



BANK OF ENGLAND  
PRUDENTIAL REGULATION  
AUTHORITY

Consultation Paper | CP28/18

# PRA fees and levies: Changes to periodic and transaction fees

November 2018



BANK OF ENGLAND  
PRUDENTIAL REGULATION  
AUTHORITY

Consultation Paper | CP28/18

# PRA fees and levies: Changes to periodic and transaction fees

November 2018

By responding to this consultation, you provide personal data to the Bank of England. This may include your name, contact details (including, if provided, details of the organisation you work for), and opinions or details offered in the response itself.

The response will be assessed to inform our work as a regulator and central bank, both in the public interest and in the exercise of our official authority. We may use your details to contact you to clarify any aspects of your response.

The consultation paper will explain if responses will be shared with other organisations (for example, the Financial Conduct Authority). If this is the case, the other organisation will also review the responses and may also contact you to clarify aspects of your response. We will retain all responses for the period that is relevant to supporting ongoing regulatory policy developments and reviews. However, all personal data will be redacted from the responses within five years of receipt. To find out more about how we deal with your personal data, your rights or to get in touch please visit [bankofengland.co.uk/legal/privacy](http://bankofengland.co.uk/legal/privacy).

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure to other parties in accordance with access to information regimes including under the Freedom of Information Act 2000 or data protection legislation, or as otherwise required by law or in discharge of the Bank's functions.

Please indicate if you regard all, or some of, the information you provide as confidential. If the Bank of England receives a request for disclosure of this information, we 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.

Responses are requested by Monday 7 January 2019.

**Please address any comments or enquiries to:**

Alexander Zaremba  
Prudential Regulation Authority  
20 Moorgate  
London  
EC2R 6DA

Email: [CP28\\_18@bankofengland.co.uk](mailto:CP28_18@bankofengland.co.uk)

## Contents

<b>1</b>	<b>Overview</b>	<b>1</b>
<b>2</b>	<b>Periodic fees</b>	<b>2</b>
<b>3</b>	<b>Regulatory transaction fees</b>	<b>4</b>
<b>4</b>	<b>Other changes to the PRA fees rules</b>	<b>5</b>
<b>5</b>	<b>Supervisory Statement</b>	<b>6</b>
<b>6</b>	<b>The PRA's statutory obligations</b>	<b>6</b>
	<b>Appendices</b>	<b>10</b>

## 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 for general and life insurers;
- Part VII transaction fees for insurers;
- internal model application fees for insurers;
- internal model application and model maintenance fees for DIFs;
- rules relating to the provision of relief from PRA fees in exceptional circumstances;
- other minor corrections to PRA fees rules; and
- updates to Supervisory Statement (SS) 3/16 'Fees: PRA approach and application'.

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. Other changes set out in the CP are intended to ensure that fees relating to Solvency II models are applied consistently.

1.3 This CP is relevant to all PRA-regulated firms but particularly insurers and DIFs, as well as firms which have, or intend to apply in the future for, Solvency II<sup>1</sup> or Capital Requirements Regulation (CRR)<sup>2</sup> models. This CP is in addition to the usual, annual consultation on fees.

### Background

1.4 In June 2018, the PRA published Policy Statement (PS) 13/18 'Regulated fees and levies: rates for 2018/19',<sup>3</sup> 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 EU withdrawal fee for the financial period 1 March 2018 to 28 February 2019. This consultation has been published after that PS to ensure 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 Appendix 1 of this CP. Appendix 2 sets out a revised draft of SS3/16 'Fees: PRA approach and application'.

### Implementation

1.6 The proposed implementation date for the proposals contained in this consultation is Friday 1 March 2019.

---

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

<sup>2</sup> Capital Requirements Regulation (575/2013) (CRR).

<sup>3</sup> June 2018: <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/regulated-fees-and-levies-rates-proposals-2018-19>.

## Responses and next steps

1.7 This consultation closes on Monday 7 January 2019. The PRA invites feedback on the proposals set out in this consultation. Please address any comments or enquiries to [CP28\\_18@bankofengland.co.uk](mailto:CP28_18@bankofengland.co.uk).

## 2 Periodic fees

### Designated investment firms (DIFs)

2.1 This section sets out proposals for a revised approach for calculating periodic fees paid by DIFs in the A10 fee block (designated firms dealing as principal fee block), starting in the 2019/20 fee year.

#### Revised basis for setting periodic fees

2.2 The periodic fee-tariff basis for DIFs is currently determined by the size of a firm's 'trading assets' and 'financial and operating income' as defined by the FSA001 and FSA002 returns. However, from January 2018, these returns have been replaced by FINREP forms, which have different reporting items.

2.3 To adjust for the change in reported data available, the PRA is proposing that for the 2019/20 fee year onwards, DIFs should pay PRA periodic fees based on a firm's:

- 'Total assets' as at 31 December of each year, defined by item F01.01-380-010 in the FINREP returns; and
- 'Total operating income' for the four quarters ending on or before 31 December, defined by F02.00-355-010 in the FINREP returns.

2.4 The main difference between the old and the new bases is the broadening of the definition of the asset item from 'trading assets' to 'total assets'. This reflects the fact that it is not possible to derive simply an equivalent 'trading assets' measure from the new FINREP returns. It will also have the benefit of minimising the impact on fees from the attribution of assets between the trading and non-trading books.

#### Transitional arrangements

2.5 For DIFs that have complied with reporting obligations but have reported less than four quarters of data (for example, because they have a financial year finishing after end-December 2018), the PRA proposes to pro-rata the relevant FINREP data reported by these firms, to determine an estimate of annual operating income data for the full calendar year.

#### Indicative fee rates

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 £2.3 per £1 million of 'total assets' and £273 per £1 million of 'total operating income' for the 2018/19 fee year, if these proposals had been in place at the time (using reported 2018 FINREP data).

#### Insurance firms

2.7 This section sets out proposals for revising the approach to calculating the periodic fees paid by general insurers and life insurers in the A3 and A4 fee blocks respectively, starting in the 2019/20 fee year.

## Background

2.8 The PRA introduced a revised basis for determining periodic fees for insurance firms in PS28/17<sup>4</sup> following the introduction of Solvency II. In PS28/17, the PRA also said that it would revisit the fees methodology for insurers in 2018, to ensure the approach resulted in firms paying an appropriate fee, and to consider further options for determining the allocation of fees to insurers following feedback received on CP16/17.<sup>5</sup>

2.9 In light of this consideration, the PRA sets out in this CP some proposed changes which are intended to better align the fees methodology for insurers to the level of risk posed by individual firms to the PRA's objectives, and to those firms making the biggest call on the PRA's resources. As part of its review, the PRA considered a broader set of changes but felt these could result in increased complexity to the fees rules, higher administrative costs (which would need to be passed on to firms) and/or an unfair burden on some firms, without providing material benefits in sensitivity. The PRA also noted that a number of other measures introduced in the past year had already led to greater risk sensitivity in PRA fees for insurers. These measures included:

- the introduction of Solvency II model application fees and the model maintenance fee, to ensure those firms using Solvency II models pay for the additional supervisory costs associated with authorising, assessing and reviewing these models; and
- greater use of implementation fees, special project fees for restructuring (SPFs) and transaction fees, which will also help to ensure supervisory costs are directed towards firms generating material volumes of work outside of business-as-usual supervision.

## Weightings between premiums and liabilities

2.10 Currently, premiums (defined as 'gross written premiums for fees purposes' (GWP)) determine 75% of a life insurer's periodic fee and 90% of a general insurer's periodic fee, with liabilities (defined as 'best estimate liabilities for fees purposes' (BEL)), determining the remainder. In CP16/17, the PRA proposed increasing the weighting for liabilities (relative to premiums) for determining fees for both general and life insurers to better reflect the PRA's responsibilities as a prudential regulator and how it assesses the riskiness of firms. This reflected the fact that liabilities can be a better proxy for the size of some insurers (and the risks they pose to the PRA's safety and soundness and policyholder protection objectives) than measures of premiums, particularly for firms that do little new business. In PS28/17, in light of feedback received on CP16/17, the PRA said it would leave the weightings unchanged for the time being but would look at the issue again in 2018.

2.11 Having further considered the issue, the PRA believes there would be benefit in changing the fee weightings for life insurers by increasing the liabilities component. This reflects the fact that there are some life insurers with large annuity books but writing little new business that pay relatively low fees compared with the risks they pose to the PRA's safety and soundness and policyholder protection objectives. The PRA is therefore proposing that fees for life insurers should be based on weightings of 60:40 premiums-to-liabilities, compared with the current approach of 75:25. This will increase the fees of firms that write relatively little new business during the year, while ensuring those firms that are writing substantial new premiums in a year still pay a fee that reflects the risks associated with this business.

<sup>4</sup> 'PRA fees and levies: model transaction fees, fees and FSCS levies for insurers and fees for designated investment firms', December 2017: <https://www.bankofengland.co.uk/prudential-regulation/publication/2017/pr-a-fees-and-levies> (page 1 of 2).

<sup>5</sup> 'PRA fees and levies: model transaction fees, fees and FSCS levies for insurers and fees for designated investment firms', August 2017: <https://www.bankofengland.co.uk/prudential-regulation/publication/2017/pr-a-fees-and-levies> (page 2 of 2).

2.12 For general insurers, the PRA considers that the current weightings are already appropriate. For most general insurers, fees are already fairly closely aligned with the riskiness individual firms pose to the PRA's objectives and the supervisory resources allocated to firm. Changing the weightings will have little impact on fees paid for most general insurers, except for a small number of firms in long-term run off which generally pose lower risk to the PRA's objectives.

#### Indicative fee rates

2.13 To help firms assess the impact of the change in weightings, the PRA has estimated that life insurers would have paid fees at an approximate rate of £204.0 per £1 million of GWP and £12.6 per £1 million of BEL, had the new weightings been in place for the 2018/19 fee year.

#### Unit-linked business

2.14 The current approach for determining fees for life insurers does not differentiate between types of life business, except for corporate pensions business, which is excluded from the fees calculation. When assessing firms however, the PRA considers that unit-linked business generally poses lower risks to its safety and soundness and policyholder protection objectives than with-profits or non-profit business. This reflects the fact that insurance firms are usually less exposed to underwriting risk for unit-link business.

2.15 While fees are intended to be only a proxy for the amount of work required for each firm and cannot be precisely calibrated to the risks posed by each type of business, the PRA believes it would be appropriate to reduce the contribution of unit-linked business for determining fees for life insurers relative to with-profits, or non-profit business. The PRA is therefore proposing to introduce a scaling factor of x0.65 for unit-linked business (as defined for the reporting template S.14.01.01) for PRA fees purposes. The scaling factor will apply for both GWP and BEL. Corporate pensions business that is unit-linked will continue to be excluded from the calculation of fees for life insurers.

#### Indicative fee rates

2.16 To help firms assess the impact of the introduction of the scaling factor for unit-linked business, the PRA has estimated that life insurers would have paid fees at an approximate rate of £321.6 per £1 million of GWP (adjusted by the x0.65 scaling factor for unit-linked business) and £9.6 per £1 million of BEL (adjusted by the x0.65 scaling factor for unit-linked business) had the proposed changes been in place. This does not include the effect of the change in weightings set out in paragraphs 2.10-2.12 above.

## 3 Regulatory transaction fees

### Regulatory transaction fees for insurance business transfers under Part VII Financial Services and Markets Act 2000 (FSMA)

3.1 Part VII transfers by insurers are currently subject to a transaction fee of £9,250 for 'long-term business transfers', and £5,000 for 'all other transfers'. However, these charges do not reflect the cost to the PRA of processing these transactions. Significant PRA resources are required in reviewing the scheme documentation, and involve actuarial and legal support in addition to the supervisory resource.

3.2 In addition, the split between 'long-term business transfers' and 'all other transfers' no longer provides an accurate reflection of the associated supervisory work, with other business transfers (typically of general insurance business) just as likely to be complex and requiring significant amounts of work as transfers of long-term business.

3.3 On this basis, the PRA proposes to replace the current ‘two-fee approach’ with a single PRA fee for all Part VII insurance transfers, set at £20,000. The £20,000 fee is the approximate average cost to the PRA in processing a transaction across all Part VII types, and will apply to all Part VII applications.

3.4 Increasing the Part VII transaction fee to a level representative of the PRA’s costs in processing these applications should help to ensure these costs are allocated to those firms calling most on the PRA’s resources. It will improve the fairness in the PRA’s fee allocation by ensuring these costs are not borne by firms which do not undertake such transactions.

### **Internal model application fees for insurers**

3.5 The annual model maintenance fee (MMF) payable by insurers using internal models is determined by the sum of a firm’s BEL and GWP. In contrast, the model application fee payable by insurers when they apply for a new internal model is determined by the size of a firm’s BEL only. The PRA proposes to remove this inconsistency so that the new model application fee for insurers is also determined by the sum of a firm’s BEL and GWP.

3.6 In addition, the new internal model application fee for insurers has two size bands (which determine the fee payable by each firm), whereas the MMF has three size bands. The PRA proposes to make this consistent across all model fees by introducing a third lower band for new insurance model applications based on the same thresholds that determine MMFs.

3.7 The introduction of the additional lower band should help to ensure that smaller and less complex firms pay a lower model application fee. The calibration of the higher bandings is not expected to change the model application fee paid by larger firms.

### **Internal model application fees and the model maintenance fee for designated investment firms**

3.8 Model application fees and the MMF for DIFs are currently based on the size of a firm’s ‘trading assets’, as determined by the FSA001 return. The FSA001 return has now been discontinued. Consistent with the proposals set out for periodic fees for DIFs in Chapter 2, the PRA is proposing to change the basis for determining both model application fees and the model maintenance fees from ‘trading assets’ to ‘total assets’ as defined by item F01.01-380-010 in the FINREP return. The PRA is proposing to leave the thresholds for both the model application and model maintenance fee unchanged from those set out in Table VIII and Table D of the Fees Rules.

## **4 Other changes to the PRA fees rules**

### **Relieving provision**

4.1 The PRA Rules (Fees 2.9) currently states that, in exceptional circumstances, the PRA may waive or reduce a fee payable if it would be inequitable to require (or retain) payment. The PRA proposes to amend the Rules to make clear that any decision to waive a fee by the PRA would be undertaken under the powers set out by FSMA s138A. This change requires consequential amendments to Rules 2.10 and 3.14, which have also been rewritten to improve their clarity.

## Duplication of ring-fencing implementation fee definition

4.2 Fees 3.5(2) of the PRA Rulebook gives a duplicative definition of the ring-fencing implementation fee. The PRA therefore proposes to delete this rule.

## Ceding insurer's waiver

4.3 Fees 4.11 sets out a fee for a ceding insurer applying for a waiver in relation to a UK insurance purpose vehicle (ISPV). This rule is no longer relevant (following the introduction of the ISPV regime),<sup>6</sup> therefore the PRA proposes to delete this rule.

## 5 Supervisory Statement

5.1 The PRA is proposing to make a small number of updates to SS3/16 'Fees: PRA approach and application'<sup>7</sup> to reflect recent and proposed changes to the PRA's fees approach, including the:

- addition of information on use of the relieving provision and the types of large 'one-off' reinsurance transactions that may be suitable for relief from PRA fees;
- addition of references to the model maintenance fee; and
- deletion of an obsolete cross-reference to Fees 4.11.

5.2 These updates are set out in Appendix 2.

## 6 The PRA's statutory obligations

6.1 In carrying out its policy making functions, the PRA is required to comply with several legal obligations.

6.2 Before making any rules, the Financial Services and Markets Act 2000 (FSMA)<sup>8</sup> requires the PRA to publish a draft of the proposed rules accompanied by:

- a cost benefit analysis;
- 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,<sup>9</sup> insurance objective<sup>10</sup> (if applicable), and secondary competition objective;<sup>11</sup>
- 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;<sup>12</sup> and
- a statement as to whether the impact of the proposed rules will be significantly different to mutuals than to other persons.<sup>13</sup>

<sup>6</sup> <https://www.bankofengland.co.uk/prudential-regulation/authorisations/insurance-special-purpose-vehicles>.

<sup>7</sup> <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2017/ss316-update>.

<sup>8</sup> Section 138J of FSMA.

<sup>9</sup> Section 2B of FSMA.

<sup>10</sup> Section 2C of FSMA.

<sup>11</sup> Section 2H(1) of FSMA.

<sup>12</sup> Sections 2H(2) and 3B of FSMA.

<sup>13</sup> Section 138K of FSMA.

6.3 The Prudential Regulation Committee (PRC) should have regard to aspects of the Government's economic policy as recommended by HM Treasury.<sup>14</sup>

6.4 The PRA is also required by the Equality Act 2010<sup>15</sup> to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out its policies, services and functions.

### Cost benefit analysis

6.5 The PRA is exempt from having to carry out a cost benefit analysis on its draft fee rules.<sup>16</sup>

### Compatibility with the PRA's objectives

6.6 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.

6.7 The PRA considers that the draft PRA Fees Amendment Instrument 2019 set out in Appendix 1 will enable the PRA to fund the regulatory activities required to advance its statutory objectives. The proposed fee arrangements for the model application fee, the model maintenance fee and the revision to the periodic fee methodology for life insurers are not expected to have a material impact on the PRA's secondary competition objective since the PRA's costs will be spread proportionately across its 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.<sup>17</sup>

### Regulatory principles

6.8 In making its rules and establishing its practices and procedures, the PRA must have regard to the regulatory principles. This involves assessing which, if any, of the regulatory principles apply to its proposals and ensuring that they are aligned. The PRA considers the proposals in this CP to be compatible with the PRA's duties under the regulatory principles in section 3B of FSMA and in the Regulators' Code,<sup>18</sup> in particular:

- 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 in a proportionate way through the use of fee blocks that take into account the size and nature of our regulated community;
- the desirability where appropriate of each regulator exercising its functions in a way that recognises differences in the nature of, and objectives of, businesses carried on by

<sup>14</sup> Section 30B of the Bank of England Act 1998.

<sup>15</sup> Section 149.

<sup>16</sup> Section 138J(6)(d) FSMA.

<sup>17</sup> Section 138J(2) FSMA.

<sup>18</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/300126/14-705-regulators-code.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/300126/14-705-regulators-code.pdf).

different persons – by giving separate consideration to the interests of minimum fee payers and firms not affected by certain PRA activities; and

- the regulators should exercise their functions as transparently as possible – by clearly setting out the basis on which the proposed fees are calculated and providing advance notice of the proposed changes to its fees and charges.

### Impact on mutuals

6.9 The PRA considers that the impact of the proposed rule changes on mutuals is expected to be no different from the impact on other firms.

### HM Treasury recommendation letter

6.10 HM Treasury has made recommendations to the PRC about aspects of the Government's economic policy to which the PRC should have regard when considering how to advance the PRA's objectives and apply the regulatory principles.<sup>19</sup>

6.11 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

6.12 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.

#### Competition

6.13 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 model maintenance 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

6.14 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, PRA fees will not act as a barrier to the growth of the financial services sector.

---

<sup>19</sup> Information about the PRC and the recommendations from HM Treasury are available on the Bank's website at: <https://www.bankofengland.co.uk/about/people/prudential-regulation-committee>.

### **Competitiveness**

6.15 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**

6.16 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.

### **Equality and diversity**

6.17 The PRA considers that the proposals do not give rise to equality and diversity implications.

## Appendices

- 
- 1 Draft PRA FEES AMENDMENT INSTRUMENT 2019**
  - 2 Revised draft SS3/16 'Fees: PRA approach and application'**
-

## **Appendix 1 – Draft PRA FEES AMENDMENT INSTRUMENT 2019**

### **PRA RULEBOOK: PRA FEES AMENDMENT INSTRUMENT 2019**

#### **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**

- 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 2019.

#### **By order of the Prudential Regulation Committee**

[DATE]

## Annex

### Amendments to the Fees Part

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

#### 1 APPLICATION AND DEFINITIONS

---

...

1.2 In this Part, the following definitions shall apply:

...

*best estimate liabilities for fees purposes*

means:

...

- (3) for *UK Solvency II firms* in the *life insurance fee block (A4)*, the sum of items entered under row codes R0010 and R0030, column codes C0150 and C0210, minus the sum of items entered under row codes R0010 and R0030, column codes C0090, C0140 and C0190 of the *annual quantitative reporting template S12.01.01*, minus *corporate pensions business* reported under column code C0180 of the *annual quantitative reporting template S14.01.01*, and minus 0.35 x *unit-linked business* which is not also *corporate pensions business* reported under column code C0180 of the *annual quantitative reporting template S14.01.01*, as reported to the PRA.

...

*corporate pensions 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 business reported using product ID codes 300-322 for the *annual quantitative reporting template S14.01.01*.~~

...

~~*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 written premium for fees purposes*

means:

...

- (3) for *UK Solvency II firms* in the *life insurance fee block (A4)*, the item entered under row code R1410, column code C0300 of the *annual quantitative reporting template S05.01.01* minus *corporate pensions business* as reported to the PRA under column code C0060 of the *annual quantitative reporting template S14.01.01*, and minus 0.35 x

unit-linked business which is not also corporate pensions business reported under column code C0060 of the annual quantitative reporting template S14.01.01, as reported to the PRA.

...

~~non-trading book assets for fees purposes~~

~~means total non-trading book assets as reported to the PRA under item 20B of form FSA001 minus £500 million.~~

...

total assets for fees purposes

means for firms in the designated firms acting as principal fee block (A10), the sum of the firm's assets as recorded at row 380 of data item template 1.01 of Annex III of the Supervisory Reporting ITS.

total operating income for fees purposes

means for firms in the designated firms acting as principal fee block (A10), the sum of the firm's net operating income as recorded at row 355 of data item template 2 of Annex III of the Supervisory Reporting ITS.

...

~~trading assets~~

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

...

unit-linked business

means business reported using product ID codes 102, 112, 122, 132, 202, 212, 222, 232, 302, 312, 322, 622, and 722 for the annual quantitative reporting template S14.01.01.

...

## 2 OBLIGATION TO PAY FEES

---

...

Relieving provisions

2.9 If it appears to ~~the PRA~~ a firm in relation to any fee that in the exceptional circumstances of a particular case ~~it would be inequitable to require payment or to retain sums previously paid~~ requiring payment or retaining a sum previously paid would be unduly burdensome or would not achieve the purpose for which the fee rule was made, it ~~a firm may at its discretion~~ apply to the PRA under section 138A FSMA for the PRA to:

- (1) waive the payment;
- (2) reduce the amount payable; or
- (3) ~~offer~~ make a whole or partial refund of sums already paid.

- 2.10 ~~The PRA will not consider a~~ A claim by a fee payer for waiver, reduction or refund under section 138A FSMA, in accordance with 2.9 and based on the fee payer's error if the claim is made more than must be made within two years after of the beginning of the period to which the fee relates.

### 3 PERIODIC FEES

---

...

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

...

- (5) for firms in the *designated firms acting as principal fee block (A10)*, ~~trading assets~~ total assets for fees purposes as at 31 December preceding commencement of the *fee year* and the ~~sum of the firm's financial and operating income~~ total operating income for fees purposes for the four quarters ending on or before 31 December preceding commencement of the *fee year*.

...

- (7) For firms in the *designated firms acting as principal fee block (A10)*, if, despite a firm having complied with its reporting obligations, fewer than four quarters of data for *total operating income for fees purposes* have been reported to the PRA, the arithmetic mean of the reported data shall be calculated, and multiplied by 4.

- 3.5 The periodic fees payable by:

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

(2) ~~fee-payers subject to the ring-fencing implementation fee are as specified in 3.18; and~~ [deleted]

(3) [deleted-]

...

No waiver or refund of periodic fees after start of fee year

- 3.14 ~~Other than where the PRA exercises the discretion in 2.9 it will not waive liability for, or refund, periodic fees. If, after the start of the fee year to which they relate should the~~ a firm applies to cancel its Part 4A permission or if the a new business activity or event which has given rise to the a fee no longer applies to the firm, the firm is still liable to pay and will not be refunded periodic and other fees for that fee year, other than in cases where the PRA exercises its discretion under section 138A FSMA, in accordance with 2.9.

...

Model maintenance fee

...

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

...

(8) 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 usually be payable by the *firm* which pays the largest *periodic fee* under 3.3(3) or otherwise by such *firms* and in such proportions as the *PRA* directs. To facilitate the aggregation calculation where a model incorporates one or more *CRD credit institutions* and one or more *designated investment firms* within its scope, for each *designated investment firm* which is also a *UK firm*, ~~trading assets~~ total assets for fees purposes shall be rounded to the nearest £1million, and each £1million of ~~trading assets~~ total assets for fees purposes shall be deemed equivalent to £0.4million in *modified eligible liabilities*. Total *modified eligible liabilities* shall then be added together for all *UK firms* within scope of the model.

...

**PERIODIC FEES SCHEDULE – FEE RATES AND EEA/TREATY FIRM MODIFICATIONS FOR THE PERIOD FROM 1 MARCH 2018 TO 28 FEBRUARY 2019**

...

**TABLE VIII – MODEL MAINTENANCE FEES**

Basis of scale, (aggregated figures for all <i>UK firms</i> within the scope of each model or model type)	Annual fee for <i>CRR firms</i> per model type (£)				Annual fee for UK <i>Solvency II firms</i> per group or solo internal model (£)	
	IMA	IMM	IRB	AMA	A3 fee block	A4 fee block
<i>CRD credit institutions</i> with <i>modified eligible liabilities</i> in excess of £40,000million, or <i>designated investment firms</i> with <del>trading assets</del> <u>total assets for fees purposes</u> in excess of £100,000million	55,000	75,000	100,000	25,000	-	-

CRD credit institutions with modified eligible liabilities greater than £5,000million and less than £40,000million, or designated investment firms with <del>trading assets</del> <u>total assets for fees purposes</u> greater than £12,500million and less than £100,000million	20,000	30,000	40,000	10,000	-	-
CRD credit institutions with modified eligible liabilities of £5,000million or less, or designated investment firms with <del>trading assets</del> <u>total assets for fees purposes</u> of £12,500million or less	8,000	12,000	16,000	4,000	-	-
...	...	...	...	...	...	...

#### 4 REGULATORY TRANSACTION FEES

...

Insurance business transfers under Part VII FSMA

4.8 The transferor seeking regulatory consent for an *insurance business transfer scheme* under Part VII of *FSMA* pays a regulatory transaction fees as follows: of £20,000.00,

~~(1) transfers involving long term insurance business £9,250.00; or~~

~~(2) all other transfers £5,000.00,~~

the *due date for payment* being on or before the date of any *application* to the *PRA* for the appointment of an independent expert.

...

Ceding Insurer's Waiver

4.11 ~~An applicant for a waiver or in relation to the treatment of assets of a United Kingdom insurance special purpose vehicle pays a fee of £20,000.00.~~ ~~[deleted]~~

...

**Table D - Model types under CRR**

<b>Applicant</b> (groupings based on <i>tariff data</i> submitted by <i>firms</i> as at 31 December in the <i>fee year</i> prior to the <i>fee year</i> in which the fee is payable).	<b>Column 1</b> <b>Fee payable (£)</b>	
Where the application relates to <i>CRD credit institutions</i> or <i>designated investment firms</i> and includes five or more significant overseas entities within the same group	<b>model type</b>	<b>£</b>
	<i>advanced IRB, IMM or IMA</i>	268,000.00
	<i>foundation IRB</i>	232,000.00
	<i>advanced measurement approaches AMA</i>	181,000.00
Where, <del>at 31 December prior to the fee year in which the fee is payable,</del> the applicant (1) has <i>modified eligible liabilities</i> in excess of £40,000million; or (2) is a <i>designated investment firm</i> with <del>trading assets</del> <i>total assets for fees purposes</i> in excess of £100,000million.	<b>model type</b>	<b>£</b>
	<i>advanced IRB, IMM or IMA</i>	232,000.00
	<i>foundation IRB</i>	198,000.00
	<i>advanced measurement approaches AMA</i>	146,000.00
Where, <del>as at 31 December prior to the fee year in which the fee is payable,</del> the applicant (1) has <i>modified eligible liabilities</i> greater than £5,000million and less than £40,000million; or (2) is a <i>designated investment firm</i> with <del>trading assets</del> <i>total assets for fees purposes</i> greater than £15,000million and less than £100,000million.	<b>model type</b>	<b>£</b>
	<i>advanced IRB, IMM or IMA</i>	94,000.00
	<i>foundation IRB</i>	72,000.00
	<i>advanced measurement approaches AMA</i>	51,000.00
Where, <del>as at 31 December prior to the fee year in which the fee is payable,</del> the applicant (1) has <i>modified eligible liabilities</i> of £5,000million or less; or (2) is a <i>designated investment firm</i> with <del>trading assets</del> <i>total assets for fees purposes</i> of £15,000million or less.	<b>model type</b>	<b>£</b>
	<i>advanced IRB, IMM or IMA</i>	42,000.00
	<i>foundation IRB</i>	30,000.00
	<i>advanced measurement approaches AMA</i>	24,000.00

...

**Table E – Internal model application fees**

<b>Applicant</b>	<b>Fee payable (£)</b>
(groupings based on <i>tariff data</i> submitted by <i>firms</i> as at 31 December 2016 in the <i>fee year</i> prior to the <i>fee year</i> in which the <i>fee</i> is payable)	
<b>Group Internal Model (Full and Partial)</b>	
Sum of <i>best estimate liabilities for fees purposes and gross written premium for fees purposes</i> for groups in the <i>general insurance fee block</i> of <del>£200</del> <u>1,000</u> million or more	268,000.00
Sum of <i>best estimate liabilities for fees purposes and gross written premium for fees purposes</i> for groups in the <i>general insurance fee block</i> <del>less than £200million</del> <u>greater than £300million and less than £1,000million</u>	100,000.00
Sum of <i>best estimate liabilities for fees purposes and gross written premium for fees purposes</i> for groups in the <i>general insurance fee block</i> less than <u>£300million</u>	<u>50,000.00</u>
Sum of <i>best estimate liabilities for fees purposes and gross written premium for fees purposes</i> for groups in the <i>life insurance fee block</i> of <u>£15,000million</u> or more	268,000.00
Sum of <i>best estimate liabilities for fees purposes and gross written premium for fees purposes</i> for groups in the <i>life insurance fee block</i> <del>less than £5,000million</del> <u>greater than £5,000million and less than £15,000million</u>	100,000.00
Sum of <i>best estimate liabilities for fees purposes and gross written premium for fees purposes</i> for groups in the <i>life insurance fee block</i> less than <u>£5,000million</u>	<u>50,000.00</u>
<b>Solo Internal Model (Full and Partial)</b>	
Sum of <del>B</del> <i>best estimate liabilities for fees purposes and gross written premium for fees purposes</i> for firms in the <i>general insurance fee block</i> of <del>£200</del> <u>1,000</u> million or more	232,000.00
Sum of <del>B</del> <i>best estimate liabilities for fees purposes and gross written premium for fees purposes</i> for firms in the <i>general insurance fee block</i> <del>less than £200million</del> <u>greater than £300million and less than £1,000million</u>	80,000.00
Sum of <i>best estimate liabilities for fees purposes and gross written premium for fees purposes</i> for firms in the <i>general insurance fee block</i> less than <u>£300million</u>	<u>42,000.00</u>
Sum of <del>B</del> <i>best estimate liabilities for fees purposes and gross written premium for fees purposes</i> for firms in the <i>life insurance fee block</i> of <u>£15,000million</u> or more	232,000.00
Sum of <del>B</del> <i>best estimate liabilities for fees purposes and gross</i>	80,000.00

<u>written premium for fees purposes for firms in the life insurance fee block less greater than £5,000million and less than £15,000million</u>	
<u>Sum of best estimate liabilities for fees purposes and gross written premium for fees purposes for firms in the life insurance fee block less than £5,000million</u>	<u>42,000.00</u>

...

## Appendix 2: Revised draft SS3/16 ‘Fees: PRA approach and application’

This appendix outlines proposed amendments to SS3/16 ‘Fees: PRA approach and application’. Underlining indicates new text and striking through indicates deleted text.

...

3.2 An example of the latter ~~are~~ were the costs of establishing the PRA in 2013, referred to in the rules as ‘transition costs’, which ~~were being~~ recovered from PRA-regulated firms in five equal tranches between 2013/14 and 2017/18. In each of those fee years, periodic fees payable by firms ~~will~~ included a contribution towards transition costs.

3.3 The AFR is allocated across ‘fee blocks’,<sup>1</sup> which are groupings of firms conducting broadly similar regulated activities. Firms pay a fee for each fee block into which they fall, the amount of fee being linked to the volume of activity undertaken by each firm within the fee block. ~~These fees are known as ‘periodic fees’ and are the main source of fee income for the PRA.~~

3.4 In addition to the AFR, firms which have a model permission under Capital Requirements Regulation (CRR)<sup>2</sup> or Solvency II<sup>3</sup> pay a ‘model maintenance fee’. This fee covers the PRA’s costs associated with reviewing and maintaining firm models and is set according to the size of the firm and the models for which the firm has permissions.

3.5 ~~3.3A~~ As well as the AFR and the model maintenance fee, the PRA may introduce implementation fees, subject to consultation. Implementation fees are used to cover the costs of significant pieces of work that apply to a specific group of firms that fall into more than one of the existing fee blocks or a sub-set of firms within a fee block. Where the PRA proposes to introduce a new implementation fee or change an existing implementation fee it will consult. An example of an implementation fee is the ring-fencing implementation fee.<sup>4</sup>

3.6 ~~3.3B~~ Together, the AFR, the model maintenance fee, and implementation fees are known as ‘periodic fees’ and are the main source of fee income for the PRA.

3.7 ~~3.4~~ Rules relating to periodic fees can be found in Fees 3 and the Periodic Fees Schedule annexed to that chapter. The Periodic Fees Schedule is updated each year to reflect the PRA’s budgeted AFR and the fee rates consultation.

3.8 ~~3.5~~ In most cases the firm’s compliance with normal regulatory reporting will provide the necessary data for the periodic fees calculation. Where this is not the case, the PRA may invoke its own-initiative information gathering powers under statute or the Rulebook to require other information to be provided, either direct to the PRA or to its collection agent.

...

~~4.5~~ 4.4A When a firm carries out a restructuring that involves a new authorisation (for example, if a branch applies to become a subsidiary), the PRA may choose to levy a Special

1 PRA fee blocks are currently: A0 - the minimum fee block, A1 – the deposit acceptors fee block, A3 – the general insurance fee block, A4 – the life insurance fee block, A5 – the Lloyd’s managing agents fee block, A6 - the Society of Lloyd’s fee block, A10 – designated firms dealing as principal fee block, PT1 – the transition costs fee block.

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

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

4 Fees 3.18

Project Fee (SPF) for restructuring (see Chapter 5 of this SS) to cover the entire cost of all related regulatory work conducted by the PRA, including the new authorisation.

### Variations of Permission

4.6 ~~4.5~~ If a firm, once authorised, decides to undertake a new regulated activity or expand into new areas of business, this may necessitate a change to its permission.

4.7 ~~4.6~~ Wherever a PRA-regulated activity is involved, the firm should submit a Variation of Part 4A Permission (or VoP) application to the PRA. As with new authorisations, firms seeking to vary their permissions should make a single application to both regulators, on which the PRA will lead.

4.8 ~~4.7~~ If the firm's application means that it moves into a new fee block for the purposes of periodic fees, the relevant fee for the fee block should be paid on submission of the application.

4.9 ~~4.8~~ Firms applying for authorisation by both the PRA and the FCA, or to vary their Part 4A permission, pay a single application fee. This will be the sum of amounts due to the PRA as shown in the Fees Part of the PRA Rulebook and any amounts payable to the FCA under the FCA's fees rules.

### Other regulatory transaction fees

4.10 At the time of publication, the other regulatory transaction fees in Chapter 4 are:

- fees for European Economic Area (EEA) firms seeking permissions in relation to PRA regulated activities for which they do not have automatic passporting rights;
- fees payable by a transferor seeking consent for an insurance business transfer scheme under Part VII of Financial Services and Markets Act 2000 (FSMA);
- ~~fees payable by a ceding insurer in relation to treatment of assets of an insurance special purpose vehicle;~~

...

5.4 ~~5.3A~~ Where the PRA charges an SPF for restructuring, it will seek to recover all costs directly associated with the project, including relevant contributions to general overheads.

5.5 ~~5.3B~~ If a regulated firm carries out a restructuring that attracts an SPF and one or more regulatory transaction fees (including a new authorisation or a Part VII transfer), the PRA may choose to levy an SPF for restructuring to cover the entire cost of all related regulatory work conducted by the PRA, including the regulatory transactions. In these circumstances, the PRA would expect to waive the regulatory transaction fees associated with the activity.

5.6 ~~5.3C~~ Prospective SPFs are considered on a case-by-case basis, to ensure that their application is fair, consistent and in line with general legal principles. This includes consideration of the impact, if any, of an SPF on competition in the relevant market. When considering if an SPF for a new authorisation will be charged, the PRA will take into account the nature, scale and complexity of the applicant firm.

...

## **7 Waivers or modifications to fees rules**

7.1 Where it would be unduly burdensome to require (or retain) payment, or where this would not achieve the purpose for which the relevant rule was made, the PRA may waive or reduce a fee payable. Any decision to waive a fee by the PRA will be undertaken under the powers set out by FSMA section 138A.<sup>5</sup>

7.2 Submissions will be assessed on a case-by-case basis. Relief will be granted only for transactions for which the firm can demonstrate that the criteria in section 138A FSMA are clearly met, taking account of the impact of both the unmodified rules on the firm's fee, and of any waiver or modification on the fees of other firms.

### **Large 'one-off' reinsurance transactions**

7.3 The PRA notes there is a risk that firms conducting a large 'one-off' reinsurance transaction could be subject to a very high and, potentially unduly burdensome, periodic fee. Where an insurer believes this may be the case, it can apply for a waiver or modification under section 138A FSMA. Such waivers or modifications should be submitted by the end of February before the start of the fee year to which the application relates.

7.4 Examples of reinsurance transactions that may be eligible for relief include:

- long-term reinsurance arrangements made on an ad hoc basis; and
- reinsurance conducted in advance of a Part VII transfer and similar in scope to the intended transfer.

7.5 These examples are illustrative only: all applications will be considered on their own merits, and the fact that an application comes within an example given in this paragraph does not guarantee that a waiver or modification will be granted in full or in part.

7.6 Any waiver or modification application made under S138A will need to be accompanied by a copy of all relevant reinsurance agreements.

---

<sup>5</sup> Fees 2.9.