FINANCIAL CONDUCT AUTHORITY

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

Financial Services Compensation Scheme – Management Expenses Levy Limit 2019/20

Consultation Paper

CP19/9**

PRA CP2/19

January 2019

How to respond

We are asking for comments on this Consultation Paper (CP) by 28 February 2019.

You can send them to us using the form on our website at: www.fca.org.uk/cp19-09-response-form

Or in writing to:
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Telephone:
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Email:
cp19-09@fca.org.uk

Contents

1 Summary 3

2 MELL 2019/20 5

Annex 1
Questions in this paper 10

Annex 2
Cost benefit analysis 11

Annex 3
Compatibility statement 13

Annex 4
Abbreviations used in this paper 17

Appendix 1
FCA Draft Handbook text

Appendix 2
PRA Draft Rulebook text

Appendix 3
FSCS management expenses line by line

Appendix 4
FSCS management expenses by funding class

1 Summary

Why we are consulting and the wider context

1.1 The Financial Services Compensation Scheme (FSCS) exists as a fund of last resort to provide compensation to consumers when financial services firms fail. This Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) Consultation Paper (CP) sets out proposals for the management expenses levy limit (MELL) for the FSCS for 2019/20.

1.2 Under Section 223(1) of the Financial Services and Markets Act 2000 (FSMA), the FCA and the PRA must set an annual limit for the total management expenses which the FSCS can levy on financial services firms. This ensures that the FSCS has adequate funding to exercise the functions conferred on it by Part XV of FSMA.

1.3 The MELL is the maximum amount which the FSCS can levy in a year without further consultation and would apply from 1 April 2019, the start of the FSCS' financial year, to 31 March 2020.

Who this applies to

1.4 This document is relevant to all FCA and PRA authorised firms. It is not directly relevant to retail financial services consumers or consumer groups and they do not need to act upon it.

1.5 As costs may be passed onto consumers in the form of higher prices, consumers may indirectly meet part of the FSCS levies. However, an efficient and adequately funded compensation scheme is beneficial to all consumers.

Summary of proposals

1.6 The proposed MELL for 2019/20 is £79.6 million and consists of:

- FSCS management expenses of £74.6 million
- an unlevied contingency reserve of £5.0 million

1.7 The MELL for 2019/20 is an increase of 2.4% from the 2018/19 MELL of £77.7 million, which is roughly in line with inflation. The rise in budget reflects a projected increase in volumes across pension/self-invested personal pension (SIPP) claims, forecast to cost £3.9 million. The increase is expected to be offset by FSCS cost efficiencies. £53.1 million, or 71% of the total budget, covers claims handling which is the FSCS' core function. More details on the MELL and how it is calculated can be found in Chapter 2.

1.8 The proposed rules for the FCA and the PRA to set the MELL for 2019/20 are in Appendices 1 and 2.

1.9 In 2019/20 the FSCS will begin the first year of its strategy for the 2020s; see Chapter 2 for more information.

Equality and diversity considerations

1.10 We have considered the equality and diversity issues that may arise from the proposals.

1.11 The proposals concern a rule change that applies to the FSCS, not directly to authorised persons. Overall, we do not consider that the proposals adversely impact any of the groups with protected characteristics under the Equality Act 2010.

1.12 We welcome input to this consultation if there are any views on the matter.

Next steps

1.13 Please send us any comments on the proposed MELL by 28 February 2019. Please use the online response form on the FCA's website or write to the FCA at the address on page 2.

1.14 The FCA is accepting responses on behalf of both the FCA and the PRA and responses will be considered by both authorities.

What we'll do next

1.15 Following consideration of responses, the FCA will issue a Handbook notice and the PRA a policy statement so that the final rules can be in place for the start of the FSCS' financial year on 1 April 2019.

2 MELL 2019/20

Introduction

2.1 In this chapter, we consult on the FSCS' MELL for 2019/20. The MELL covers the costs of running the scheme and is the maximum amount the FSCS can levy industry to fulfil certain obligations imposed on it by FSMA and set out in rules made by the FCA and the PRA.[1]

2.2 The FSCS performs a number of functions, which include: processing compensation claims resulting from the failure of financial services firms, making recoveries from failed financial institutions, helping maintain consumer awareness of protection, and verifying account information provided by firms to enable faster pay out to depositors.

Proposals for the MELL in 2019/20

2.3 The MELL has 2 components: the management expenses budget (£74.6 million) and an unlevied contingency reserve (£5.0 million). The MELL does not include compensation costs, which are levied separately and are determined by the FSCS.

2.4 The FSCS' expenses for the year may differ from the budget proposed and will depend on the total number and type of claims received. At the end of the financial year, the FSCS will perform a reconciliation of the actual expenses for the year against the total amount levied and the allocation across the FCA and the PRA funding classes. Any necessary adjustments will be reflected by providing rebates or using unspent levies to reduce firms' future levies.

2.5 Both the FCA Board and the Prudential Regulation Committee (PRC) considered the proposals for the MELL in January 2019 and gave approval for the consultation.

Management Expenses Budget

2.6 The proposed management expenses budget for 2019/20 is £74.6 million. This will cover the FSCS' ongoing operating expenses and includes IT, outsourcing, legal and claims handling and other professional services. Appendix 3 provides a breakdown of management expenses by line item.

1 The relevant FCA and PRA rules comprise the Depositor Protection Part, the Policyholder Protection Part, the Dormant Account Scheme Part, the FSCS Management Expenses Levy Limit and the Base Costs Part of the PRA Rulebook, and the FEES section of the FCA handbook.

2.7 The FSCS' proposed management expenses for 2019/20 are made up of:

- A specific costs element which includes the costs of assessing claims, achieving recoveries and making payments relating to each particular funding class and is allocated based on the level of cost attributable to that funding class.[2]

- A base costs element which is related to the general running costs of the FSCS and is not dependent on the level of claims received. These costs are split equally between the FCA and PRA regulatory fee blocks and then allocated in proportion to regulatory fees.

2.8 Appendix 4 provides a breakdown of the MELL by specific and base costs and the allocation to funding classes.

2.9 The management expenses budget for 2019/20 has increased by 2.6% (£1.9 million) over the 2018/19 budget, reflecting a range of factors. Claims volumes are expected to rise; in particular a 20% rise in pension/self-invested personal pension (SIPP) claims, although the cost of these higher volumes is offset by cost savings flowing from FSCS' new customer service and claims handling partnership with Capita. The FSCS has also identified other factors which increase the budget. These include: the need to plan for a range of contingencies including Brexit; the loss of income associated with the winding up of the Independent Insurance estate; and provisions to enhance business critical skills and to deliver on the FSCS' strategic priorities.

2.10 Further details are provided in para 2.17.

Unlevied Contingency Reserve

2.11 The unlevied contingency reserve allows the FSCS to respond quickly and efficiently in the event of unforeseen firm failures. It can be levied without further formal consultation by the FCA and the PRA.

2.12 The proposed unlevied contingency reserve for 2019/20 is £5 million, the same as 2018/19. The FSCS has reviewed the level required and considers that a £5 million reserve is sufficient. The FSCS is considering whether it will need to access the unlevied reserve in 2018/19 to deal with the cost of processing more claims than expected at the time the budget for 2018/19 was set.

2.13 The unlevied contingency reserve is an important part of the FSCS' contingency planning. The FSCS liaises with stakeholders including the FCA, the PRA and trade associations before using it.

Compensation Costs

2.14 The compensation costs levy, which covers compensation paid to consumers, is determined separately by the FSCS and is not consulted on. The FSCS will indicate its current estimate of compensation costs and the related funding and levies impact in its 2019/20 Plan and Budget, published on 31 January 2019, and confirm the levies in early April 2019.

2 FSCS' funding classes comprise groupings of activities regulated by the FCA and PRA for which the FSCS offers protection. Management expenses are allocated to the relevant classes based on proportionate level of activity in the funding classes.

FSCS Strategy

2.15 In 2019/20 the FSCS will commence the first year of its strategy[3] for the 2020s, which centres around 4 pillars of Prepare, Protect, Promote and Prevent:

- **Prepare** for a crisis or major failure to maintain public confidence and financial stability.
- **Protect** consumers by paying claims as needed, providing a service that is accessible, fast, accurate and easy to use.
- **Promote** what the FSCS is and what is protected to help consumers make more informed decisions.
- **Prevent** future failures by collaborating with regulators and industry and help to reduce future compensation costs.

2.16 The FSCS' costs have been allocated to these strategic pillars in its 2019/20 budget.

Management expenses budget – further detail

2.17 Table 1 sets out the key lines of the budget, with a focus on the main changes from last year, and how costs have been allocated to each strategic pillar.

Table 1

Activity	Strategy Pillar	2019/20 Budget £m	2018/19 Budget £m	Change £m
Claims handling infrastructure and support		**53.1**	**50.9**	**2.2**
Outsourced claims handling	Protect	13.4	16.0	(2.6)
Internal claims handling support	Protect	9.5	7.6	1.9
Core Support - IT, facilities and central services	Prot / Prom / Prev	28.1	25.5	2.6
Provisions for VAT, uncrystallised failures and Brexit	Protect	2.1	1.8	0.3
Bank charges	Prepare	**7.6**	**7.6**	**(0.0)**
Depositor protection, recoveries, investment, & pension deficit		**13.9**	**14.2**	**(0.3)**
Depositor protection	Prepare / Promote	3.1	3.9	(0.8)
Consumer protection	Prepare / Promote	1.2	0.0	1.2
Recoveries	Protect	3.7	3.9	(0.2)
Investment: digital and outsourcing	Protect / Prepare	4.0	4.0	0.0
Pension deficit funding	Protect	1.9	2.4	(0.5)
Total management expenses		**74.6**	**72.7**	**1.9**

3 A copy of the FSCS strategy can be found at www.fscs.org.uk/about-fscs/mission-and-strategy/

2.18 The FSCS budget is shown from an activity-based costing view. Each activity includes staff and other costs related to it. Points to highlight are:

- Claims handling infrastructure and support constitutes the largest part of the management expenses budget, and amounts to £53.1 million, or 71% of the total budget and enables the FSCS to carry out its core function of handling claims from firm failures.

- Outsourced claims handling provision has decreased from £16.0 million to £13.4 million in part due to a £6.5 million saving resulting from the FSCS' new partnership with Capita. However, the FSCS has forecast a 20% increase in volumes across pension/SIPP claims, amounting to a projected cost increase of £3.9 million.

- Internal claims handling support will see an increase from £7.6 million to £9.5 million. In part, this is due to there being no further release of income from the estate of Independent Insurance in 2019/20. A total of £5.0 million was received and the benefit spread over three years, with the final £1.2 million accounted for in 2018/19. In addition, there is a £0.7 million increase to reflect staff and contractor costs.

- The budget for IT, facilities and central services is proposed to increase by approximately £2.5 million. The FSCS has advised that the increase relates to increases of £1.5 million in core staff costs resulting in part from a move away from consultants to extra internal staff, a provision of £0.5 million for the Prevent initiative, outlined in the FSCS's strategy for the 2020s, and £0.5 million to make improvements to the FSCS' payments and sanctions checking processes. The FSCS expects that the Prevent initiative, by sharing data with the FCA, will help to build a better understanding of the drivers for firm failure and in time reduce the level of future compensation costs. This data sharing will help the FCA to be better informed to regulate conduct particularly around mis-selling and 'phoenixing'. The FSCS also propose to make improvements to their current IT infrastructure given the increased threat of cyber-attacks.

- The FSCS has allocated £2.1 million for contingencies including Brexit and a possible VAT charge relating to the failure of Independent Insurance, which may arise in 2019/20.

- Bank charges are expected to remain level at £7.6 million. These charges enable the FSCS to maintain a borrowing facility, available within 1 business day, to fund pay-outs following significant failures.

- Budget for depositor protection (including costs relating to depositor awareness and Single Customer View file reviews), investment, recoveries and pension deficit will reduce from £14.2 million to £13.9 million. Within this, spend on depositor protection is projected to decrease from £3.9 million to £3.1 million, largely due to a reduction in consumer awareness spend for deposits. In addition, pension deficit funding will decrease by £0.5 million, following a review by the trustees, and costs in relation to legal expenditure on recoveries from insolvencies are projected to decrease from £3.9 million to £3.7 million. These planned reductions in spending are partially offset by an allocation of £1.2 million to consumer protection, which will mainly be used to raise awareness of protection for non-deposit products.

- The FSCS is proposing to invest £4.0 million to make improvements to the claims process for customers by investing in digital solutions. This should improve the experience of customers and provide savings in the future. This investment figure is unchanged from the last financial year.

Budget Allocation

2.19 This year the FSCS has changed the allocation of the costs of its borrowing facility from a specific cost for the deposits class to allocating a proportion of the costs to base costs (i.e. shared by all sub-classes). This is because it recognises that it might need to use the facility for failures that are not deposit takers.

2.20 Appendix 3 sets out the FSCS' management expenses line by line and Appendix 4 contains a breakdown of the FSCS' budget by funding class.

2.21 Further information on the FSCS' proposed budget is included in its 2019/20 Plan and Budget, due to be published on 31 January 2019 on the FSCS website.

Annex 1
Questions in this paper

Q1: **Do you have any comments on the proposed FSCS MELL for 2019/20?**

Annex 2
Cost benefit analysis

1. FSMA, sections 138I and 138J, as amended by the Financial Services Act 2012, requires the FCA and the PRA to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires the FCA to publish a CBA of proposed rules, defined as an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made. Section 138J requires that before making any rules, the PRA must: (a) consult the FCA, and (b) after doing so, publish a draft of the proposed rules in the way appearing to the PRA to be best calculated to bring them to the attention of the public; the draft must be accompanied by a cost benefit analysis.

2. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For others, we provide estimates of outcomes in other dimensions. Our proposals are based on carefully weighing up these multiple dimensions and reaching a judgement, taking into account all the impacts we foresee.

Problems and rationale

3. Setting a management expenses levy for firms ensures the FSCS can continue to operate and to meet its objective of providing a compensation scheme that is efficient, fair, approachable and responsive. If we did not set a MELL then the FSCS would not be able to operate and provide compensation to consumers.

Intervention

4. The total MELL of £79.6 million is made up of a management expenses budget of £74.6 million and an unlevied contingency reserve of £5.0 million.

5. Raising a budget of £74.6 million from levies on firms will allow the FSCS to cover its forecast expenses and to operate its compensation scheme for consumers where a financial firm fails. The budget is not used to fund compensation payments to consumers. These payments are raised via separate FSCS compensation costs levies.

6. The MELL for 2019/20 represents an increase from the 2018/19 MELL of 2.4%, roughly in line with inflation. The 2019/20 budget covers the FSCS' operating expenses and includes IT, outsourcing, legal and claims handling and other professional services. The management expenses component of the MELL comprises a specific costs element that includes the costs of assessing claims, achieving recoveries and making payments, and a base costs element that is related to general running costs of the FSCS. The largest part of the management expenses budget is claims handling infrastructure and support, at £53.1 million, or 71% of the budget. Appendix 3 provides a breakdown of management expenses by line item.

7. The unlevied contingency reserve of £5 million will give the FSCS some margin to meet costs that exceed its budgeted expenses which need to be funded at short notice. The FSCS has reviewed the level required and considers £5 million to be sufficient.

8. We take the counterfactual to be the scenario where no budget is raised to fund the MELL.

Costs

9. The one-off direct costs to firms are equal to the budget of £74.6 million. The MELL will be split between the FCA and the PRA regulatory fee blocks and levied on all authorised firms according to the volume of regulated financial services business they conduct. Appendix 4 provides a summary of how the MELL costs are allocated between the FCA and the PRA and how costs are allocated across fee blocks.

10. Management expenses are charged to firms and may be passed on to consumers in the form of higher prices.

Benefits

11. Agreeing the budget will allow the FSCS to operate, leading to benefits that it is not reasonably practicable for us to quantify. Compensation reduces consumers' financial loss and increases consumer confidence in authorised financial services firms. This is particularly important for depositors, as timely compensation in the event of the failure of a deposit taker helps ensure consumer confidence in the financial system.

12. FSCS compensation paid to consumers is expected to be £486 million in 2018/19. Although this compensation is raised via the separate FSCS compensation scheme levy, it cannot be decided upon or be administered without the FSCS being able to operate using the funds raised through the management expenses budget.

Summary of costs and benefits

13. In summary, the budget of £74.6 million will lead to direct one-off costs to firms of £74.6 million, and unquantified benefits of consumer protection and consumer confidence in financial services.

14. Overall the FCA and the PRA consider that the benefits of setting the MELL outlined above outweigh the costs placed on industry, and indirectly passed to consumers. This is primarily because the provision of compensation in the event of the failure of a financial services firm helps to ensure consumer confidence in the financial system.

Impact on mutual societies

15. Management expenses are levied on all authorised firms, including mutual societies according to the volume of regulated financial services business they conduct. The impact on mutual societies is therefore not considered disproportionate to other types of firm.

Annex 3
Compatibility statement

1. This Annex records the FCA's and the PRA's compliance with a number of legal requirements applicable to the proposals in this consultation. This includes an explanation of reasons for concluding that our proposals are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. This Annex further includes our assessment of the equality and diversity implications of these proposals.

The FCA's objectives and regulatory principles: Compatibility statement

3. When consulting on new rules, the FCA is required by s.138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules is compatible with:

    a. its general duty, under s.1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives; and

    b. its general duty under s.1B(5)(a) FSMA to have regard to the regulatory principles in s.3B FSMA.

4. The FCA is also required by s.138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons, and, if so, details of the difference.

5. In addition, the FCA must, under s.1B(4) FSMA discharge its general functions (which includes rule making) in a way which promotes effective competition in the interests of consumers.

6. The proposals set out in this consultation are primarily intended to advance the FCA's operational objective of consumer protection.

7. The role of the FSCS is, in general, to provide compensation to consumers of financial products when authorised firms are unable, or likely to be unable, to meet their obligations. A compensation scheme provides a safety net, offering protection to consumers, which in turn leads to greater confidence in their dealings with financial services firms. This benefits all firms and leads to a stronger financial system. If the FSCS were unable to process claims because of financial constraints due to an insufficient MELL, this would undermine the protection offered to consumers.

8. The FCA believes that the proposed FSCS MELL is appropriate. The limit proposed ensures the FSCS has adequate resources to perform its functions for the coming year. In addition, in setting the MELL for 2019/20, the FCA and the PRA have allowed for sufficient contingency reserve to prevent disruption to the FSCS' work if it needs to exceed its operating budget for unexpected reasons.

9. In preparing the proposals as set out in this consultation, we have had regard to the FCA's duty to promote effective competition in the interests of consumers. Any levy placed on a firm because of these proposals will take into account the firm's size, and as such is not likely to disadvantage specific groups of firms, in particular smaller firms.

10. Setting a FSCS MELL figure has no material significance for the reduction of financial crime objectives.

The PRA's general duties

11. The PRA must, when discharging its general functions, so far as is reasonably possible, act in a way that advances its general objective – ie promoting the safety and soundness of PRA-authorised firms.[4]

12. The PRA must carry out that objective primarily by:

a. seeking to ensure that the business of PRA-authorised persons is carried out in a way which avoids any adverse effect on the stability of the UK financial system; and

b. seeking to minimise the adverse effect that the failure of a PRA-authorised person could be expected to have on the stability of the UK financial system.

13. The PRA believes that the proposed rule on setting the MELL is compatible with these statutory obligations. The continued operation of the FSCS with a MELL set at an appropriate level assists in minimising the adverse effect of the failure of a PRA-authorised person on consumers and so helps promote stability of the UK financial system as well as confidence in the UK financial system.

14. The PRA has an additional primary objective for insurance. In addition to promoting insurers' safety and soundness, thereby supporting the stability of the UK financial system, it has an insurance objective to contribute to securing an appropriate degree of protection for those who are or may become policyholders.[5] The PRA considers that the proposed rule to set the MELL is compatible with this duty because the continued operation of the FSCS with a MELL set at an appropriate rate assists in securing an appropriate degree of protection for policyholders of a PRA-authorised person that has failed.

15. When discharging its general functions in a way that advances its objectives the PRA must, so far as is reasonably possible, act in a way which, as a secondary objective, facilitates effective competition in the markets for services provided by PRA-authorised persons in carrying on regulated activities.[6]

16. The MELL is not expected to have any adverse effect on competition as it is applied to firms in proportion to their share of FSCS protected business within their funding class. Any levy on a firm as a result of these proposals will take into account the business volume of the firm levied, as well as the claims received in the relevant classes; as such the MELL is not likely to disadvantage specific groups of firms (in particular smaller firms).

4 Section 2B of FSMA
5 Section 2C of FSMA
6 Sections 2H (1), 2H(2) and 3B of FSMA

HM Treasury recommendation letter

17. HM Treasury has made recommendations to the FCA and the PRC about aspects of the Government's economic policy to which they should have regard when considering how to advance their objectives and apply their regulatory principles set out in FSMA.[7] The FCA and the PRA consider that the recommendations most relevant to the proposals in this CP are:

i. competition

ii. trade

iii. a better outcome for consumers

iv. diversity of business models and

v. competitiveness

18. Recommendation (iii) has been considered in paragraphs 11 and 12 of the CBA and recommendation (i) in paragraphs 9 and 16 of this compatibility statement. The FCA and the PRA consider that an appropriately funded compensation scheme will enhance consumers' trust in UK regulated firms. This will help to ensure that the UK remains an attractive domicile for internationally active financial institutions, and that London retains its position as a leading financial centre.

Compatibility with the regulatory principles - FCA and PRA

19. In preparing the proposals set out in this consultation, the FCA and the PRA have had regard to the regulatory principles set out in the Legislative and Regulatory Reform Act and set out in s.3B FSMA. The FCA and the PRA believe that the proposed MELL is compatible with their regulatory principles. In particular, the FCA and the PRA believe that an appropriate balance has been struck between the need to ensure their regulatory objectives are fulfilled and the need to keep regulatory burdens proportionate.

20. The regulatory principles most relevant to these proposals are:

(a) The need to use our resources in the most efficient and economic way

21. The FSCS is operationally independent of, but accountable to the FCA and the PRA, which means that the FCA's and PRA's resources are not directly involved in carrying out the proposed activities.

22. The FCA and the PRA rules require the FSCS to use its resources in the most efficient and economical way when carrying out its functions. Setting the MELL, after public consultation, encourages good internal management and effective operating procedures.

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

(b) The principle that a burden or restriction should be proportionate to the benefits

23. The FCA's and the PRA's assessment of the fairness and proportionality of the burden and benefits relating to these proposals can be found in the cost benefit analysis section of this Consultation Paper.

Expected effect on mutual societies

24. As set out in paragraph 15 of the CBA the FCA and the PRA do not expect the proposals in this paper to have a significantly different impact on mutual societies.

Equality and diversity

25. We are required under the Equality Act 2010 to 'have due regard' to the need to eliminate discrimination and to promote equality of opportunity in carrying out our policies, services and functions.[8] The proposals concern a rule change that applies to the FSCS, not directly to authorised persons. Overall, we do not consider that the proposals adversely impact any of the groups with protected characteristics under the Equality Act 2010. However, we would welcome any comments respondents may have on any equality issues they believe arise as a result of these proposals.

8 S.149(1) Equality Act 2010

Annex 4
Abbreviations used in this paper

CBA	Cost benefit analysis
CP	Consultation Paper
FCA	Financial Conduct Authority
FEES	Fees manual
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
MELL	Management expenses levy limit
PRA	Prudential Regulation Authority
PRC	Prudential Regulation Committee
SIPPs	Self-invested personal pensions

We have developed the policy in this Consultation Paper in the context of the existing UK and EU regulatory framework. The Government has made clear that it will continue to implement and apply EU law until the UK has left the EU. We will keep the proposals under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework in the future.

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

All our publications are available to download from www.fca.org.uk. If you would like to receive this paper in an alternative format, please call 020 7066 7948 or email: publications_graphics@fca.org.uk or write to: Editorial and Digital team, Financial Conduct Authority, 12 Endeavour Square, London E20 1JN

Appendix 1
FCA Draft Handbook text

FINANCIAL SERVICES COMPENSATION SCHEME (MANAGEMENT EXPENSES LEVY LIMIT 2019/2020) INSTRUMENT 2019

Powers exercised

A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):

(1) section 137T (General supplementary powers);
(2) section 213 (The compensation scheme);
(3) section 214 (General); and
(4) section 223 (Management expenses).

B. The rule-making powers listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on [1 April 2019].

Amendments to the Handbook

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

Citation

E. This instrument may be cited as the Financial Services Compensation Scheme (Management Expenses Levy Limit 2019/2020) Instrument 2019.

By order of the Board
[*date*]

Annex

Amendments to the Fees manual (FEES)

In this Annex, underlining indicates new text.

6 Annex 1R Financial Services Compensation Scheme – Management Expenses Levy Limit

This table belongs to FEES 6.4.2R	
Period	Limit on total of all management expenses levies attributable to that period (£)
…	
1 April 2018 to 31 March 2019	£77,661,000
1 April 2019 to 31 March 2020	£79,555,000

Appendix 2
PRA Draft Rulebook text

PRA RULEBOOK: NON AUTHORISED PERSONS: FSCS MANAGEMENT EXPENSES LEVY LIMIT AND BASE COSTS 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 137T (General supplementary powers);
(2) section 213 (The compensation scheme);
(3) section 214 (General); and
(4) section 223 (Management expenses).

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

Pre-conditions to making

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

PRA Rulebook: Non Authorised Persons: FSCS Management Expenses Levy Limit and Base Costs Instrument 2019

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

Commencement

E. This instrument comes into force on 1 April 2019.

Citation

F. This instrument may be cited as the PRA Rulebook: Non Authorised Persons: FSCS Management Expenses Levy Limit and Base Costs Instrument 2019.

By order of the Prudential Regulation Committee
[Date]

Annex

Amendments to the FSCS Management Expenses Levy Limit and Base Costs Part

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

…

2 LIMIT ON MANAGEMENT EXPENSES LEVIES

2.1 The total of all *management expenses levies* attributable to the period 1 April ~~2018~~ 2019 to 31 March ~~2019~~ 2020 of the *deposit guarantee scheme*, the *dormant account scheme* or the *policyholder protection scheme* may not exceed ~~£77,661,000~~ £79,555,000 less whatever *management expenses levies* the *FSCS* has imposed in accordance with *FCA compensation scheme rules* attributable to that period.

…

Appendix 3
FSCS management expenses line by line

Expense Line	2019/20 Budget £m	2018/19 Budget £m	Change £m
Staff Costs	21.3	18.3	3.0
Contractor Costs	0.9	1.8	(0.9)
Facilities	3.2	3.1	0.1
IT	4.4	3.8	0.6
Communications	3.9	3.7	0.2
Legal & Professional	7.1	7.0	0.1
External Providers	1.5	1.6	(0.1)
Depreciation	0.4	0.4	-
Other	0.8	0.6	0.1
Outsource Claims	13.1	14.0	(0.9)
Outsource Printing	0.3	0.7	(0.4)
Change	4.0	4.0	-
Bank Charges	7.6	7.6	0.0
Provisions	2.1	1.5	0.6
PPI	2.1	2.1	0.0
Pension	1.9	2.4	(0.5)
Total expense	**74.6**	**72.7**	**1.9**
FTE	**215**	**206**	**9**

Appendix 4
FSCS management expenses by funding class

	2019/20			2018/19			Movement		
	FSCS Total Costs £m	PRA Fee Block Allocation £m	FCA Fee Block Allocation £m	FSCS Total Costs £m	PRA Fee Block Allocation £m	FCA Fee Block Allocation £m	FSCS Total costs £m	PRA Fee Block Allocation £m	FCA Fee Block Allocation £m
Base Costs Total (Split 50:50)	**27.0**	**13.5**	**13.5**	**25.7**	**12.8**	**12.8**	**5%**	**5%**	**5%**
Specific Costs									
Deposits	12.6	12.6		14.0	14.0	-	-10%	-10%	
General Insurance Provision	7.4	7.4		6.9	6.9	-	8%	8%	
Life & Pension Provision	-	-		-	-	-	0%	0%	
General Insurance Distribution	8.0		8.0	7.9	-	7.9	1%		1%
Life Distribution, Pensions & Investment Intermediation	17.4		17.4	17.1	-	17.1	2%		2%
Investment Provision	0.6		0.6	0.1	-	0.1	771%		771%
Home Finance Intermediation	1.6		1.6	1.2	-	1.2	33%		33%
Debt Management	-		-	-		-	0%		0%
Specific Costs Total	**47.6**	**20.0**	**27.6**	**47.0**	**20.9**	**26.2**	**1%**	**-4%**	**5%**
Management Expenses Total	**74.6**	**33.5**	**41.1**	**72.7**	**33.7**	**39.0**	**3%**	**0%**	**5%**

Pub ref: 005817

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