

Policy Statement | PS2/13

Financial Services Compensation Scheme: management expenses levy limit 2013/14

March 2013



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PRUDENTIAL REGULATION
AUTHORITY





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1. This Prudential Regulation Authority (PRA) policy statement publishes the final management expenses levy limit (MELL) following consideration of consultation responses. The MELL approved for 2013/14 is £94.4 million and there have been no changes to this amount in response to the responses received.

2. In CP13/4⁽¹⁾ the Financial Services Authority (FSA) consulted, on behalf of the PRA and Financial Conduct Authority (FCA), on the MELL of the Financial Services Compensation Scheme (FSCS) for 2013/14. The management expenses of the FSCS are the costs that the FSCS expects to incur in order to deliver its functions. An appropriately set MELL will allow the FSCS to provide a responsive and well-understood compensation service for customers of authorised financial services firms.

3. As the MELL is being set close to 1 April 2013 (when the PRA and FCA will officially come into existence and is for the period post this date) the PRA Board has approved the proposed levy limit for 2013/14. The FCA Board has also approved the same limit so satisfying the Financial Services and Markets Act 2000 (FSMA) requirement for a single management expenses levy limit.

Summary of proposals

4. CP13/4 proposed MELL for 2013/14 is £94.4 million, consisting of:

- FSCS management expenses of £74.4 million. This is the minimum amount that will be levied for 2013/14 and covers items such as staff and building costs, ongoing operating expenses, IT, outsourcing and claims handling, legal or other professional services and strategic programmes (eg faster payout for deposit-takers and consumer awareness); and
- a contingency reserve of £20 million for management expenses. This allows the FSCS to levy additional funds

without formal consultation by the PRA and FCA and to meet contingencies that were not foreseen when the annual levy was raised.

Consultation responses

5. In total there were five respondents. Some respondents expressed concern about the general increase in the management expenses despite a fall in expected claims volumes. There was particular concern about the cost of investment to improve the operation of the scheme, the cost of exceptional/new activities and the cost of recoveries. CP13/4 and the FSCS's 2013/14 Plan and Budget⁽²⁾ explained the benefits the FSCS sought from its investment and from seeking recoveries and the reasons for the expenditure on exceptional/new activities.

6. Other questions were about the labelling of some costs that appeared to be ongoing operating expenses as change investments or new/exceptional activities. Respondents also wanted greater clarity about the allocation of costs to their class. The PRA will aim to work with the FSCS to improve clarity in relation to FSCS's management expenses, particularly with regard to the funding classes to which expenses relate.

7. Respondents questioned the size of the contingency that could potentially be raised in management expenses and wondered if this was a step towards pre-funding the scheme. The PRA believes that the contingency reserve of £20 million is appropriate for the reasons set out in CP13/4. The FSCS is unlikely to raise more than its budgeted expenses and the contingency is unlikely to be raised unless there is a specific event or events that requires it to do so. As it will only be raised if needed, it is not pre-funding. The FSCS would liaise with the PRA, FCA, and trade bodies before raising a levy from within its contingency reserve. As such, the PRA does not propose a change in the contingency.

(1) CP13/4, Financial Services Compensation Scheme — management expenses levy limit 2013/14, (January 2013).

(2) www.fscs.org.uk/uploaded_files/201219_fscs_plan_and_budget_2013_final_acc.pdf.

Appendix

Financial Services Compensation Scheme (Management Expenses Levy Limit 2013/2014) (PRA)
Instrument 2013

**FINANCIAL SERVICES COMPENSATION SCHEME (MANAGEMENT EXPENSES LEVY LIMIT
2013/2014) (PRA) INSTRUMENT 2013**

WHEREAS:

- A. Article 2(1)(c) of the Early Commencement Order commenced certain of the Prudential Regulation Authority's rule making and other powers for the purposes specified in Part 3 of the Schedule to that Order.
- B. The body incorporated as Prudential Regulation Authority Limited is the Prudential Regulation Authority.

Interpretation

- 1 In this Instrument (including the Recitals):
 - (1) "Early Commencement Order" means the Financial Services Act 2012 (Commencement No. 1) Order 2013 (SI 2013/113);
 - (2) "the 2000 Act" means the Financial Services and Markets Act 2000;
 - (3) "the 2012 Act" means the Financial Services Act 2012; and
 - (4) "Prudential Regulation Authority" means the body corporate referred to in section 2A(1) of the 2000 Act as amended by section 6 of the 2012 Act.

Rules amended by the Prudential Regulation Authority

- 2 In accordance with Article 2(1) of the Early Commencement Order and in the exercise of the powers and related provisions specified in paragraph 3, the Prudential Regulation Authority makes the rule amendment in the Annex to this Instrument.
- 3 The Prudential Regulation Authority makes the rule amendment in the Annex to this Instrument in exercise of the following powers and related provisions of the 2000 Act, as amended by the 2012 Act:
 - (1) Section 137T (General supplementary powers);
 - (2) Section 213 (The compensation scheme);
 - (3) Section 214 (General); and
 - (4) Section 223 (Management expenses).
- 4 The rule-making powers in paragraph 3 are specified for the purpose of section 138G (Rule-making instruments) of the 2000 Act, as amended by the 2012 Act.

Commencement: Prudential Regulation Authority

- 5 The Prudential Regulation Authority directs that this Instrument comes into force on 1 April 2013.

Amendments to the Handbook

- 6 The FEES manual (FEES) of the PRA Handbook of rules and guidance is amended in accordance with the Annex to this Instrument.

Citation

- 7 This Instrument may be cited as the Financial Services Compensation Scheme (Management Expenses Levy Limit 2013/2014) (PRA) Instrument 2013.

By order of the Board of the Prudential Regulation Authority

22 March 2013

Annex

Amendments to the Fees manual (FEES)

In this Annex, underlining indicates new text and striking through indicates deleted 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 2012 to 31 March 2013	£1,000,000,000
1 April 2013 to 31 March 2014	£ <u>94,400,000</u>