the proposals set out in this consultation. Please address any comments or enquiries to CP16_17@bankofengland.co.uk.

1 Solvency II Directive (2009/138/EC) (as amended).

2 Capital Requirements Regulation (575/2013) (CRR).

3 <http://www.bankofengland.co.uk/pr/Pages/publications/ps/2016/ps1216.aspx>

4 www.bankofengland.co.uk/pr/Pages/publications/ps/2017/ps1717.aspx.

2 Periodic fees

Designated investment firms

2.1 This section sets out proposals for a new approach for calculating periodic fees paid by DIFs in the A10 fee block (designated firms dealing as principal fee block), starting in the 2018/19 fee year.

2.2 Periodic fees paid by DIFs are currently allocated within the A10 fee block according to the number of traders employed by each firm. However, the PRA no longer considers the number of traders to be a good proxy for the risks that these firms pose to its statutory objectives and therefore the way it allocates periodic fees paid by DIFs.

2.3 The growth of automated trading in some financial markets, for example, means the link between trader numbers and the size and activity of individual firms may be weaker and more variable than previously. Moreover, as a metric based on a number of people, trader numbers may give undue weight to concerns about firms' conduct risks and insufficient weight to concerns about safety and soundness, which is the primary objective of the PRA in the supervision of these firms.

2.4 The PRA is therefore proposing to introduce a new method for allocating periodic fees paid by DIFs. This method will be based on two equally weighted metrics:

- the size of firms' trading book assets;¹ and
- the size of firms' financial and operating income.²

2.5 Together, the PRA considers these metrics a good proxy for the work done by the PRA in relation to DIFs. This reflects the fact that DIFs can impact on the PRA's safety and soundness objectives both through their absolute size, for example, by being highly leveraged (which a balance sheet measure, such as total trading book assets, captures); and by their activities in financial markets (which the PRA proposes to capture by using firms' financial and operating income).

2.6 To help firms assess the impact of the proposed changes, the PRA has estimated that DIFs in the A10 fee block would have paid periodic fees at a rate of approximately £2.6 per £1 million of trading book assets and £227 per £1 million of financial and operating income for the 2017/18 fee year, if these proposals had been in place.

Insurance firms

2.7 This section sets out proposals for a new approach for calculating periodic fees paid by general insurers and life insurers in the A3 and A4 fee blocks respectively, starting in the 2018/19 fee year.

2.8 Since the introduction of Solvency II in 2016, the PRA has needed to amend the Fees Part of the PRA Rulebook to specify how fees will be calculated for firms that are subject to Solvency II reporting requirements and consider any implications for 'non-Directive firms' (ie firms not subject to Solvency II). As highlighted in CP30/16 'PRA fees and FSCS levies for

1 Trading assets on an unconsolidated basis as per item 20.A of form FSA001, as at the end of the year preceding the fee year.

2 Total financial and operating income on an unconsolidated basis, as per item 1.B of form FSA002, for the year to end-December preceding the fee year.

insurers: proposals for a transitional approach in 2017/18,¹ data were not available for PRA fees for 2017/18 to be calculated on a Solvency II basis or for an evaluation of the impact of the introduction on fees paid by Solvency II and non-directive firms to be carried out. Transitional arrangements were therefore put in place for the 2017/18 PRA fee year in which firm data for 2015 were used again to determine fees paid by insurers.²

2.9 With data for the first financial year³ under Solvency II having now been reported by most firms, the PRA is proposing to introduce revised methods for determining periodic PRA fees for general insurers and life insurers. In doing so, the PRA has considered the impact of the introduction of Solvency II, including ensuring consistency of treatment with non-Solvency II firms. It has also considered how the fee methods reflect the risks firms pose to the PRA's objectives and the work done by the PRA in relation to each firm.

General insurers

Solvency II firms

2.10 Currently, fees for general insurers in the A3 fee block (excluding insurance special purpose vehicles and friendly societies) are allocated according to the size of each insurer's annual gross premium income (GPI) and gross technical liabilities (GTL), weighted 90% and 10% respectively.

2.11 The PRA is proposing to change the determinants of calculating fees for Solvency II general insurance firms from GPI and GTL to gross written premium (GWP) for fees purposes and gross best estimate liabilities (BEL) for fees purposes, respectively.

2.12 For general insurers, GWP is defined as premium written gross of reinsurance from direct business, proportional reinsurance accepted and non-proportional reinsurance accepted.⁴ It is a very similar concept to GPI and should result in firms having a similar fees outcome pre and post Solvency II.

2.13 BEL is defined as firms' non-life (including annuities stemming from non-life) best estimate gross discounted cash out-flows.⁵ While it differs from GTL by being based on discounted future cash flows, it is a broadly similar concept which should result in similar fees being charged to firms as under the current approach.

2.14 To help firms assess the impact of the proposed changes, the PRA has estimated that general insurers would have paid periodic fees at a rate of approximately £510 per £1 million of GWP and £30 per £1 million of BEL (based on the current weightings of 90%:10%, GWP to BEL) for the 2017/18 fee year if these proposals had been in place (using data for 2016).

Composition between premiums and liabilities

2.15 The PRA considers that GWP and BEL are good proxies for the risks general insurers pose to its objectives and are therefore appropriate for determining PRA fees. Both measures, for example, give an indication of firm size (and therefore the potential impact of the firm on the stability of the UK financial system and the PRA's safety and soundness objective) and number

1 September 2016: www.bankofengland.co.uk/pr/Pages/publications/cp/2016/cp3016.aspx.

2 See PS18/16 'Regulated fees and levies: rates for 2016/17', June 2016: www.bankofengland.co.uk/pr/Pages/publications/ps/2016/ps1816.aspx.

3 Ending on or after 30 June 2016.

4 The proposed measure of GWP is derived from the Solvency II returns as: {S.05.01.01, (R0110 +R0120 +R0130), C0200}.

5 The proposed measure of BEL is derived from the Solvency II returns as: {S.17.01.01, (R0010 + R0370 +R0380 +R0410 +R0420), C0180} + {S.12.01.01, (R0010 +R00230 +R0260), (C0090 + C0190)} + {S.12.01, (R0010 +R0030), C0140}.

of policyholders (and therefore the potential impact of the firm on the PRA's policyholder protection objective).

2.16 However, the PRA considers that the relative composition between premium income and liabilities, which was originally used by the PRA's predecessor (the Financial Services Authority), is no longer appropriate given the PRA's objectives and how it prioritises its work. In particular, a 10% weighting for liabilities means firms with longer-term liabilities and larger balance sheets may pay too low a fee for the risks they pose to the PRA's statutory objectives, relative to firms with higher premium income but shorter-term liabilities.

2.17 The PRA has considered a number of options including:

- (i) leaving the weightings unchanged at 90% premium income and 10% liabilities based;
- (ii) weighting premium income and liabilities equally in the fees calculation; and
- (iii) changing the fee weightings to 75% premium income and 25% liabilities based.

2.18 Table 1 shows the possible fees for three illustrative firms (with different compositions of premium income and liabilities) based on data used to calculate PRA fees in 2017/18, across the three options.

Table 1: Impact of different component weightings on fees paid by illustrative general insurers¹

Fee	Firm 1 GPI = £200mn GTL = £200mn	Firm 2 GPI = £100mn GTL = £200mn	Firm 3 GPI = £10mn GTL = £400mn
Option (i) Weighting 90%:10% (GPI:GTL)	£123k	£65k	£19k
Option (ii) Weighting 50%:50% (GPI:GTL)	£98k	£65k	£69k
Option (iii) Weighting 75%:25% (GPI:GTL)	£114k	£65k	£38k

2.19 The PRA considers that changing the fees calculation basis to an equal weighting (option (ii)) could result in some firms facing much higher fees than previously and therefore would be too large a change to make at this time. The PRA's proposal is therefore to change the weightings to 75%:25% (option (iii)), as this is closer to the balance used in certain internal PRA risk metrics than the current approach. However, the PRA recognises that this change would also be substantial in some cases, and that arguments are finely balanced. The PRA would welcome views from firms on the alternatives.

2.20 If the PRA were to move to away from the current approach, then it would look to use relieving provisions in the Fees rules to address any inequities experienced by individual firms as a result of the change. This is likely to be limited to firms in insolvent run-off, where an increase in fees may reduce the funds available to pay policyholder claims.

¹ Using 2017/18 fees data (current basis).

Non-Directive firms

2.21 For non-Directive (non-Solvency II) firms, the PRA is proposing to base fees on premium income and liabilities derived from existing regulatory returns.¹ The proposed metrics for deriving premium income and liabilities are in line with the GPI and GTL measures used currently and should give broadly similar outcomes to the new metrics proposed for Solvency II firms set out above.

2.22 To ensure consistency with the approach set out in paragraph 2.19, the PRA is proposing to align the weightings for premium income and liabilities in determining fees for non-Directive firms, with those proposed for Solvency II firms (i.e. 75%:25% respectively). The impact of this change is expected to be broadly similar across firms reporting on both a Solvency II and non-Solvency II basis.

2.23 The PRA will monitor the relative impact of any changes to the fees calculation approach for insurers on non-Directive firms closely going forward to ensure they are not unfairly affected by the changes.

Friendly societies

2.24 Rule 3.4(2)(c) of the Fees Part of the PRA Rulebook sets out the fee calculation method for directive general insurance friendly societies. Given that these friendly societies report the same Solvency II data, the PRA proposes that they should be subject to the same fee calculation method as other Solvency II firms rather than be subject to a separate rule. This would ensure that friendly societies and other insurers are treated consistently and fairly.

2.25 Rule 3.4(2)(b) of the Fees Part of the PRA Rulebook sets out the fee calculation method for non-Directive general insurance friendly societies. The PRA proposes to align the fees calculation method for this class of firm with that for other non-Directive firms (by using measures of both premium and liabilities weighted in line with the approach set out in paragraph 2.19), to ensure consistency of treatment.²

Minimum thresholds

2.26 Table III of the Fees Part of the PRA Rulebook sets the thresholds for paying periodic fees as greater than £0.5 million of GPI and greater than £1 million of GTL. To reflect the approach set out above, the PRA proposes to change the metric for determining the thresholds to GWP and BEL respectively for Solvency II firms.

Life insurers

Solvency II firms

2.27 Under the current approach, periodic fees paid by life insurers in the A4 fee block are determined by the relative size of firms' adjusted gross premium income (AGPI) and their mathematical reserves (MR), weighted 75%:25% respectively.

2.28 AGPI is based on the concept of the 'annual premium equivalent measure' (APE) and consists of new single premium business, plus ten times firms' new regular premium business.

1 For non-directive firms, GWP for fees purposes will be derived from Form 11, line 11, except for Swiss general insurers, where it will be derived from Form 20A, sheet 1, line 1, column 1. For non-directive firms (including Swiss general insurers); BEL for fees purposes will be derived from Form 15, line 19 except for marine mutual firms, which will use gross provisions for outstanding claim derived from Form M2, line 29.

2 The measure of BEL for fees purposes will be derived from balance sheet entry C3 claims outstanding where this entry is required under the Friendly Society (Accounts and Related Provisions) Regulations 1994 and otherwise zero. The measure of GWP for fees purposes will be derived from the income and expenditure entry for gross premiums written or contributions as income receivable, as appropriate under the Friendly Society (Accounts and Related Provisions) Regulation 1994.

Any premiums relating to pension fund management or trustee investment plans are deducted from AGPI. The measure of MR used for fees also excludes business relating to pension fund management and trustee investment plans.

2.29 Since periodic fees for life insurers were last comprehensively reviewed, the life insurance industry has evolved and the concept of APE is no longer as commonly used. The PRA therefore proposes to use GWP¹ instead of AGPI as an input to firms' fees calculations: this would mean that there will be no differentiation in the treatment of single premiums and regular premiums for fees purposes.

2.30 The PRA proposes to use BEL² to replace MR. The PRA considers BEL to be the most appropriate scalar of balance sheet size and preferable to alternative measures such as technical provisions, as it does not include the risk margin or transitional measure for technical provisions, which could distort fees outcomes in some years.

2.31 The PRA proposes to exclude business relating to corporate pension funds from both GWP and BEL, similar to the current approach where business relating to pension fund management and trustee investment plans are excluded from the measures of AGPI and mathematical reserves. This reflects the fact that these businesses have a relatively low impact on the PRA's safety and soundness and policyholder protection objectives. Nevertheless, as Solvency II data reporting matures, the PRA intends to review its approach to fees for life insurers, including giving consideration to the fees paid in relation to different types of life insurance business and the extent to which they adequately reflect the risks posed to the PRA's objectives.

Composition between premiums and liabilities

2.32 As for general insurance firms, the PRA has reviewed the relative weightings of the components for determining periodic fees for life insurers. For life firms, the measure of liabilities size currently has a higher weighting (25%) in the calculation of PRA fees than is the case for general insurers (10%). This reflects the fact that life insurance is longer term than most types of general insurance business: liability-based measures therefore better capture the size of life insurance firms and the risks they pose to the PRA's objectives both from the perspective of policyholder protection and safety soundness.

2.33 Table 2 shows possible fees for three illustrative firms, across two options (the current approach and weighting the inputs equally) based on data used to calculate fees in 2017/18 (ie the current basis).

Table 2: Impact of different component weightings on PRA fees paid by illustrative life insurers³

Fee	Firm 1: AGPI = £10mn MR = £1bn	Firm 2: AGPI = £100mn MR = £0.5bn	Firm 3: AGPI = £200mn MR = £4bn
Option (i) Weighting = 75%:25% (AGPI:MR)	£18k	£63k	£161k
Option (ii) Weighting = 50%:50% (AGPI:MR)	£28k	£50k	£171k

1 The proposed measure of GWP for fees purposes for life insurers is derived from the Solvency II return as {S05.01 (R1410), C0300} minus 'corporate pensions business' as defined in Appendix 1 of Supervisory Statement (SS) 36/15: www.bankofengland.co.uk/prs/Pages/publications/ss/2015/ss3615.aspx and identified from the Solvency II return S14.01 (life obligations analysis).

2 The proposed measure of BEL for fees purposes for life insurers is derived from the Solvency II return as {S12.01 (R0010 + R0030); C0150 + C0210 - C0090 - C0140 - C0190} minus 'corporate pensions business' as defined in Appendix 1 of SS36/15: <http://www.bankofengland.co.uk/prs/Pages/publications/ss/2015/ss3615.aspx> and identified from the Solvency II return S14.01 (life obligations analysis).

3 Using data for determining 2017/18 fees (Solvency I basis).

2.34 To better reflect how it prioritises resources and supervisory effort, the PRA's proposal is to weight GWP and BEL equally in the calculation of fees for life insurers (ie option (ii)). However, the PRA recognises that this change would be substantial in some cases, and the merits are finely balanced. The PRA would welcome views from firms on the alternatives.

2.35 If the PRA were to move to change the weightings to 50%:50%, it would look to use relieving provisions in the Fees rules to address any inequities experienced by individual firms as a result of the change. This is likely to be limited to firms in insolvent run-off, where an increase in fees may reduce the funds available to pay policyholder claims.

2.36 Given limitations with data reported by some life insurers, the PRA is not currently able to provide estimates of potential fee rates for life insurers using Solvency II metrics. When the PRA has suitable estimates, it will consult on the new rates, at the latest in the PRA's rates proposals consultation paper due to be published in Spring 2018. As a result of this, the draft rules in the appendices do not include a proposed update to Table III in Fees 3.

Non-Directive firms

2.37 All 'non-Directive' life insurance firms are relatively small in size.¹ To reflect the low risks these firms pose to the PRA's objectives and to minimise the regulatory burden on smaller firms, the PRA proposes that all non-Directive life insurance firms should be exempt from the PRA's periodic fees, apart from the minimum fee.

2.38 In light of this change, the PRA also proposes that the 11% discount which currently applies to the periodic fees paid by both general insurance and life insurance non-Directive firms will no longer apply to non-Directive life insurance firms. (The discount would continue to apply to fees paid by non-Directive general insurers.)

Minimum thresholds

2.39 Table III of Fees 3 sets out thresholds for periodic fees, which were greater than £1 million for both AGPI and mathematical reserves. The PRA proposes to change the thresholds to be based on GWP and BEL, respectively, in line with the approach set out above, while leaving the thresholds unchanged. The new Table III will be consulted on at a later date, as explained in 2.36 above.

Internal reinsurance

2.40 In PS37/16 'PRA fees and FSCS levies for insurers - transitional approach for 2017/18: responses to CP30/16',² the PRA noted that one respondent to its consultation on a transitional approach for insurer fees and levies suggested that internal reinsurance within a group should be eliminated from the fees and levy calculation, and said that it would consider this point when consulting on final rules.

2.41 The PRA has now considered this suggestion and concluded that it would not be appropriate to change the fees rules in this way as it could result in some activity relevant to the PRA objectives not resulting in fees being charged, as well as adding complexity to the fees rules and potentially requiring additional reporting by some firms.

1 This contrasts with general insurers, where there are some large non-directive firms due to the nature of their business rather than their size.

2 December 2016: www.bankofengland.co.uk/pr/Pages/publications/ps/2016/ps3716.aspx.

Insurance fee data

2.42 Prior to 2017/18 (when the transitional approach was used), PRA fees for both life and general insurers were calculated for firms based on data provided in a return submitted to the Financial Conduct Authority (FCA) each year. The introduction of Solvency II has resulted in a significant extension of the information submitted by insurers to the regulators, and the PRA is committed to ensuring that the burden of regulatory reporting on insurers is minimised. The PRA therefore proposes to base its fees calculations on, where possible, data from existing Solvency II returns submitted by firms to the PRA rather than requiring additional reporting. For determining fees paid by EEA branches, the PRA will use data reported to the FCA.

2.43 The PRA notes that the window between Solvency II annual returns being submitted to regulators and fees needing to be calculated and invoiced to firms is short (though the window will gradually increase over the next few years). This limits the time available to carry out data-quality work to ensure that information submitted by firms is robust and accurate. The PRA therefore proposes to amend the Fees rules so that it can use the previous year's data for calculating fees for individual insurers for 2018/19, where applicable, if full confidence in data received for 2017 cannot be achieved by the point that the PRA and FCA need to invoice firms for 2018/19 fees. The PRA annual fees consultation for 2018/19 (to be published in early 2018) will also reference 2016 data for insurers.

2.44 For non-Directive firms, the PRA proposes to use information from existing data and regulatory returns submitted by these firms to determine fees.

2.45 Where firms report annual data to a financial year which finishes later than end-December – or where firms report data on a less frequent basis than annually – the PRA proposes to use the latest available set of annual returns for that firm.

3 FSCS levies

3.1 This section sets out proposals for a new approach for calculating FSCS levies paid by general insurers and life insurers in the B1 and C1 levy classes respectively following the introduction of the Solvency II reporting requirements. The PRA proposes to bring the FSCS levy rules which include the revised tariff base (Appendix 3 – Annex A) into force on 1 April 2018 for the start of the FSCS's 2018/19 financial year. The PRA proposes to bring the changes to the FSCS levy rules relating to reporting dates (Appendix 3 – Annex B) into effect in Q4 2017.

3.2 The PRA proposes to continue the existing approach of using comparable tariff data for FSCS levy calculations and PRA periodic fees calculations as far as possible. The PRA proposes five adjustments to the periodic fees approach to take account of the differing objectives of FSCS levies:

- To maintain the option for firms to report data based on their business that is eligible for FSCS protection, as this is a proportionate way of ensuring firms' levies reflect their risk to the FSCS;
- To maintain the 75%:25% weighting of premiums and liabilities for both general insurers and life insurers;
- To broadly maintain the current arrangements for non-Directive insurers and not apply a minimum levy;

- To not exclude pension fund management business from the calculation of FSCS levies for long-term insurers, in line with the current approach; and
- To extend firms reporting deadlines for levy purposes to align with the reporting deadlines for PRA fees. The FCA is supportive of this approach.

3.3 The sections below set out the PRA proposals for updating the FSCS levy tariff bases for different types of insurance firms.

3.4 The PRA will monitor the relative impact of the changes to ensure insurers are not unfairly affected.

General Insurance

3.5 The PRA proposes to update the previous tariff bases and calculate levies on the basis of GWP and gross technical liabilities for Solvency II insurers, in line with the PRA periodic fees approach.

Life insurance

3.6 The PRA proposes to update the previous tariff bases and calculate levies on the basis of GWP and BEL for Solvency II insurers, in line with the PRA periodic fees approach.

3.7 For pension fund managers, the PRA proposes to measure premium income on the basis of the remuneration retained by the firm and liabilities on the basis of BEL.

3.8 Where firms are exclusively engaged in occupational fund management, the PRA proposes to base levies wholly on remuneration for both Directive and non-Directive firms. As there is no direct equivalent to the existing liabilities metric, the PRA considers that this is the most proportionate approach. In line with the PRA proposals for periodic fees, the PRA will review this approach as data becomes more robust.

Non-Directive firms, friendly societies and firms in run-off

3.9 The PRA proposes to update the existing tariff bases for non-directive firms and friendly societies to reflect revised reporting requirements for both premium and liability measures.

3.10 Consistent with the approach adopted for Directive firms, the PRA proposes to use the same metrics for FSCS levies for non-Directive general insurance firms as for PRA periodic fees. The PRA proposes to update the rules for friendly societies to reflect revised reporting requirements.

3.11 The PRA proposes to maintain the existing tariff bases for non-directive life insurers and friendly societies and update the rules to reflect revised reporting requirements.

3.12 Consistent with the current rules for partnership pension societies, the PRA proposes that FSCS levies for flat rate benefits business friendly societies will be based exclusively on firms' premium income. This reflects flat rate benefits business friendly societies' reporting requirements.

3.13 The PRA will continue the current levy calculation methodology and calculate the levies for both Solvency II and non-Directive insurers in run-off exclusively on the basis of their relevant net premium income.

Data reporting

3.14 The PRA proposes to extend the deadline for firms' levy data collection to align with the deadline for PRA fees data for both Directive and non-Directive firms. This eases the reporting burden on firms, as they will not be required to report FSCS levy data in advance of other reports.

3.15 In line with the current approach, to facilitate the delay in reporting the PRA proposes to allow the FSCS to levy insurers on previously submitted data in the event that a levy needs to be raised before new data is submitted.

4 Regulatory transaction fees: model approaches

4.1 This chapter sets out proposed changes to the criteria for determining PRA model application charges under CRR and Solvency II.

Model applications under CRR

4.2 Chapter 4 of Fees sets out charges that apply to CRR firms seeking model permissions. The charges that apply to credit institutions vary according to whether a firm has five or more significant overseas entities within the same group model application or, where this is not the case, the size of a firm's modified eligible liabilities.

4.3 When the Fees Part was made in 2016, having been adapted from the PRA Handbook (which previously set out PRA fees rules), there was an error in the transcribing process: the modified eligible liability thresholds used to determine the size of the model application fee set out in Table D of Fees were unintentionally shown as millions instead of billions. This could have resulted in firms with lower modified eligible liabilities potentially being brought within the scope of higher fees thresholds though, in practice, no firms have paid a higher fee as a result.

4.4 To rectify this error, the PRA proposes to amend the model application thresholds so that they are brought back in line with what had been originally intended. This would mean:

- amending the threshold for credit institutions in the second highest charging tier for CRR models from greater than £40 million minimum eligible liabilities, to greater than £40 billion;
- amending the thresholds for credit institutions in the third highest charging tier for CRR models from between £5 million and £40 million, to between £5 billion and £40 billion; and
- amending the thresholds for credit institutions from less than £5 million, to less than £5 billion.

4.5 These changes would ensure that small and medium-sized credit institutions do not mistakenly pay a model application fee inappropriate to their size.

4.6 The PRA also proposes to amend the wording describing the first threshold in Table D relating to CRR model application charges. This would clarify that the fee will be applicable when there are 'five or more significant overseas entities' within the scope of an application rather than just present in a group.

Model applications by designated investment firms (DIFs)

4.7 The model application charges that apply to DIFs vary according to whether a firm has five or more significant overseas entities within the same group model application or, where this not the case, the number of traders at that firm.

4.8 Consistent with the reasons set out in relation to periodic fees for DIFs in Chapter 2, the PRA proposes to change the basis for determining model fee application charges so that they would no longer reference the number of traders employed by a firm. Instead, for DIFs with four or fewer significant overseas entities within the same group application, the fee would be determined by the size of that firm's total trading assets.

4.9 The PRA considers that total trading assets are a good proxy for the relative amount of work the PRA will undertake in relation to model applicants by different size firms, and a better proxy than trading and operating income (the other proposed component of DIF's periodic fee), which can be more volatile. The PRA also considers that its proposed approach and thresholds will ensure a consistent treatment across DIFs and deposit-takers of similar size, complexity and nature.

Model applications by insurers

4.10 The model application charges that apply to general insurers and life insurers vary according to metrics defined in pre-Solvency II terms. Consistent with the approach set out in Chapter 2, the PRA proposes to change the basis for determining the model fee application charges so that they reference Solvency II metrics.

4.11 In particular, model application fees for both general insurers and life insurers would be based on the size of a firm's BEL (as defined in Chapter 2). For both general insurers and life insurers, the PRA considers that BEL is a good proxy for the relative amount of work the PRA will undertake in relation to a model application by different size firms, and a better proxy than written premiums (the other proposed component of insurers' periodic fees).

Model maintenance fees

4.12 This section sets out proposals for a 'model maintenance fee' to cover PRA costs associated with reviewing and maintaining firm models under CRR and Solvency II.

4.13 Fees 4.14A states that a fee is payable where a CRR firm seeks to modify an existing model approach. However, in practice, the PRA has required a fee for a model change application infrequently, where the requested change has been broadly equivalent to a new model application. This reflects inflexibility in the rules which require that where a fee is charged for a CRR model change application it must be the full amount payable as if the application were a new model application, irrespective of the extent of the model changes. In most cases, this has not been considered appropriate.

4.14 A charge was introduced in July 2017 for Solvency II model applications;¹ however, there is no equivalent model change charge for Solvency II models.

4.15 In CP4/17 'Regulated fees and levies: rates proposals 2017/18'² (which proposed changes to model application charges including new charges for Solvency II and CRR internal model

1 PS17/17: <http://www.bankofengland.co.uk/pr/Pages/publications/ps/2017/ps1717.aspx>.

2 March 2017: <http://www.bankofengland.co.uk/pr/Pages/publications/cp/2017/cp417.aspx>.

approach (IMA) models), the PRA said that it would review the policy and rules in relation to model change application fees for both CRR and Solvency II models and that this review would consider whether to introduce an annual fee for firms with a model permission to cover the costs of the PRA's model review requirements.

4.16 The PRA has now reviewed this policy and proposes to introduce an annual 'model maintenance' fee, chargeable to firms with a CRR or Solvency II internal model that attracts a transaction fee for a new application. UK firms relying on such a model that has been approved by another EU competent authority as part of a joint decision would also be subject to the fee.

4.17 As a result of the introduction of the model maintenance fee, CRR firms would no longer be subject to model change fees, including fees previously associated with moving from a foundation Internal Ratings Based (IRB) model to an advanced IRB model.

4.18 The PRA considers that a model maintenance fee is appropriate because it will allow it to recover a significant proportion of the ongoing costs of reviewing and assessing firms' models directly from the firms benefitting from using those models. These costs include:

- specialist technical, supervisory and legal resources for work for ongoing model reviews as required under CRD¹ Article 101 and Solvency II Articles 36, 116 and 120;
- engagement with the European Banking Authority (EBA) on hypothetical portfolios for banking models; and
- model change applications.

4.19 These costs are currently shared across the firm population through the PRA's AFR, meaning that firms not using a model contribute to the costs of maintaining the models of firms that do.

4.20 The PRA considers that a model maintenance fee is preferable to the alternative of a modified transaction fee for model change applications because:

- unlike a transaction charge, it offers no disincentive for firms to keep their models up to date. Firms may be more reluctant to submit a model change application if a fee is payable each time;
- it does not incentivise firms to make lots of small model change applications in order to avoid transaction fees;
- it is clear and transparent to firms: firms know up front what model-related charges will be due during the year; and
- it avoids firms being directly charged for model changes that were driven by circumstances outside of their control.

4.21 The PRA proposes to introduce model maintenance fees that vary according to the type of model and the size of the firm (using the same banding as for model application fees), to ensure that smaller firms are not unfairly penalised by the fee. A separate fee would be applicable by banks and DIFs for each of their CRR models (IRB, IMA, internal model methods

¹ Capital Requirements Directive (2013/36/EU) (CRD).

(IMM) and advanced measurement approaches (AMA)). Insurers with Solvency II models would be subject to a single fee according to whether their business is predominantly general insurance or life-focused. The Solvency II model fees are calibrated higher to reflect the broader scope of Solvency II models than CRR models, and the commensurate work involved for the PRA. The PRA proposes that the Society of Lloyd's would pay the higher Solvency II general insurance model maintenance fee.

4.22 The PRA proposes that the annual model maintenance fee would be invoiced alongside the AFR each year. Firms would start paying a maintenance fee for a model from the start of the following financial year, where the model approval was given in the first six months of the fees year, and from the start of the subsequent financial year, where the approval was given in the last six months of the financial year. The fee would be introduced from the beginning of the 2018/19 fee year.

4.23 Based on the current number and type of internal models in force, the PRA estimates that the proposed model maintenance fee would raise between £6 million and £7 million in 2018/19. The PRA does not intend to raise additional funding through this charge, rather to ensure that the funding it raises is better targeted at relevant firms. Therefore, the PRA would expect there to be a corresponding reduction in the AFR paid by firms across relevant fee blocks from the 2018/19 fee year, if a model maintenance fee is introduced.

5 The PRA's statutory obligations

5.1 Before making any rules, the Financial Services and Markets Act 2000 (FSMA)¹ requires the PRA to publish a draft of the proposed rules accompanied by:

- a cost benefit analysis (where applicable);
- 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
- 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 and
- a statement as to whether the impact of the proposed rules will be significantly different to mutuals than to other persons.⁶

5.2 The PRA is also required by the Equality Act 2010⁷ to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out its policies, services and functions.

5.3 The PRA should also have regard to aspects of the economic policy of Her Majesty's Government as recommended in HM Treasury's recommendation letter.

1 Section 138J 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 138K of FSMA.

7 Section 149.

Cost benefit analysis

5.4 The PRA is exempt from having to carry out a cost benefit analysis on its draft fees rules¹ and as such, the cost benefit analysis in this section covers the proposals relating to the FSCS levies only.

5.5 The FSCS supports PRA objectives and UK financial stability by protecting deposits and securing an appropriate degree of protection for policyholders. The FSCS delivers direct benefits to consumers through the payment of compensation to eligible claimants, including policyholders, which are funded through the levies on the industry. While the wider benefits of the FSCS are hard to quantify, the FSCS provided £154m to compensate general insurance policyholders in 2016/17. The PRA believes that providing a proportionate basis on which the FSCS can levy, which reflects the FSCS's exposure in the event of firms' failure, helps secure these benefits.

5.6 The PRA estimates that the costs of providing the required data in its proposal are not materially different from the current approach. Both Solvency II and non-Directive firms would continue to report data for FSCS levies based on standard measures of premium and liabilities. To continue to minimise the reporting burden, firms will remain able to report data based on their total (rather than FSCS eligible business) if they find this more proportionate.

5.7 In order to reduce the reporting burden on firms, the PRA proposes to extend the current reporting deadlines to align with the wider regulatory reporting requirements. This will benefit firms by removing the need to devote resources to calculating a subset of the regulatory returns in advance of the regulatory reporting deadline.

5.8 As firms have not reported Solvency II data on premiums and liabilities which are eligible for FSCS protection, it is difficult for the PRA to assess the firm-by-firm impact of shifting to the new metrics with precision. However, for general insurers there is a strong correlation between firms' GPI and GTL reported under previous metrics and firms' GWP and BEL reported under SII. For life insurers, GWP and BEL are the most comparable metrics to the previous approach. The PRA will review the appropriateness of these metrics as more data becomes available.

Compatibility with the PRA's objectives

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

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

5.10 The PRA considers that the proposed instrument in Appendix 3 will enable the PRA to fund the regulatory activities required to advance its statutory objectives during 2018/19. The proposed fee and levy arrangements 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-

¹ Section 138J(6)(d) of FSMA.

regulated entities and is therefore not expected to act as deterrent for new entrants to the industry or the expansion of smaller 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

5.11 In developing the proposals in this CP, the PRA has had regard to the regulatory principles set out in FSMA.¹ The PRA considers three of the principles are of particular relevance:

- a burden or restriction which is imposed on a person, or on the carrying on of an activity, should be proportionate to the benefits which are expected to result from the imposition of that burden or restriction – the PRA allocates fees and levies in a proportionate way through the use of fee blocks and thresholds and levy classes that take into account the size and nature of its regulated community;
- the desirability, where appropriate, of each regulator exercising its functions in a way that recognises differences in the nature and objectives of businesses carried on by different persons – by giving separate consideration to the interests of minimum fee payers, non-Directive firms, composites and friendly societies; and
- the regulators should exercise their functions as transparently as possible – by clearly setting out the basis on which the proposed fees and levies are calculated and providing advance notice of the proposed changes to PRA fees and charges.

HM Treasury recommendation letter

5.12 HM Treasury has made recommendations to the Prudential Regulation Committee about aspects of the Government’s economic policy to which the Committee should have regard when considering how to advance the objectives of the PRA and apply the regulatory principles as set out in FSMA.²

5.13 The aspects of the Government’s economic policy most relevant to the proposals in this CP are:

- (i) Competition
- (ii) Growth
- (iii) Competitiveness
- (iv) Innovation
- (v) Better outcomes for consumers

5.14 Diversity and transparency have been considered in the ‘compatibility with the PRA’s objectives’ and ‘regulatory principles’ sections above. Where consideration has been given to the aspects that extend beyond the PRA’s objectives and the regulatory principles, these are set out below.

¹ Section 3B FSMA.

² www.gov.uk/government/publications/recommendations-for-the-prudential-regulation-committee-spring-budget-2017.

Competition

5.15 The PRA allocates fees in a proportionate way through the use of fee blocks and thresholds that take into account the size and nature of its regulated community. Through the use of model application and maintenance/change fees, the PRA also seeks to ensure a balance, with its fees being appropriately targeted while not representing a barrier to the adoption and use of models by smaller firms.

Growth

5.16 The PRA acknowledges the importance of the financial services sector contributing to sustainable economic growth. By ensuring the proposals take into account the size and nature of firms, the PRA fees and FSCS levies will not act as a barrier to the growth of the financial services sector.

Competitiveness

5.17 The PRA is mindful of the international nature of some financial services. A transparent and proportionate fee regime helps to support the stability and competitiveness of the UK's financial markets.

Innovation

5.18 The proposals contained within this consultation ensure burdens are proportionate, taking into account the differences in nature of the different business models employed by firms.

Better outcomes for consumers

5.19 The proposals relating to FSCS levies help to ensure the financial services sector continues to work in the best interests of consumers and the businesses they serve, by ensuring competition works in the best interests of consumers and by ensuring an appropriate degree of protection for both consumers and policyholders.

Impact on mutuals

5.20 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

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

Appendices

-
- 1 Draft PRA fees amendment instrument 2017**

 - 2 Draft PRA fees: model transaction fees, fees for insurers and designated investment firms instrument 2017**

 - 3 Draft PRA rulebook: Solvency II firms, non Solvency II firms, non authorised persons: policyholder protection instrument 2017**

Appendix 1 – Draft PRA fees amendment instrument 2017

PRA RULEBOOK: PRA FEES AMENDMENT INSTRUMENT 2017

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 (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 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 the proposed rules and had regard to representations made.

PRA Rulebook: PRA Fees Amendment Instrument 2017

- 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: PRA Fees Amendment Instrument 2017.

By order of the Prudential Regulation Committee

[DATE]

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:

3 PERIODIC FEES

...

3.6 The following requirements apply to all *firms* whose activities give rise to *periodic fees*, other than *firms* which pay only a flat rate of fee:

~~(1) within two months after, or where relevant after the end of, the relevant valuation point, the firm must provide to the PRA's collection agent the tariff data on which the periodic fee payable by the firm is to be calculated as at that valuation point~~deleted

...

~~(7) Where a new requirement is imposed on *firms* under the *PRA Rulebook* or an existing requirement amended but does not take effect until a future *fee year*, in the absence of an express statement to the contrary, *firms* must comply with the new requirement immediately in so far as it relates to the supply of information under 3.6(1).~~

...

4 REGULATORY TRANSACTION FEES

...

Table D - Model types under CRR

Applicant (groupings based on <i>tariff data</i> submitted by firms as at 31 December in the <i>fee year</i> prior to the <i>fee year</i> in which the fee is payable).	Column 1 Fee payable (£) except where Column 2 applies		Column 2 Fee payable (£) (firm with permission for foundation approach moving to an advanced approach.)
Where the application relates to <i>CRD credit institutions</i> or <i>designated investment firms</i> with and includes five or more significant overseas entities within the same group	model type	£	67,000.00
	<i>advanced IRB, IMM or IMA</i>	268,000.00	
	<i>foundation IRB</i>	232,000.00	
	<i>advanced measurement approaches</i>	181,000.00	
Where, at 31 December prior to the <i>fee year</i> in which the fee is payable, the applicant has	model type	£	58,000.00
	<i>advanced IRB, IMM or</i>	232,000.00	

(1) <i>modified eligible liabilities</i> in excess of £40,000,000.00 £40,000million; or (2) more than 200 traders.	<i>IMA</i>		
	<i>foundation IRB</i>	198,000.00	
	<i>advanced measurement approaches</i>	146,000.00	
Where, as at 31 December prior to the <i>fee year</i> in which the fee is payable, the applicant has (1) <i>modified eligible liabilities</i> greater than £5,000,000.00 £5,000million and less than £40,000,000.00 £40,000million; or (2) between 26 and 200 traders.	model type	£	23,500.00
	<i>advanced IRB, IMM or IMA</i>	94,000.00	
	<i>foundation IRB</i>	72,000.00	
	<i>advanced measurement approaches</i>	51,000.00	
Where, as at 31 December prior to the <i>fee year</i> in which the fee is payable, the applicant has (1) <i>modified eligible liabilities</i> of £5,000,000.00 £5,000million or less; or (2) between 0 and 25 traders.	model type	£	10,500.00
	<i>advanced IRB, IMM or IMA</i>	42,000.00	
	<i>foundation IRB</i>	30,000.00	
	<i>advanced measurement approaches</i>	24,000.00	

...

Appendix 2 Draft PRA fees: model transaction fees, fees for insurers and designated investment firms instrument 2017

PRA RULEBOOK: PRA FEES: MODEL TRANSACTION FEES, FEES FOR INSURERS AND DESIGNATED INVESTMENT FIRMS INSTRUMENT 2017

Powers exercised

- G. 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);
 - (5) section 137T (General supplementary powers); and
 - (6) paragraph 31 (Fees) of Part 3 (Penalties and Fees) of Schedule 1ZB (The Prudential Regulation Authority) of the Act.
- H. 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

- I. 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 Fees: Model Transaction Fees, Fees for Insurers and Designated Investment Firms Instrument 2017

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

Commencement

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

Citation

- L. This instrument may be cited as the PRA Rulebook: PRA Fees: Model Transaction Fees, Fees for Insurers and Designated Investment Firms Instrument 2017.

By order of the Prudential Regulation Committee

[DATE]

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

...

1.2 In this Part, the following definitions shall apply:

...

~~*adjusted gross premium income or AGPI*~~

~~means adjusted gross premium income of an *insurer* calculated as follows (all business transacted through independent practitioners or tied agents, whether single or multi-tie, being divided by two):~~

~~(1) amount of new regular *premium* business (yearly *premiums* including reassurances ceded but excluding cancellations and reassurances accepted) x10;
1. plus~~

~~(2) amounts of new single *premium* business (total including reassurances ceded but excluding cancellations and reassurances accepted). Group protection business (life and private health insurance) must be included;
2. less~~

~~(3) *premiums* relating to *pension fund management*;
3. less~~

~~(4) *premiums* relating to *trustee investment plans*.~~

...

~~*annual quantitative reporting template*~~

means a reporting template set out in EU Regulation 2015/2450 or any other relevant *Solvency II Regulations*.

...

~~*best estimate liabilities for fees purposes*~~

means:

(1) for UK *Solvency II* firms in the *general insurance fee block (A3)*, a firm's best estimate liabilities as reported to the *PRA*, being the sum of items entered under row codes R0010, R0370, R0380, R0410 and R0420, column code C0180, of the *annual quantitative reporting template S17.01.01*, plus the sum of items entered under row codes R0010, R0230, R0260, column codes C0090 and C0190, and the sum of items

entered under row codes R0010 and R0030, column code C0140, of the annual quantitative reporting template S12.01.01;

(2) for non-directive firms in the general insurance fee block (A3), a firm's total gross technical provisions as reported to the PRA under item 19 of form 15, or where this is not reported because the firm is a marine mutual, item 29 of form M2, or where the firm is a friendly society, the balance sheet entry C3 claims outstanding where this entry is required under the Friendly Societies (Accounts and Related Provisions) Regulations 1994 (SI 1994/1983) and otherwise zero; and

(3) for UK Solvency II firms in the life insurance fee block (A4), a firm's best estimate liabilities as reported to the PRA, being the sum of items entered under row code R0030, column codes C0150 and C0210, of the annual quantitative reporting template S12.01.01, minus corporate pension business reported under the annual quantitative reporting template S14.01.01.

...

contributions as income

~~means contributions as income of a friendly society under Schedule 7: Part I item 1(a) to the Friendly Societies (Accounts and Related Provisions) Regulations 1994 (SI 1994/1983) in respect of United Kingdom business~~

...

corporate pension business

~~means one or more pension schemes managed by an insurer on behalf of an employer and for which liabilities are calculated by the insurer only at scheme level.~~

...

financial and operating income

~~means a firm's financial and operating income as reported to the PRA under line 1 column B of form FSA002.~~

...

gross premium income or GPI

~~means the amount of premium receivable which must be included in the documents required to be deposited under IPRU(INS)9.6 in relation to the financial year to which the documents relate but disregarding for this purpose such amounts as are not included in the documents by reason of a waiver or an order under section 68 of the Insurance Companies Act 1982 carried forward as an amendment to IPRU(INS) of the PRA Handbook under transitional provisions relating to written concessions; or~~

~~gross premiums written~~

~~means gross premiums written under Schedule 1 (part I.1(a) and II.1.(a) of the Friendly Societies (Accounts and Related Provisions) Regulations 1994 (SI 1994/1983)~~

~~gross technical liabilities or GTL~~

~~means the amount of gross technical liabilities referred to in IPRU(INS) (Appendix 9.1 – Form 15 line 19) which must be included in the documents required to be deposited under IPRU(INS)9.6R in relation to the financial year to which the documents relate but disregarding for this purpose such amounts as are not included in the documents by reason of a waiver or an order under section 68 of the Insurance Companies Act 1982 carried forward as an amendment to IPRU(INS) of the PRA Handbook under transitional provisions relating to written concessions.~~

...

gross written premium for fees purposes

means:

- (1) for UK Solvency II firms in the general insurance fee block (A3), a firm's gross written premium as reported to the PRA, being the total of items entered under row codes R0110, R0120 and R0130, as expressed in column code C0200 where this column is completed for those row codes, of the annual quantitative reporting template S.05.01.01;
- 4.
- (2) for non-directive firms in the general insurance fee block (A3), a firm's gross premium written as reported to the PRA under item 11 of form 11, or where this is not reported because the firm is a Swiss general insurer, the entry at sheet 1, line 1, column 1, of form 20A, or where the firm is a friendly society, the income and expenditure account entry for gross premium written or contributions as income receivable, as appropriate under the Friendly Societies (Accounts and Related Provisions) Regulation 1994 (SI 1994/1983); and
- 5.
- (3) for UK Solvency II firms in the life insurance fee block (A4), a firm's gross written premium as reported to the PRA, being the item entered under row code R1410, column code C0300 of the annual quantitative reporting template S05.01.01 minus corporate pension business as reported to the PRA under the annual quantitative reporting template S14.01.01.

...

IPRU(INS)

means the IPRU (INS) section of the PRA Handbook which remains in force to the extent required by:

- ~~(1) Transitional Measures 3.7 of the PRA Rulebook for Solvency II firms; and
(2) Transitional Measures 3.1 of the PRA Rulebook for non-directive firms,~~

~~and references to rules, forms and appendices are to those applicable as at 31 December 2015.~~

...

mathematical reserves for fees purposes

means

~~the amount of mathematical reserves (*IPRU(INS)* Appendix 9.1R — Form 14 Line 11) which must be included in the documents required to be deposited under *IPRU(INS)* 9.6R in relation to the financial year to which the documents relate but disregarding for this purpose such amounts as are not included in the documents by reason of a waiver or an order under section 68 of the Insurance Companies Act 1982 carried forward as an amendment to *IPRU(INS)* of the *PRA Handbook* under transitional provisions relating to written concessions;~~

~~less~~

~~mathematical reserves relating to *pension fund management*;~~

~~less~~

~~mathematical reserves relating to *trustee investment plans*.~~

...

model maintenance fee

means the fee or fees in 3.22.

...

number of traders

~~means the number of employees or agents who, as part of their ordinary duties on behalf of a firm in the *designated firms dealing as principal fee block* (A10) commit the firm in market dealings or in transactions in securities or other investments in the course of *PRA regulated activities*, but excluding anyone working solely for the firm's multi-lateral trading facility operation.~~

pension fund management

~~means the class of contract of insurance specified in paragraph VII of Part II of Schedule 1 to the Regulated Activities Order (Contracts of long-term insurance) where effected or carried out by a person who does not carry on a banking business but otherwise carries on an insurance business~~

...

trading assets

means a *firm's* trading assets as reported to the *PRA* under item 20A of form FSA001.

~~transition costs~~

~~means the costs of establishing the *PRA* which are being recovered from firms over a period of five years from 2013/14 to 2017/18~~

~~transition costs fee block~~

~~means firms which are liable to pay *transition costs* as shown in Table II of the *Periodic Fees Schedule*~~

...

~~trustee investment plans~~

~~means the class of *contracts of insurance* specified in Class 3 of Part II of Schedule 1 to the *Regulated Activities Order* and which are invested in pooled funds beneficially owned by an *insurer* and not earmarked for individual beneficiaries by that *insurer*.~~

...

3 PERIODIC FEES

.....

3.3 *Periodic fees* payable by *firms* 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 IA of the *Periodic Fees Schedule*;
- (2) ~~a *transition costs* allocation calculated in accordance with Table II of the *Periodic Fees Schedule*~~~~deleted~~;
- (3) *periodic fees* at the rate specified in Table IIIA, subject to any modifications in Table IV and Table V, 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 IIIA of the *Periodic Fees Schedule*; and
 - (c) applying the appropriate *tariff rate* as shown in Column 4 of Table IIIA of the *Periodic Fees Schedule*;

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

- (4) an *EU withdrawal costs* allocation calculated in accordance with Table VI, subject to any modifications in Table IV and Table V, of the *Periodic Fees Schedule*;
- (5) the *ring-fencing implementation fee*; ~~and~~
- (6) the *IFRS 9 implementation fee* calculated in accordance with Table VII, subject to any modifications in Table IV, of the *Periodic Fees Schedule*; ~~and~~
- (7) a *model maintenance fee* calculated in accordance with Table VIII of the *Periodic Fees Schedule*.

3.4 The *tariff bases* and *valuation points* referred to in 3.3(3)(a) are:

(1) for *firms* in the *deposit acceptors fee block*(A1):

(a) if the *firm* is a *bank* and reports monthly, average *MELs* for October, November and December prior to commencement of the *fee year*; or

(b) if the *firm* is a *bank* and reports quarterly, *MELs* for the December prior to commencement of the *fee year*; or

(c) if the *firm* is a *building society*, average *MELs* for October, November and December prior to commencement of the *fee year*; or

(d) if the *firm* is a *credit union*, either its *MELs* for the December preceding the commencement of the *fee year* or, in the absence of December *MELs* its *MELs* as disclosed by its most recent annual return submitted for regulatory purposes prior to the December preceding commencement of the *fee year*.

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

~~(a) if the *firm* is an *insurer*, the sum of its annual *gross premium income* for and its *gross technical liabilities* at the end of of the *firm's gross written premium for fees purposes* and its *gross best estimate liabilities for fees purposes* for the *firm's* financial year which ends in the calendar year to 31 December prior to commencement of the *fee year*, ~~noting that:~~ unless the *firm* is a *UK ISVP*, in which case the *tariff base* is not relevant, and a flat fee shown in *Table IIIA* of the *Periodic Fees Schedule* is payable.~~

~~(i) In the case of a *pure reinsurer* carrying on *general insurance business* through a *branch* in the *United Kingdom*, or an *insurer* whose head office is not in an *EEA state* carrying on *general insurance business* through a *branch* in the *United Kingdom*, or an *EEA deposit insurer*, only *premiums* received and *gross technical liabilities* held in respect of its *United Kingdom* business are included;~~

~~(ii) for a *Swiss general insurance company* *premiums* and *gross technical liabilities* include those relevant to the operations of the company's *United Kingdom branch*; and~~

~~(iii) a firm need not include premiums and gross technical liabilities relating to pure protection contracts which it reports, and pays a fee on, in the A4 life insurers' fee block.~~

~~or~~

~~(b) if the firm is a non-directive friendly society, the value of contributions as income receivable in respect of United Kingdom 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 prior to commencement of the fee year;~~

~~or~~

~~(c) if the firm is a directive friendly society, the value of gross premiums written in respect of United Kingdom 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 prior to commencement of the fee year;~~

~~and~~

~~(d) for UK ISPVs, the tariff base is not relevant and a flat fee show in Table III of the Periodic Fees Schedule is payable;~~

(b) This tariff base (A3) does not include gross written premium for fees purposes and gross best estimate liabilities for fees purposes on which a composite firm reports data relevant for the life insurance fee block (A4).

(c) Where any figure used in the calculation of this tariff base (A3) is a negative number, it shall instead be deemed to be zero.

~~(3) 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 prior to commencement of the fee year noting that:~~

~~(a) only premiums receivable and mathematical reserves held in respect of United Kingdom business are relevant; and~~

~~(b) an insurer must include in its calculation of adjusted gross premium income and mathematical reserves for fees purposes the value relating to all risks ceded to ISPVs.~~

(a) for UK Solvency II firms, including composite UK Solvency II firms to the extent that they are required to report data used for this tariff base (A4), the firm's gross written premium for fees purposes and its gross best estimate liabilities for fees purposes, for the firm's financial year which ends in the calendar year to 31 December prior to commencement of the fee year;

(b) for non-directive firms, including non-directive composite firms to the extent that they come within the life insurance fee block, the tariff base is not relevant to the level of fees due and only the minimum fee as specified in Table IA of the Periodic Fees Schedule is payable.

(c) Where any figure used in the calculation of this tariff base (A4) is a negative number, it shall instead be deemed to be zero.

(4) for firms in the *Lloyd’s managing agents fee block (A5)*, *active capacity* as reported to the *Society* for the underwriting year which is in progress at the beginning of the *fee year*.

(5) for firms in the *designated firms acting as principal fee block (A10)* ~~number of traders as at 31 December prior to commencement of the fee year~~ trading assets as at 31 December preceding commencement of the fee year and the sum of the firm’s financial and operating income for the four quarters ending on or before 31 December preceding commencement of the fee year.

.....

3.6 The following requirements apply to all firms whose activities give rise to *periodic fees*, other than firms which pay only a flat rate of fee:

...

(3) for an *incoming EEA firm* or an *incoming Treaty firm* in the in the deposit acceptors fee block, the information required for the tariff base is in relation to the *regulated activities* of the firm carried on in the *United Kingdom*, other than those provided on a *cross border services* basis;

....

....

(6) Unless 3.7 or 3.9 applies, where a firm has not ~~complied with 3.6(1)~~ provided sufficient tariff data for any period by reference to which *periodic fees* are to be calculated, but a valuation is available for the previous period by reference to which *periodic fees* are to be calculated, the fee should be calculated using the tariff data applicable to the previous period multiplied by 1.10. An ~~additional~~ administration fee of £125.00 is payable in this case in addition to the minimum fee.

...

3.9 Subject to 3.10 where in:

(1) its *second fee year*; or

(2) any subsequent *fee year*,

a firm has not ~~yet submitted sufficient tariff data~~ to enable the *periodic fees* calculation at ~~3.6(1)~~ to be made in respect of that *fee year*, *periodic fees* will be calculated in accordance with Table A below

Table A	
Deposit acceptors fee block (A1)	Either: (1) If the firm is in its <i>second fee year</i> and received permission relevant to the activity between 1 January in its <i>first fee year</i> and 1 April in its <i>second fee year</i> , apply projected valuations as

	<p>set out in 3.7</p> <p>6. or</p> <p>(2) Apply the formula $(A \div B) \times 12$ to arrive at an annualised figure, where</p> <p>7. A = its <i>tariff base</i>, as if its <i>MELs</i> for the month of December prior to commencement of the relevant <i>fee year</i> were its <i>tariff base</i> for the whole <i>fee year</i>; and</p> <p>8. B = the number of complete months in the period referred to in A.</p>
<p>General insurance fee block (A3) and life insurance fee block (A4)</p>	<p>Where under 3.4, the <i>tariff base</i> for an activity is to be calculated by reference to data for the <i>firm's</i> financial year ending on the 31 December before the start of the <i>fee year</i>; a firm which has not completed a full financial year by that date should:</p> <p>(1) <u>a firm which has not completed a full financial year by the start of the <i>fee year</i> should, if it is in its <i>second fee year</i> and received its new or extended permission relevant to the activity between 1 January in its <i>first fee year</i> and 1 April in its <i>second fee year</i>, apply projected valuations as set out in 3.7; and</u></p> <p>(2) <u>if the <i>firm</i> is a <i>UK Solvency II firm</i> outside the scope of item (1) above, and the <i>PRA</i> has either:</u></p> <p>(a) <u>not received the necessary <i>tariff data</i> on a timely basis in line with the <i>firm's</i> reporting obligations under the Reporting Part; or</u></p> <p>(b) <u>deemed the <i>tariff data</i> received to be incomplete or insufficiently reliable, by reference to a specific <i>firm</i> or across all or part of a <i>fee block</i>;</u></p> <p><u>the <i>PRA</i> may use <i>tariff data</i> from the previous reporting period</u></p> <p>for</p> <p><u>the <i>periodic fees</i> calculation; and</u></p> <p>(3) <u>in any other case, apply the formula $(A \div B) \times 12$ to annualise the <i>tariff data</i> it has available, where:</u></p> <p>A = its <i>tariff base</i> calculated by reference to <i>tariff data</i> for the period starting on the date the firm received permission for the relevant activity and ending on the earlier of the 31 December prior to the start of its <i>second fee year</i> or the 31 December prior to the start of the <i>firm's</i> financial year; and</p> <p>B = the number of complete calendar months in the period referred to in A.</p>

...

3.12 Where:

(1) a firm (A) acquires all or part of the business of another *firm* (B) in relation to which a *periodic fee* would have been payable by B; or

(2) A becomes authorised as a result of B's simple change of legal status as defined in 4.5 (4), the following rules apply:

(a) if before the date of the acquisition, B had already paid the *periodic fees* in relation to the business or part of the business acquired by A, A will not pay a further fee; and

(b) if the acquisition occurs after the *valuation point* applicable to the business or part of the business acquired as set out in 3.4, A will pay *periodic fees* in relation to the period following the acquisition as if the acquisition had occurred immediately before the relevant *valuation point*.

(3) Where the acquisition involves a calculation of *periodic fees* for the A4 *life insurers fee block*:

(a) ~~when calculating the new regular premium business element of its adjusted gross premium income, A should not include business transferred from B under the procedure set out in Part VII of FSMA during the relevant financial year unless the transfer involved the creation of new contracts between the policyholders subject to the transfer and deleted;~~

(b) If any business is transferred to A from B under the procedure set out in Part VII of FSMA and that business would have been included in B's tariff base in the absence of the transfer, that business should be included in A or B's tariff base depending on the date of transfer as required by 3.12(2)(b).

(c) ~~Mathematical reserves for fees purposes~~Best estimate liabilities for fees purposes should include all new business transferred from B.

...

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 *United Kingdom* 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.~~

Model maintenance fee

3.22 3.22 to 3.23 apply to CRR firms and UK Solvency II firms.

3.23 In the fee year commencing on 1 March 2018 and subsequent fee years:

(1) The PRA will charge a model maintenance fee to recover in whole or part the annual cost to the PRA, as determined by the PRA, of monitoring, reviewing and policy development for firms' models for which permission has been granted under the CRR or the Solvency II directive.

(2) For firms with one or more models for which permission was granted before 1 March 2018, the model maintenance fee is payable for the fee year commencing on 1 March 2018 and in fee years thereafter.

(3) Where a first or additional model permission is granted to a firm on or after 1 March 2018 and during the first six months of any fee year, the model maintenance fee for that model is payable as from the commencement of the first subsequent fee year and in fee years thereafter.

(4) Where a first or additional model permission is granted to a firm on or after 1 March 2018 and during in the second six months of any fee year, the model maintenance fee for that model is payable as from the commencement of the second subsequent fee year and in fee years thereafter.

(5) The model maintenance fee is calculated in accordance with Table VIII of the Periodic Fees Schedule. This shall be the sum of all fees applicable to a CRR firm or group for each permitted model type.

(6) For composite UK Solvency II firms, the model maintenance fee shall be determined by the fee block for which the firm or group pays the largest periodic fee under 3.3(3).

(7) For models incorporating more than one UK firm, the model maintenance fee shall be determined by reference to aggregated figures for all UK firms included within the scope of that model, and shall be payable by such of those firms and in such proportions as the PRA directs.

(8) The Society shall pay a model maintenance fee equivalent to the largest fee charged to a Solvency II firm in the A3 fee block, as shown in Table VIII of the Periodic Fees Schedule.

....

**PERIODIC FEES SCHEDULE – FEE RATES AND EEA/TREATY FIRM
MODIFICATIONS FOR THE PERIOD FROM 1 MARCH 2017~~8~~ TO 28 FEBRUARY
2018~~9~~**

...

TABLE II - TRANSITION COSTS ALLOCATION

Fee payer	Tariff base for allocations to firms
All firms, except those paying only the	Total periodic fees, excluding minimum

minimum fee and <i>insurance special purpose vehicles</i>	fees, payable by the <i>firm</i> multiplied by 0.0609
---	---

...

TABLE VIII – MODEL MAINTENANCE FEES

Basis of scale, (aggregated figures for all UK firms within the scope of each model or model type)	Annual fee for CRR firms per model type (£)				Annual fee for Solvency II firms per group or solo internal model (£)	
	IMA	IMM	IRB	AMA	A3 fee block	A4 fee block
<i>CRD credit institutions with modified eligible liabilities in excess of £40,000million, or designated investment firms with trading assets in excess of £100,000million</i>	55,000	75,000	100,000	25,000	:	:
<i>CRD credit institutions with modified eligible liabilities greater than £5,000million and less than £40,000million, or designated investment firms with trading assets greater than £12,500million and less than £100,000million</i>	20,000	30,000	40,000	10,000	:	:
<i>CRD credit institutions with modified eligible liabilities of £5,000million or less, or designated</i>	8,000	12,000	16,000	4,000	:	:

<i>investment firms with trading assets of £12,500million or less</i>						
<i>Best estimate liabilities for fees purposes for firms in the general insurance fee block (A3) of £150million or more, or for firms in the life insurance fee block (A4) of £5,000million or more</i>	-	-	-	-	<u>160,000</u>	<u>210,000</u>
<i>Best estimate liabilities for fees purposes for firms in the general insurance fee block (A3) of less than £150million, or for firms in the life insurance fee block (A4) of less than £5,000million</i>	-	-	-	-	<u>65,000</u>	<u>80,000</u>

4 REGULATORY TRANSACTION FEES

...

4.14A (1) Where a *CRR firm* seeks permission to apply any model type the fee payable is as set out in Table D below.

(2) ~~The fees set out in Table D are also payable by a *CRR firm* which seeks to modify that model type once permission is granted and for guidance as to the availability of such a model type or modified model type.~~

...

Table D - Model types under CRR

Applicant (groupings based on <i>tariff data</i> submitted by firms as at 31 December in the <i>fee year</i> prior to the <i>fee year</i> in which the fee is payable).	Column 1 Fee payable (£) except where Column 2 applies	Column 2 Fee payable (£) (firm with permission for foundation approach moving to an advanced approach.)
Where the application relates	model type £	67,000.00

to CRD credit institutions or designated investment firms and includes five or more significant overseas entities within the same group	<i>advanced IRB, IMM or IMA</i>	268,000.00	
	<i>foundation IRB</i>	232,000.00	
	<i>advanced measurement approaches</i>	181,000.00	
Where, at 31 December prior to the <i>fee year</i> in which the fee is payable, the applicant: has (3) has modified eligible liabilities in excess of £40,000million; or (4) more than 200 traders <u>is a designated investment firm with trading assets in excess of £100,000million.</u>	model type	£	58,000.00
	<i>advanced IRB, IMM or IMA</i>	232,000.00	
	<i>foundation IRB</i>	198,000.00	
	<i>advanced measurement approaches</i>	146,000.00	
Where, as at 31 December prior to the <i>fee year</i> in which the fee is payable, the applicant: has (3) has modified eligible liabilities greater than £5,000million and less than £40,000million; or (4) between 26 and 200 traders <u>is a designated investment firm with trading assets greater than £15,000million and less than £100,000million.</u>	model type	£	23,500.00
	<i>advanced IRB, IMM or IMA</i>	94,000.00	
	<i>foundation IRB</i>	72,000.00	
	<i>advanced measurement approaches</i>	51,000.00	
Where, as at 31 December prior to the <i>fee year</i> in which the fee is payable, the applicant: has (3) has modified eligible liabilities of £5,000million or less; or (4) between 0 and 25 traders <u>is a designated investment firm with trading assets of £15,000million or less.</u>	model type	£	10,500.00
	<i>advanced IRB, IMM or IMA</i>	42,000.00	
	<i>foundation IRB</i>	30,000.00	
	<i>advanced measurement approaches</i>	24,000.00	

...

Table E – Internal model application fees

Applicant (groupings based on <i>tariff data</i> submitted by <i>firms</i> as at 31 December 2015 6 , and subject to any adjustments made under 3.20)	Fee payable (£)
Group Internal Model (Full and Partial)	
Sum of gross technical liabilities <u>best estimate liabilities for fees purposes</u> for groups in the general insurance fee block of £200million or more	268,000.00
Sum of gross technical liabilities <u>best estimate liabilities for fees purposes</u> for groups in the general insurance fee block less than £200million	100,000.00
Sum of mathematical reserves for fees purposes for groups in the life insurance fee block of £5,000million or more	268,000.00
Sum of mathematical reserves for fees purposes <u>best estimate liabilities for fees purposes</u> for groups in the life insurance fee block less than £5,000million	100,000.00
Solo Internal Model (Full and Partial)	
Gross technical liabilities <u>Best estimate liabilities for fees purposes</u> for firms in the general insurance fee block of £200million or more	232,000.00
Gross technical liabilities <u>Best estimate liabilities for fees purposes</u> for firms in the general insurance fee block less than £200million	80,000.00
Mathematical reserves for fees purposes <u>Best estimate liabilities for fees purposes</u> for firms in the life insurance fee block of £5,000million or more	232,000.00
Mathematical reserves for fees purposes <u>Best estimate liabilities for fees purposes</u> for firms in the life insurance fee block less than £5,000million	80,000.00

...

Appendix 3 - Draft PRA rulebook: Solvency II firms, non Solvency II firms, non authorised persons: policyholder protection instrument 2017

PRA RULEBOOK: SOLVENCY II FIRMS, NON SOLVENCY II FIRMS, NON AUTHORISED PERSONS: POLICYHOLDER PROTECTION INSTRUMENT 2017

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) of the Act;
 - (2) section 137T (General supplementary powers) of the Act;
 - (3) section 213 (The compensation scheme) of the Act;
 - (4) section 214 (General) 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 proposed rules and had regard to representations made.

PRA Rulebook: Solvency II Firms, Non Solvency II Firms, Non Authorised Persons: Policyholder Protection Instrument 2017

- D. The PRA makes the rules in the Annex.

Commencement

- E. Annex A of this instrument comes into force on [DATE].
- F. Annex B of this instrument comes into force on [DATE]¹.

Citation

- G. This instrument may be cited as the PRA Rulebook: Solvency II Firms, Non Solvency II Firms, Non Authorised Persons: Policyholder Protection Instrument 2017.

By order of the Prudential Regulation Committee

[DATE]

¹ To note, it is intended for Annex B to come in to force before Annex A.

Amendments to the Policyholder Protection 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:

...

~~relevant not premium income~~

~~means in relation to business which is not occupational pension fund management business:~~

~~(1) either (at the election of the firm):~~

~~(a) the premium income in respect of protected contracts of insurance of a firm;
or~~

~~(b) the premium income in respect of protected contracts of insurance with eligible claimants of a firm; or~~

~~(2) (in relation to occupational pension fund management business) the remuneration retained by a firm in relation to its carrying on occupational pension fund management business;~~

~~in the year preceding that in which the date for submission of the information in 21.42 falls, net of any relevant rebates or refunds.~~

...

21 FSCS LEVIES

...

21.42A (1) Unless exempt under 21.5, a participant firm must provide the FSCS by the end of May each year (or, if it has become a participant firm part way through the financial year, by the date requested by the PRA) with a statement of:

(a) the insurance class to which it belongs; and

(b) the total amount of business (measured in accordance with the appropriate tariff base or tariff bases) which it conducted, in respect of the most recent valuation period (as specified by Annex 2) ending before the relevant year in relation to each insurance class.

(2) In this rule and 21.44A the relevant year means the year in which the month of May referred to in (1) falls.

...

21.44 If a participant firm does not submit a complete statement by the date on which it is due in accordance with 21.42A and any prescribed submission procedures:

- (1) the *firm* must pay an administrative fee of £250 (but not if it is already subject to an administrative fee for non-submission of data in the same financial year required under this Part, or any other *PRA* rule or rule in the FCA Handbook); and
- (2) the *compensation costs levy* and any *specific costs levy* will be calculated using (where relevant) the valuation or valuations of business applicable to the previous period, multiplied by a factor of 1.10 (or if it has become a *participant firm* part way through the financial year, on the basis of information provided to the *PRA* for the purposes of Fees 3-6 (1) or on any other reasonable basis, making such adjustments as seem appropriate in subsequent levies once the true figures are known).

21.44A In the event of a *compensation costs levy* and any *specific costs levy* being made in a financial year of the *compensation scheme* before a *participant firm* has submitted a complete statement in accordance with 21.42A, the *compensation costs levy* and any *specific costs levy* should be calculated using the statement of business submitted in respect of the previous valuation period.

...

22 TRANSITIONAL ARRANGEMENTS

...

22.8 ...

- (2) The whole of the levy is calculated by reference to relevant net premium income (calculated in accordance with Annex 2) ~~relevant net premium income~~ instead of being split 75:25 between relevant net premium income ~~relevant net premium income~~ and eligible ~~gross technical liabilities (calculated in accordance with Annex 2)~~ or ~~mathematical reserves~~.

...

23 TRANSITIONAL ARRANGEMENTS FOR FSCS LEVY YEAR 2017/18

[deleted]

~~23.1—The rule 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.~~

~~9.—~~

~~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:~~

~~10.—~~

- ~~(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;~~

~~11.—~~

~~(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; 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.~~

~~12.—~~

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

~~13.—~~

~~(1) 21.24 shall not apply to the calculation of the levies of a *firm* (A) for the FSCS 2017/18 financial year, where A falls within 21.24(1)(a)(i);~~

~~14.—~~

~~(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 2017/18 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 2017/18 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 subsequently financial years, *participant firms* will comply with the request 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.~~

ANNEX 2: METHODOLOGY FOR CALCULATION OF A PARTICIPANT FIRM’S LEVY SHARE

Insurance Class B1	General Insurance Provision
Firms with permission for:	(1) <i>effecting contracts of insurance</i> ; and/or (2) <i>carrying out contracts of insurance</i> ; that are contracts of <i>general insurance</i> .

Tariff base	Insurance Class B1: Relevant net premium income Relevant net premium income and eligible gross technical liabilities. The levy is split into two in the ratio 75:25. The tariff base for the first portion (75%) is calculated by reference to relevant net premium income : relevant net premium income. The tariff base for the second portion (25%) is based on eligible gross technical liabilities.
	<u>Relevant net premium income is calculated in accordance with the method applicable to the firm for calculating 'gross written premium for fees purposes' in Fees 1.2 and Fees 3.4 (2) (c) with the following adjustments:</u>
	(1) <u>Relevant net premium income is calculated by reference to either (at the election of the firm):</u> <p style="text-align: center;">(a) <u>the premium income in respect of protected contracts of insurance of a firm; or</u></p> <p style="text-align: center;">(b) <u>the premium income in respect of protected contracts of insurance with eligible claimants of a firm;</u></p> <u>in the year preceding that in which the date for submission of the information under 21.42A falls, net of any relevant rebates or refunds.</u>
	(2) <u>If an incoming EEA firm does not report relevant net premium income in the way contemplated in this table, the participant firm's relevant net premium income is calculated in the same way as they would be for a UK firm.</u>
	Eligible gross technical liabilities are calculated in accordance with the method <u>applicable to the firm</u> for calculating ' <u>best estimate gross technical liabilities for fees purposes</u> ' in Fees 1.2 and Fees 3.4 (2) (c) 3.4 (2) (a) (i) – (iii) and (b), (c) and (d) with the following adjustments:
	(1) Eligible gross technical liabilities are calculated by reference to <u>protected contracts of insurance with eligible claimants.</u>
	(2) A participant firm may choose not to apply paragraph (1) and instead include all gross technical liabilities that it would be obliged to take into account for fee block A3 as long as the amount that it would include under (1) is lower.

	(3) If an <i>incoming EEA firm</i> does not report gross technical liabilities in the way contemplated by this table, the <i>participant firm's gross technical liabilities</i> are calculated in the same way as they would be for a <i>UK firm</i> .
	(4) the notes for the calculation of fees in fee block A3 in Fees 3.4 (2) (a) (i) – (iii) and (d) do not apply except for the purposes of (2).
	(4) A <i>directive friendly society</i> must also calculate eligible gross technical liabilities in accordance with this table.
	(5) A <i>non-directive friendly society</i> must calculate gross technical liabilities as the amount that it is required to show in FSC 2 or FSC 1 - Form 9 line 11 in Appendix 10 of IPRU(FSOC) of the PRA Handbook as at 31 December 2015 <u>Friendly Society – Reporting 4.1</u> (Other than long-term insurance business assets allocated towards the general insurance business required minimum margin) in relation to the most recent financial year of the <i>participant firm</i> (as at the applicable reporting date under 21.42A) for which the <i>participant firm</i> is required to have reported that information to the PRA under IPRU(FSOC) of the PRA Handbook as at 31 December 2015 <u>Friendly Society – Reporting</u> . A <i>non-directive friendly society</i> must disregard for this purpose such amounts as are not required to be included by reason of a waiver or a written concession carried forward as an amendment to the rule to which it relates under SUP TP of the PRA Handbook .

Insurance Class C1	Life and Pensions Provision
Firms with permission for:	(1) <i>effecting contracts of insurance</i> ; and/or (2) <i>carrying out contracts of insurance</i> ; that are <i>contracts of long-term insurance</i> (including <i>pure protection contracts</i>).
Tariff base	Insurance Class C1: Relevant net premium income <u>Relevant net premium income</u> and eligible liabilities mathematical reserves . The levy is split into two in the ratio 75:25. The tariff base for the first portion (75%) is calculated by reference to <u>relevant net premium income</u> relevant net premium income . The tariff base for the second portion (25%) is based on <u>eligible liabilities mathematical reserves</u> .

	<p>Relevant net premium income is calculated in accordance with the method applicable to the <i>firm</i> for calculating 'gross written premium for fees purposes' in Fees 1.2 and Fees 3.4 (3) (c) with the following adjustments:</p>
	<p>(1) In relation to business which is not <i>occupational pension fund management business</i>, relevant premium income is calculated by reference to either (at the election of the <i>firm</i>):</p> <p>(a) the premium income in respect of <i>protected contracts of insurance of a firm</i>; or</p> <p>(b) the premium income in respect of <i>protected contracts of insurance with eligible claimants of a firm</i>; or</p> <p>(2) In relation to <i>occupational pension fund management business</i> the remuneration retained by a <i>firm</i> in relation to its carrying on <i>occupational pension fund management business</i>; in the year preceding that in which the date for submission of the information under 21.42A falls, net of any relevant rebates or refunds.</p>
	<p>(3) A <i>participant firm</i> which is a non-directive insurer, excluding a <i>non-directive friendly society</i> must calculate relevant net premium income as the amount it is required to show in Form 41, line 19, column 4 in Insurance Company – Reporting 13.1 in relation to the most recent financial year of the <i>firm</i> (as at the applicable reporting date under 21.42A) for which the <i>firm</i> is required to have reported that information to the PRA under Insurance Company – Reporting 5.7.</p>
	<p>(4) A <i>participant firm</i> which is a <i>non-directive friendly society</i> must calculate relevant net premium income as the income and expenditure account entry for gross premium written or contributions as income receivable, as appropriate under the Friendly Society (Accounts and Related Provisions) Regulation 1994.</p>
	<p>(5) If an <i>incoming EEA firm</i> does not report relevant net premium income in the way contemplated in this table, the <i>participant firm's</i> relevant premium income is calculated in the same way as they would be for a <i>UK firm</i>.</p>
	<p>Eligible liabilities mathematical reserves are calculated in accordance with the method applicable to the <i>firm</i> for calculating 'best estimate liabilities mathematical reserves for fee purposes' as defined in Fees 1.2 and Fees 3.4(3)-(c) with the following adjustments:</p>
	<p>(1) Eligible liabilities mathematical reserves are calculated by reference to <i>protected contracts of insurance with eligible claimants</i>.</p>

	(2) A <i>participant firm</i> may choose not to apply paragraph (1) and instead include all liabilities mathematical reserves that it would be obliged to take into account for fee block A4 as long as the amount that it would include under (1) is lower.
	(3) If an <i>incoming EEA firm</i> does not report liabilities mathematical reserves in the way contemplated by this table, the <i>participant firm's liabilities mathematical reserves</i> are calculated in the same way as they would be for a <i>UK firm</i> .
	(4) The notes for the calculation of fees in the A4 fee block in Fees 3.4 (3) (a) and (b) do not apply except for the purposes of (2).
	(4) A <i>directive friendly society</i> must also calculate eligible liabilities mathematical reserves in accordance with this table.
	(5) A <i>participant firm</i> which is a non-directive insurer, excluding a <i>non-directive friendly society</i> must calculate liabilities as the amount it is required to show in Form 14, line 11, column 1 (mathematical reserves after distribution of surplus) in Insurance Company – Reporting 13.1 in relation to the most recent financial year of the <i>firm</i> (as at the applicable reporting date under 21.42) for which the <i>firm</i> is required to have reported that information to the <i>PRA</i> under Insurance Company – Reporting 5.5.
	(6) A <i>non-directive friendly society</i> must calculate liabilities mathematical reserves as the amount that it is required to show in FSC 2 or FSC 4 - Form 9 line 23 in Appendix 10 of IPRU(FSOC) of the <i>PRA Handbook</i> as at 31 December 2015-Friendly Society – Reporting 4.1 (total mathematical reserves after distribution of surplus) in relation to the most recent financial year of the <i>firm</i> (as at the applicable reporting date under 21.42A) for which the firm is required to have reported that information to the <i>PRA</i> under Friendly Society – Reporting IPRU(FSOC) of the <i>PRA Handbook</i> as at 31 December 2015 . A <i>non-directive friendly society</i> must disregard for this purpose such amounts as are not required to be included by reason of a <i>waiver</i> or a written concession carried forward as an amendment to the rule to which it relates under [SUP TP of the <i>PRA Handbook</i>].
	(7) The references to corporate pension business pension fund management business in business in the definition of 'mathematical reserves-best estimate liabilities for fees purposes' in Fees 1.2 do not apply.-The split in the levy between relevant net premium income and eligible liabilities does not apply to a <i>participant firm</i> undertaking <i>occupational pension fund management</i> business that does not carry out any other activities within <i>insurance class C1</i> (ignoring any activities that would have a wholly insignificant effect on the calculation of its tariff base for <i>insurance class C1</i>). Instead the levy is only calculated by reference to relevant net premium income. A <i>participant firm</i> undertaking such business that does not carry out any other activities within <i>insurance class C1</i> (ignoring any activities that would have a wholly insignificant effect on the calculation of its tariff base for <i>insurance class C1</i>) must use its long-term insurance capital requirement instead of gross technical liabilities. The Long-term insurance capital requirement means the

	<p>amount that it is required to show as its long-term insurance capital requirement in Form 2 Line 31 (Statement of solvency – long-term insurance business) in relation to the most recent financial year of the <i>participant firm</i> (as at the applicable reporting date under 21.42) for which the <i>participant firm</i> is required to have reported that information to the PRA.</p>
	<p>(8) The split in the levy between <u>relevant net premium income</u> relevant net premium income and eligible <u>liabilities</u> mathematical reserves does not apply to a <i>flat rate benefits business friendly society</i> or a partnership pension society (as defined in <u>Friendly Society – Reporting</u> chapter 7 of IPRU(FSOC) (Definitions) of the <i>PRA Handbook</i>) as at 31 December 2015. Instead the levy is only calculated by reference to <u>relevant net premium income</u> relevant net premium income.</p>

Annex B

Amendments to the Policyholder Protection Part

In this Annex deleted text is struck through.

21 FSCS LEVIES

...

21.42 ~~[Deleted]~~

~~(1) Unless exempt under 21.5, a *participant firm* must provide the FSCS by the end of February each year (or, if it has become a *participant firm* part way through the financial year, by the date requested by the PRA) with a statement of:~~

~~(a) the *insurance class* to which it belongs; and~~

~~(b) the total amount of business (measured in accordance with the appropriate tariff base or tariff bases) which it conducted, in respect of the most recent valuation period (as specified by Annex 2) ending before the relevant year in relation to each *insurance class*.~~

~~(2) In this rule the relevant year means the year in which the *month* of February referred to in (1) falls.~~

...