



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Consultation Paper | CP21/20

PRA fees and levies: Holding company regulatory transaction fees

December 2020



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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.

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Responses are requested by Friday 8 January 2021.

In light of current measures to help prevent the spread of COVID-19, please address any comments or enquiries by email to: CP21_20@bankofengland.co.uk.

Alternatively, please address any comments or enquiries to:

John Cunningham
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

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1 Overview

1.1 This Consultation Paper (CP) sets out the Prudential Regulation Authority's (PRA) proposed rules in respect of regulatory transaction fees for applications for approval or exemption as a holding company.

1.2 The proposals in this CP would result in changes to the Fees Part of the PRA Rulebook (Appendix 1).

1.3 The CP is relevant to PRA-authorised banks, PRA-designated investment firms, and their parent undertakings, which for this purpose comprise financial holding companies (FHC) and mixed financial holding companies (MFHC), as well as those intermediate holding companies that sit at the top of a sub-consolidation group. It is not relevant to credit unions or insurers.

1.4 Capital Requirements Directive V (CRD V) introduces new requirements for certain types of parent FHCs or MFHCs that substantively control their group, to be subject to supervisory approval and consolidated supervision.¹

1.5 The Financial Holding Companies (Approval etc.) and Capital Requirements (Capital Buffers and Macro-prudential Measures) (Amendment) (EU Exit) Regulations 2020 extends powers to the PRA to supervise, monitor, exercise discretions, impose additional requirements, and enforce breaches of obligations in respect of approved FHCs and MFHCs.

Proposal

1.6 The PRA proposes that a regulatory transaction fee of £2,500 will be payable in respect of an application for approval or exemption as a holding company made under section 192Q of the Financial Services and Markets Act 2000 (FSMA).

1.7 The proposed fee amount has been set to recover the approximate costs to the PRA of assessing each application, including related system changes and other linked regulatory transactions.

1.8 The PRA will keep these costs under review and will consider consulting on changes to the fee should there be a material change in costs.

Implementation

1.9 The proposed implementation date for the proposal in this CP is Monday 1 March 2021.

Responses and next steps

1.10 This consultation closes on Friday 8 January 2021. The PRA invites feedback on the proposals set out in this consultation. Please address any comments or enquiries to CP21_20@bankofengland.co.uk.

1.11 The proposals set out in this CP have been designed in the context of the UK's withdrawal from the European Union and entry into the transition period, during which time the UK remains

¹ Directive (EU) 2019/878.

subject to European law. The PRA will keep the policy under review to assess whether any changes would be required due to changes in the UK regulatory framework at the end of the transition period, including those arising once any new arrangements with the European Union take effect.

1.12 The PRA has assessed that the proposals would not need to be amended under the EU (Withdrawal) Act 2018 (EUWA). Please see PS5/19 'The Bank of England's amendments to financial services legislation under the European Union (Withdrawal) Act 2018'² for further details.

² April 2019: <https://www.bankofengland.co.uk/paper/2019/the-boes-amendments-to-financial-services-legislation-under-the-eu-withdrawal-act-2018>.

2 The PRA's statutory obligations

2.1 In carrying out its policy making functions, the PRA is required to comply with several legal obligations. Before making any rules, FSMA³ 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,⁴ insurance objective⁵ (if applicable), and secondary competition objective;⁶
- 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;⁷ and
- a statement as to whether the impact of the proposed rules will be significantly different to mutuals than to other persons.⁸

2.2 The Prudential Regulation Committee (PRC) should have regard to aspects of the Government's economic policy as recommended by HM Treasury.⁹

2.3 The PRA is also required by the Equality Act 2010¹⁰ 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

2.4 The PRA is exempt from having to carry out a cost benefit analysis on its draft fee rates.

Compatibility with the PRA's objectives

2.5 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.

³ Section 138J of FSMA.

⁴ Section 2B of FSMA.

⁵ Section 2C of FSMA.

⁶ Section 2H(1) of FSMA.

⁷ Sections 2H(2) and 3B of FSMA.

⁸ Section 138K of FSMA.

⁹ Section 30B of the Bank of England Act 1998.

¹⁰ Section 149.

2.6 The PRA considers that the draft PRA RULEBOOK: PRA FEES AMENDMENT (NO. 1) INSTRUMENT 2021 out in Appendix 1 will enable the PRA to fund the regulatory activities required to advance its statutory objectives.

2.7 The proposed holding company application fee is not expected to have a material impact on the PRA's secondary competition objective. The application fee is low and consequently is not expected to act as a 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 requirement for the PRA to act in a way that advances its objectives.

Regulatory principles

2.8 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, in particular:

- a burden or restriction which is imposed on a person should be proportionate to the benefits which are expected to result from the imposition of that burden: The proposed fee will recover a proportion of the PRA's costs of assessing holding company applications; it is only being paid by those submitting the applications and it is not included in the overall fees for all firms;
- 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 different persons: By recovering the costs of assessing holding company applications directly from holding companies, the PRA ensures these differences are recognised; and
- the regulators should exercise their functions as transparently as possible: The PRA has clearly set out the basis on which the proposed fees are calculated and are providing advance notice of the proposed changes to its fees and charges.

Impact on mutuals

2.9 The PRA considers that the proposal will not have an impact on mutuals.

HM Treasury recommendation letter

2.10 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.

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

- Competition
- Growth
- Competitiveness

2.12 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

aspects that extend beyond the PRA's objectives and the regulatory principles, these have been set out below.

Competition

2.13 Through the use of application fees, the PRA seeks to ensure a balance, with its fees being appropriately targeted while not representing a barrier to entry.

Growth

2.14 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.

Competitiveness

2.15 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.

Equality and diversity

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

1 Draft PRA RULEBOOK: PRA FEES AMENDMENT (NO. 1) INSTRUMENT 2021

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 purposes 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 (No. 1) Instrument 2021

- 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 (No.1) Instrument 2021.

By order of the Prudential Regulation Committee

[Date]

Annex

Amendments to the Fees Part

In this Annex, new text is underlined.

4 REGULATORY TRANSACTION FEES

...

4.5A A parent financial holding company or parent mixed financial holding company (both within the meaning of s192O of FSMA) shall pay a regulatory transaction fee of £2,500 in respect of an application for approval or exemption made under s192Q of FSMA (and such a fee shall be in addition to any other regulatory transaction fee payable).

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