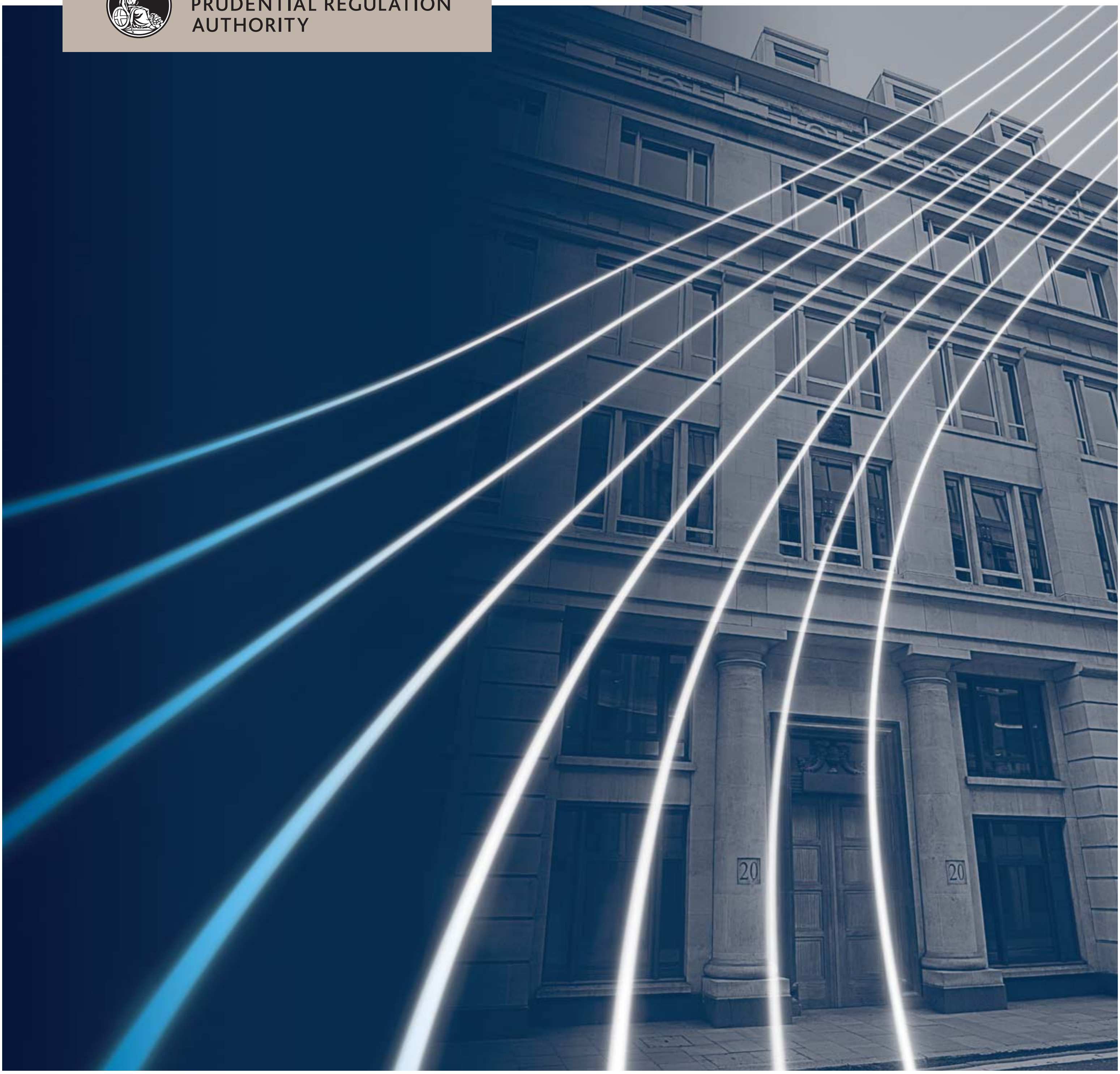
Policy Statement | PS4/13

Regulated fees and levies: rates for 2013/14

June 2013

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY



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PRUDENTIAL REGULATION
AUTHORITY

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This policy statement sets out the final fee rates to meet the Prudential Regulation Authority's 2013/14 Annual Funding Requirement.

Contents

1 Overview

1. This policy statement sets out the final Prudential Regulation Authority (PRA) fee rates to recover the PRA's Annual Funding Requirement (AFR) for the financial period from 1 April 2013 to 28 February 2014.

2. The statement follows a consultation on the level of regulatory fees and levies for 2013/14[1] to support the PRA's strategic priorities and business aims. Specifically, the PRA consulted on the PRA 2013/14 minimum fees and periodic fee rates for authorised firms, the IMAP Special Project Fee (SPF) for 2013/14 and the circumstances under which it will be payable by firms, as well as the basis for treating the 2013/14 over recovery on the non-IMAP fees. The PRA also consulted on the key terms of its financial penalty scheme. The Financial Services and Markets Act 2000 (FSMA) permits the PRA to raise fees from regulated firms to cover its costs.

3. The statement sets out the final policy and the PRA's response to comments received on the consultation paper. Final rules can be found at http://fshandbook.info/FS/html/PRA/FEES. Overall the PRA received twelve responses, primarily from trade bodies and firms representing the insurance market but also from trade bodies representing credit unions and building societies and a wealth management firm. A summary of the feedback received and the PRA's response are integrated into the relevant chapters within this policy statement. Having carefully considered all feedback the PRA believes that the fees for the financial year 2013/14 are appropriate for the PRA to perform its functions. Consequently, no changes have been made to the AFR for the fee year 2013/14 or to the methodology used to recover the costs of regulation from firms.

4. As there have been no changes to the policy consulted on in CP3/13, the PRA believes these proposals remain compatible with the PRA's objectives, consistent with the regulatory principles and do not have significant detrimental impacts on competition. No additional impacts on mutuals or equality and diversity impacts have been identified since consultation.

(1) CP3/13 — Regulated fees and levies: rates proposals for 2013/14.

2 2013/14 PRA final Annual Funding Requirement (AFR) and allocation to fee blocks

5. The AFR is the amount of money the PRA needs to raise to fund its regulatory activities and achieve its business plan. The PRA's AFR for the eleven-month period from 1 April 2013 to 28 February 2014 is set to £214.2 million. This includes £14.8 million of transition costs through which the accumulated regulatory reform costs of the Bank of England ('Bank') are being recovered over a period of five years. The majority of the PRA's funding reflects the budget for Ongoing Regulatory Activity (ORA), which amounts to £199.4 million.

6. The allocation of the ORA across the six PRA-regulated fee blocks and the minimum fee block is set out in **Table 2.A**. This allocation is largely based on staff activity data, which reflects the PRA's focus on the firms that pose the greatest risk to the PRA's objectives. The A1 deposit acceptors fee block accounts for 68% of the ORA (£136.0 million). The insurance fee blocks A3–A6 are allocated 27% of the ORA (£53.3 million), and the firms dealing as principal fee block A10 accounts for 5% (£9.5 million).

Table. 2.A Final 2013/14 AFR

Fee block	Allocation (£ million)
A0 Minimum fee	0.6
A1 Deposit acceptors	136.0
A3 Insurers — general	22.6
A4 Insurers — life	28.1
A5 Managing agents at Lloyds	1.2
A6 The Society of Lloyd's	1.4
A10 Firms dealing as principal	9.5
Total	**199.4**
PT1 PRA Transition Costs	14.8
Total AFR	**214.2**

7. Within each fee block, the costs to be recovered from individual firms are based on the size of the business. The PRA believes that this represents a reasonable proxy for the degree to which firms could potentially cause the greatest harm to the stability of the UK financial system and they will be the main contributors to the PRA's funding needs. Cost recovery from the A1 fee block will be weighted further towards these higher impact firms. Any firm authorised to carry out any of the regulated activities covered by the 'A' fee blocks is subject to the A0 minimum fee.

8. There is no financial penalty discount for PRA-regulated firms for 2013/14, as the PRA has not imposed any financial penalties on firms.

9. Paragraph 31 of Schedule 1ZB of FSMA provides that the PRA may make rules for the payment of fees to cover costs incurred in preparation for the exercise of, or to facilitate the exercise of, the PRA's functions under the Act. The Bank is expecting to spend £73.9 million (excluding capital expenditure) on regulatory reform and the creation of the PRA.

10. The PRA Board has agreed to recover these transition costs over a period of five years from 2013/14 to 2018/19, from all fee blocks (except the minimum fee block), in proportion to the allocation of fees for ORA (**Table 2.B**). The majority of the transition costs will therefore be recovered from deposit acceptors.

Table. 2.B Final 2013/14 AFR including allocation of transition costs

Fee block	ORA (£ million)	Transition costs (£ million)	AFR (£ million)
A0 Minimum fee	0.6	—	0.6
A1 Deposit acceptors	136.0	10.1	146.1
A3 Insurers — general	22.6	1.7	24.3
A4 Insurers — life	28.1	2.1	30.2
A5 Managing agents at Lloyd's	1.2	0.1	1.3
A6 The Society of Lloyd's	1.4	0.1	1.5
A10 Firms dealing as principal	9.5	0.7	10.2
Total	**199.4**	**14.8**	**214.2**

11. Recovery of the transition costs over a five-year period implies that an amount of £14.8 million per year is expected to be added to the PRA's AFR. Capital expenditure incurred by the

Bank during the transition period is being recovered from PRA-regulated firms as part of the costs of ORA.

12. Costs are allocated across fee blocks in two ways:

- Direct costs: these are costs that the PRA is able to allocate to individual fee blocks, eg individual firm supervision and sector-specific policy development. These direct costs include the costs of staff and premises.

- Indirect costs: these are costs that cannot be directly allocated to individual fee blocks, eg thematic supervision, non-sector specific policy development. Fee blocks are also charged a share of overhead costs. These include the cost of shared Information Technology and Human Resource services, as well as other operational support costs needed to support the PRA. All indirect costs are allocated to fee blocks in proportion to the direct cost allocations.

13. As noted above, transition costs are allocated across fee blocks in proportion to the allocation of the ORA.

Summary of representations made

14. Respondents from the building society sector would welcome a review of the fee allocation rules for the deposit taking class arguing that mutual building societies operate lower-risk business models than large banks despite holding similar Modified Eligible Liabilities. This sector did not agree with the joint FCA/PRA increase in AFR, particularly the 2013/14 PRA staff and IT cost budget.

15. All respondents from the insurance sector were disappointed with the rise in the annual funding requirement allocated to insurance fee blocks. The respondents questioned whether the rise is proportionate to the rise in regulatory activity and expressed concern that this rise is in addition to annual double digit increases to the insurance fee blocks in recent years. Respondents felt the increase is much greater than either the insurance industry's income growth rate or the general inflation rate and the same as the rise in the deposit-taking class, in spite of the risk based approach the PRA is adopting. Respondents urged the PRA to strive to achieve cost effective, Value for Money (VfM), prudential regulation and more specifically would like to see the PRA review the basis of the fees structure and the allocation of its costs in the coming year.

16. Insurance sector respondents requested increased transparency and scrutiny of the PRA's budget setting and performance metrics, as well as more transparency on the Bank's transition costs. Society of Lloyd's and representatives of Lloyd's Managing Agents had reservations over the transparency of the AFR proposed for their fee blocks and the PRA charging a disproportionate amount of the Bank's transition costs to these fee blocks. Respondents felt that effective co-ordination with the FCA was an important part of achieving on-going cost efficiencies and suggested earlier consultations on fee proposals.

The PRA's response

AFR and allocation to fee blocks

17. The PRA recognises the different business models between a traditional building society and a large, complex international bank. The PRA considers that this is reflected in its weighting of the A1 fee block towards higher impact firms. The PRA therefore does not consider the A1 fee block weighting to be unfair towards building societies.

18. As already noted 68% of the PRA's AFR is allocated to deposit acceptors, 27% to the insurance fee blocks and 5% to the firms dealing as principal fee block. The PRA considers that the allocation of fees is appropriate. The increase in cost reflects the effort required to embed the new supervisory approach and to work with other regulatory bodies to advance the fulfilment of the PRA's policy holder objectives.

19. Respondents have commented on the increase in staff, IT, central support services and accommodation costs. The PRA increase in staff costs largely reflects the need to embed the judgement-based, forward-looking and risk-focused supervision approach. The PRA will have staff numbers in its areas of prudential supervision that are 5% higher than the FSA equivalent.

20. The PRA's budget for central IT support and project costs includes the costs of the Business Transformation Programme which will complete the transition to the new supervision approach and deliver the data strategy and IT changes that support the new approach. During 2012/13, the Bank's central services functions were expanded and reorganised in preparation for the integration of the PRA. The PRA has also moved into new premises at 20 Moorgate, London, facilitating the integration of the PRA to the Bank as a whole and ensuring that the PRA can draw on the Bank's central services in an efficient and effective manner.

21. The FCA and PRA are committed to sharing information and information systems effectively, and recognise the importance of effective co-ordination in this area. The PRA does not plan to increase its costs in real terms except in relation to specific new policy initiatives, for example the implementation of the Banking Reform Bill 2013. The PRA will, subject to the provisions in the Financial Services Act 2012, take into account the overall fee burden upon PRA/FCA dual-regulated firms when setting annual fees.

22. The PRA is engaged with the FCA on its initiative to review its fees structure and will consider any impact that this may

have on the basis of the PRA's fee allocation to the fee blocks and individual firms. The PRA commits to using, and continuously improving, subject to industry consultation, fair and equitable methods for allocating the PRA AFR to PRA firms.

Value for Money

23. The PRA will make every effort to reduce its costs and take advantage of sharing support costs with the Bank and seek efficiencies in its operations as part of any Bank wide VfM initiatives. A VfM review has been planned by the Bank's Court of Directors for 2013/14, focusing on IT costs across the Bank and PRA.

24. The National Audit Office, as the PRA's auditor, is able to instigate VfM reviews into different aspects of the PRA's operations. Separately, in reaching the five-yearly Cash Ratio Deposit (CRD) settlement for the Bank's policy functions with HM Treasury, scope for additional efficiency savings has been identified in corporate services areas, which will be implemented during the five-year period from 2013–18. HM Treasury plan to review efficiency savings identified by the Bank once the PRA shared corporate services model has been established.

PRA budget governance

25. The Bank draws up the annual PRA budget in the same way in which it does for its own yearly spending plans. The budget is subject to internal review and challenge before approval by the PRA Board and Court. As with all areas of the Bank, the PRA has a business plan for the year, which sets out a number of key performance indicators and objectives and how those relate to the Bank's business aims and strategic priorities. Individual divisions' plans both feed into and are informed by the Bank wide budget and business plan. Court's general objective for the PRA is that it should operate at less cost than the equivalent functions would at the FSA.

26. It should be noted that the PRA's budget for the financial year 2013/14 was anchored by a counterfactual cost estimate developed by the Bank in co-operation with the FSA to assess the future cost of prudential regulation on the basis that the FSA had not been disbanded. The budget now approved by the PRA Board for the PRA's ORA during 2013/14 is below the cost estimate developed during this VfM assessment.

Performance measurement

27. The PRA is subject to both its own and the Bank's performance monitoring processes which includes review by the PRA Executive Committee and the Board of the financial and non-financial metrics that measure the performance of the PRA's supervisory and policy functions, as well as the services provided by the Bank's support functions. Court monitors the performance of all divisions through a Quarterly Performance Report, which provides a review of performance against both agreed benchmarks and performance in previous quarters.

Transition costs

28. The total costs relating to the set-up of the PRA are expected to be £97.0 million of which £87.5 million had been incurred by the end of the 2012/13 financial year. £23.1 million of the final costs expected to be incurred relate to capital expenditure and as already noted will be charged to fee-payers through the costs of ongoing regulatory activity whilst £73.9 million will be charged through the transition costs fee block over a five-year period.

3 2013/14 PRA periodic fee policy and cost recovery rules

29. This chapter sets out the final PRA 2013/14 periodic fees of authorised firms. The corresponding final rules are set out in FEES 4, Annex 2BR in Appendix 1.

Proposed minimum periodic fees 2013/14

30. All PRA-regulated firms are subject to the A0 minimum fee so that all PRA firms contribute to the cost of regulation.

31. The minimum fee for 2013/14 is split equally between the FCA and the PRA and is maintained at £1,000, the same level as set by the FSA in the past three years. Accordingly, the PRA minimum fee for the firms it regulates is £500 and to be paid by all authorised firms in the PRA-regulated fee blocks, with 50% of PRA-regulated firms paying the minimum fee only.

32. Exceptions from paying the standard minimum fee are (i) where an exception can be justified and (ii) where the firm is a small low-impact firm, as set out in Part 2 of FEES 4 Annex 1BR.

Proposed variable periodic fees

33. Costs allocated to the 'A' fee blocks are recovered on a straight-line basis, that is, in direct proportion to the size of the permitted business firms undertake in these fee blocks (**Table 3.A**).

34. The final periodic rates for 2013/14 as listed in **Table 3.A** are updated from CP3/13 and are calculated using (i) the number of fee-payers in each fee block as at 1 April 2013, excluding those who have applied to cancel their permissions and (ii) the tariff data for each fee-payer, which is generally based on the fee-payer's activity reported to the FSA as at 31 December 2012.

Summary of representations made

35. Almost half of the respondents commented on the proposals to keep the PRA 2013/14 minimum fees flat. The insurance sector respondents were disappointed that the minimum fee had not increased in the past three years and would have welcomed a rise to lessen the burden on the medium and larger firms.

36. Representations from credit unions were supportive of the continuation of reduced minimum fees and the fee premium applied to the largest and most systemically important firms in the deposit-taking class. Some would even welcome that all credit unions be treated as exceptions from paying the standard minimum fee regardless of size due to the inherent lower levels of risk and regulatory oversight required by credit unions as a result of the scale and lack of complexity in the business models.

Table 3.A Final 2013/14 periodic fee rates have been calculated using the latest data on firm populations

		2013/14		
Fee Block	Tariff base	AFR (£ million)	Number of fee payers	Tariff base
A0 Minimum fee	Minimum fee	0.6	1,571	n.a.
A1 Deposit acceptors	Modified eligible liabilities	136.0	912	£2,818.1 billion
A3 Insurers – general	Gross premium income Gross technical reserves	22.6	389	£62.3 billion £131.8 billion
A4 Insurers — life	Adjusted gross premium income Mathematical reserves	28.1	215	£59.3 billion £876.7 billion
A5 Managing agents at Lloyds	Active capacity	1.2	60	£24.8 billion
A10 Firms dealing as principal	Number of traders	9.5	11	2,110
PT01	Transition costs	14.8	1,572	n.a.

The PRA's response

37. All PRA-regulated firms are subject to the minimum fee so that all PRA firms contribute to the cost of regulation. The PRA has not made any increase to the minimum fee this year as any rise in the minimum fee the PRA consider to be reasonable for smaller firms, does not have a material impact on the fees recovered from medium and large firms. The PRA intends to review the basis for levying minimum fees during 2013/14.

4 2013/14 PRA final Solvency II special project fees

38. The recovery of the project development and implementation costs of Solvency II (SII) fall outside the PRA's AFR and will be recovered by a special project fee (SPF). There are two types of SII SPF in progress, (i) the Internal Model Approval Process (IMAP) SPF and (ii) the Non-IMAP SPF. Both these SPF will be charged to firms in fee blocks: A3 (Insurers — general), A4 (Insurers — life) and A6 (The Society of Lloyd's). A change from the consultation is that a minimum fee is applied to the Gross Premium Income element of the A3 and A4 fee blocks and to the Mathematical Reserves element of the A4 fee block to recover Solvency II implementation costs as intended and as previously applied by the FSA. The corresponding rules are set out in FEES 4, Annex 2BR.

39. The PRA's SPF budget for 2013/14 reflects the new planning horizon to 31 December 2015, which was announced on 22 October 2012. This revised timetable, from the expectation last year, also accounts for the actual under spend against the 2012/13 budget.

40. **Table 4.A** sets out the 2013/14 budget and impact of the 2012/13 under spend.

Table 4.A 2013/14 budget and impact of 2012/13 under spend

	IMAP (£ million)	Non-IMAP (£ million)	Total
2012/13 final recovery from firms	7.2	8.1	15.3
2012/13 actual (costs)/recovery	(4.3)	3.1	(1.2)
2012/13 under spend	**2.9**	**11.2**	**14.1**
2013/14 budgeted costs	6.0	6.7	12.7
Adjustment for eleven-month period[a]	-0.6	-0.5	-1.1
2013/14 eleven-month period budgeted costs	**5.4**	**6.2**	**11.6**
2013/14 eleven-month period budgeted costs/(recovery)	**2.5**	**(5.0)**	**(2.5)**

(a) To reflect that the PRA's financial year is 1 March to 28 February (the FSA's was 1 April to 31 March) and that for 2013/14 the PRA's fee period will be eleven months from 1 April 2013.

IMAP SPF for 2013/14

41. For 2013/14, the IMAP SPF will continue to recover the costs of developing and implementing the framework relating to IMAP; and costs incurred when considering internal models submitted for review by firms.

42. The 2013/14 IMAP SPF will be payable if before 1 June 2013:

- a firm, or a member of the group of which the firm is also a member (in either case, the 'recipient'), received a written communication from the PRA (or previously from the FSA), that it has met the criteria for entry into the internal model pre-application process; and

- the recipient has not informed the PRA (or previously the FSA) in writing that it wishes to withdraw from that internal model pre-application process, or has been informed by the PRA (or previously the FSA) in writing that it is no longer in that process.

Allocating IMAP SPF costs across A3, A4 and A6 fee blocks

43. The PRA will allocate the 2013/14 estimated IMAP SPF costs on the same basis as 2012/13. The PRA will allocate these costs to A3 and A4 in proportion to the total periodic fees levied in 2012/13. For the A6 (Lloyd's) fee block, whose periodic fees are calculated on an individual basis, the PRA will allocate £272,293.

Recovering the IMAP SPF allocation from A3 and A4 fee blocks

44. The £2.5 million estimated IMAP SPF costs for 2013/14, which have been allocated to the A3 and A4 fee blocks, will be recovered from the firms to which this fee applies in proportion to their size (straight line recovery) using the same measures of size used to calculate their periodic fees (premium income and liabilities), as in previous years. This approach will continue to ensure that small and medium-sized firms pay proportionately less than larger firms, and so will broadly reflect the level of engagement the PRA expects to have with firms. As with periodic fees the amount of IMAP SPF will not directly relate to the actual resources applied to individual firms.

Non-IMAP SPF for 2013/14

45. The non-IMAP SPF recovers the other costs the PRA incurs to implement SII, including: the costs of staff recruitment, staff training, revised supervisory processes (other than IMAP)

and developing and putting in place the technology required to support SII reporting and the supervision process.

46. As set out in **Table 4.A** above the estimated non-IMAP budget for 2013/14 is £6.7 million. Taking into account the 2012/13 under spend and the adjustment for an eleven-month fee period, the 2013/14 budget can be funded from the 2012/13 fees already paid by non-IMAP firms. This leaves an over-recovery amounting to an estimated £5.0 million.

47. The PRA proposes to return this over-recovery of fees to firms who paid non-IMAP fees for 2012/13 as a credit against their other fees payable in 2013/14. The PRA proposes to allocate this estimated £5.0 million credit in the same way as non-IMAP SPF costs were allocated for 2012/13 — allocated to the A3, A4 and A6 fee blocks in proportion to the total periodic fees raised in 2012/13.

48. The apportionment of the credit allocated to firms within the A3 and A4 fee blocks will be in proportion to the same tariff data (measures of size) used to calculate 2013/14 periodic fees levied.

49. No non-IMAP SPF will be levied for 2013/14.

Summary of representations made

50. Respondents from the insurance sector specifically commented on these proposals and agreed with the IMAP SPF for 2013/14 and the circumstances under which it becomes payable by firms. Respondents welcomed the downward trend in the IMAP SPF fees for 2013/14 reflecting the revised timetable for SII implementation. Firms expect the overall IMAP budget to decrease from February 2014 in the run-up to SII go-live and would welcome SPF allocations to reflect a firm's progress through IMAP and hence more accurately representing the supervisory resources assigned. The rationale for levying an IMAP SPF for 2013/14 at a time when development of SII has halted was questioned by some; specifically that development of ICAS+ is a progression of the current regulatory regime and as such does not justify a new SPF to be levied.

51. There were no issues raised by the respondents from the insurance sector regarding the proposed basis for treating the 2012/13 over recovery of the non-IMAP fees.

The PRA's response

52. Although there remains uncertainty over SII, the PRA continues implementation and IMAP activity at reduced levels, resulting in the need for a SPF, albeit a considerably lower amount to previous years. Whilst ICAS+ is a progression of the current regulatory regime, the PRA is reviewing Internal Models for both ICAS and SII purposes, resulting in additional activity for SII which is charged to the SPF.

5 2013/14 PRA Financial penalty scheme

53. The PRA financial penalty scheme is made pursuant to paragraph 28 of Schedule 1ZB of FSMA, which sets out how the PRA should treat financial penalties it imposes on firms. The key statutory requirements include:

- Financial penalties received by the PRA must be paid to HM Treasury net of certain enforcement costs incurred in the financial year in which the penalties were received. These enforcement costs, which are subject to HM Treasury approval, represent the 'retained penalties';

- In relation to retained penalties, the PRA must prepare and operate a scheme (the 'Financial penalty scheme') for ensuring that retained penalties are applied for the benefit of firms; and

- Firms that have become liable to pay any penalty to the PRA in any financial year do not receive any benefit from any penalty imposed on any firm under the scheme in the following financial year.

54. The PRA will apply retained penalties paid in any financial year as a rebate to the periodic fees paid in the following financial year by firms in the following fee blocks:

- A1 Deposit acceptors;
- A3 Insurers — general;
- A4 Insurers — life;
- A5 Managing Agents at Lloyd's;
- A6 The Society of Lloyd's; and
- A10 Firms dealing as principal.

55. The total retained penalties from any financial year will be allocated across these fee blocks in proportion to the allocation of fees for ongoing regulatory activity for the following financial year except for the firm(s) upon whom any penalty was levied.

56. Enforcement costs are not allocated to the A0 minimum fee block or the PT.1 PRA Transition costs fee block. Retained penalties will not therefore be allocated to these fee blocks.

57. Each year the PRA will publish a schedule setting out the:

- total retained penalties in the previous year;
- amount of retained penalties allocated to each fee block; and
- percentage rebate that will be applied in the following year to the periodic fees paid by the firms in those fee blocks.

Summary of representations made

58. Respondents were in agreement with the proposed financial penalty scheme.

Annex 1 PRA fees timetable and invoicing arrangements

Date	Event	Description	Action needed by firms
January	Tariff data collection exercise.	The FCA contacts all relevant applicable fee payers with a written request for their tariff data on which their PRA fees will be based.	Complete and return tariff data sheets to the FCA by 28 February.
28 February	Applications to vary or cancel Part 4A permissions.	Dual-regulated firms[(a)] that want to vary or cancel their PRA permission and do not want to be liable for the full periodic fees in the following PRA fee year.	Written applications to vary or cancel permissions must be received by 28 February. If such applications are approved by the PRA (and the FCA where relevant) by 30 June, no periodic fees will be payable in the following fee year.
30 April	'On-account' fee due from higher fee-payers.	Firms that paid combined periodic fees to the PRA and FCA of at least £50,000 in the previous year must pay 50% of the amount paid in that year 'on-account' towards their PRA and FCA fees in the following year. See note (i) below for transitional arrangements for the fee year 2013/14.	Pay 'on-account' invoices no later than 30 April.
July onwards	Invoicing for all other firms.		Pay invoices within 30 days of receiving them.
August	Balance due from 'on-account' fee-payers.		Pay invoices by 1 September.

Note (i): For the fee year 2013/14, the £50,000 threshold that triggers the payment of 'on-account' fees will be based on the fees paid to the FSA in 2012/13 and the 'on-account' payment based on 50% of those fees paid. The FSA sent out invoices for the 'on-account' payments before 1 April 2013. If a firm has paid its 'on-account' fees for 2013/14 before 1 April, it will not be liable to pay an 'on-account' fee to either the PRA or the FCA.

(a) Firms authorised by and subject to the prudential supervision of the PRA and conduct supervision by the FCA (so-called 'dual-regulated firms').

Summary of representations made

One of the insurance firms questioned the PRA timetable for changing/cancelling permissions during a fee-paying year and suggested that the PRA reconsider this policy to offer refunds of fees to firms reducing or decreasing the scope of their permissions during a fee paying year. In addition the firm considers 'on-account' fee arrangements to weigh too heavily in the favour of the regulator, despite the facility to pay by direct debit\standing order, and encourages the PRA to introduce changes to the 'on-account system' of fees payment.

The PRA's response

The final 2013/14 tariff rates are set at a level to ensure the PRA recovers the AFR. No contingency is included in these rates for changes in firm populations or activities. If the PRA were to give refunds due to a change in a firm's permissions during the fee year, a higher fee would have to be collected from all firms to ensure funds were available to do so. The FSA has previously consulted on such an arrangement which was not received favourably.

The 'on-account' fee timetable requires firms to pay in the first month of the PRA's operation to avoid unnecessary overdraft costs that would otherwise be passed back to firms.

PRA PERIODIC FEES (2013/14) AND OTHER FEES INSTRUMENT 2013

Powers exercised by the Prudential Regulation Authority

A. The Prudential Regulation 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 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 listed above are specified for the purpose of section 138G (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on 1 July 2013.

Amendments to the Handbook

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

Notes

E. In the Annex to this instrument, the "notes" (indicated by "**Note:**") are included for the convenience of readers but do not form part of the legislative text.

Citation

F. This instrument may be cited as the PRA Periodic Fees (2013/2014) and Other Fees Instrument 2013.

By order of the Board of the Prudential Regulation Authority

27 June 2013

Annex

Amendments to the Fees manual (FEES)

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

3 Application, Notification and Vetting Fees

…

Method of payment

3.2.3 R (1) …

…

(3) The sum payable under *FEES* 3.2.1R by a *firm* applying for a variation of its *Part 4A permission* (*FEES* 3.2.7R and, if applicable, *FEES* 3.2.7AR(c)) must be paid by any of the methods described in (1) or by Maestro, <u>Visa Debit</u> or credit card (Visa/Mastercard only). Any payment by a permitted credit card must include an additional 2% of the sum paid.

…

4 Periodic fees

4.1 Introduction

…

Background

4.1.3 G

~~**[Note:** References to the fee period 1 April 2012 to 31 March 2013 have been updated to 1 April 2013 to 31 March 2014 in respect of the *FCA* and 1 April 2013 to 28 February 2014 in respect of the *PRA* to put into effect the rule changes contained in the Legal Cutover (Fees) Instrument 2013 only. The tariff rates set out in the *FEES* 4 Annexes have not yet been updated for the 2013/2014 *fee year*. The rates for the 2013/2014 *fee year* will be made by the *FCA* and *PRA* boards in June, following a consultation on a separate fees rates instrument expected to be published in March 2013.]~~<u> [deleted].</u>

...

4.2 Obligation to pay periodic fees

…

Method of payment

4.2.4 R (1) A periodic fee must be paid using either direct debit, credit transfer (BACS/CHAPS), cheque, Maestro<u>, Visa Debit </u>or by credit card (Visa/Mastercard only). Any payment by permitted credit card must include an additional 2% of the sum paid.

…

(2) …

…

4.3 Periodic fees payable by firms (other than ICVCs and UCITS qualifiers)

…

Time of payment

4.3.6 R …

(5A) (in relation to *PRA-authorised persons* only) paragraphs (1A) and (2) do not apply to any Solvency 2 Special Project fee or Solvency 2 Implementation fee (as defined in *FEES* 4 Annex 2BR) and such fees are not taken into account for the purposes of the split in (1A). Instead any Solvency 2 Special Project fee or Solvency 2 Implementation fee is payable on the date specified in (1A)(b) or (2) (depending on which applies to the rest of its periodic fee) or any earlier date required by (3) or (4).

…

4 Annex 2BR PRA fee rates and EEA/Treaty firm modifications for the period from 1 April 2013 to 28 February 2014

Part 1 This table shows the tariff rates applicable to each of the fee blocks set out in Part 1 of *FEES* 4 Annex 1BR.		
…		
Note	In the case of activity groups A.3 and A.4 there are three tariff rates. The rate in column 1 applies to all *firms* in their respective fee-blocks. The rate in column 2 relates to the Solvency 2 Implementation fee and *firms* must determine their obligation to pay this fee by reference to Part 5 of this Annex. The rate in Column 3 relates to the Solvency 2 Special Project fee and *firms* must determine their obligation to pay this fee by reference to Part 4 of this annex. The total periodic fee for each of these fee-blocks is determined by adding the amounts obtained under all three columns, as applicable.	
Activity group	Fee payable	
A.1	Band width (£ million of Modified Eligible Liabilities (MELs))	Fee (£/£m or part £m of MELs)
		General Periodic fee

	>10 – 140	~~[tbc]~~ 33.38		
	>140 – 630	~~[tbc]~~ 33.38		
	>630 – 1,580	~~[tbc]~~ 33.38		
	>1,580 – 13,400	~~[tbc]~~ 41.73		
	>13,400	~~[tbc]~~ 55.08		
A.3	Gross premium income (GPI)	Column 1 General periodic fee	Column 2 Solvency 2 implementation fee	Column 3 Solvency 2 special project fee
	Minimum fee (£)	~~[tbc]~~Not applicable	25.00	25.00
	Band Width (£ million of GPI)	Fee (£/£m or part £m of GPI)		
	>0.5 – 10.5	~~[tbc]~~ 370.25	-27.03	20.84
	>10.5 – 30	~~[tbc]~~ 370.25	-27.03	20.84
	>30 – 245	~~[tbc]~~ 370.25	-27.03	20.84
	>245 – 1,900	~~[tbc]~~ 370.25	-27.03	20.84
	>1,900	~~[tbc]~~ 370.25	-27.03	20.84
	Plus			
	Gross technical liabilities (GTL)	Column 1 General periodic fee	Column 2 Solvency 2 implementation fee	Column 3 Solvency 2 special project fee
	Band Width (£ million of GTL)	Fee (£/£m or part £m of GTL)		
	>1 – 12.5	~~[tbc]~~ 19.93	-1.41	1.22
	>12.5 – 70	~~[tbc]~~ 19.93	-1.41	1.22
	>70 – 384	~~[tbc]~~ 19.93	-1.41	1.22
	>384 – 3,750	~~[tbc]~~ 19.93	-1.41	1.22
	>3,750	~~[tbc]~~ 19.93	-1.41	1.22
	For *UK ISPVs* the tariff rates are not relevant and a flat fee of ~~[tbc]~~ £430.00 is payable in respect of each *fee year* ~~[tbc])~~.			

A.4	Adjusted annual gross premium income (AGPI)	Column 1 General periodic fee	Column 2 Solvency 2 implementation fee	Column 3 Solvency 2 special project fee
	Minimum fee (£)	~~[tbc]~~ Not applicable	25.00	25.00
	Band Width (£ million of AGPI)	Fee (£/£m or part £m of AGPI)		
	>1 – 5	~~[tbc]~~ 360.32	-38.31	20.39
	>5 – 40	~~[tbc]~~ 360.32	-38.31	20.39
	>40 – 260	~~[tbc]~~ 360.32	-38.31	20.39
	>260 – 4,000	~~[tbc]~~ 360.32	-38.31	20.39
	>4,000	~~[tbc]~~ 360.32	-38.31	20.39
	PLUS			
	Mathematical reserves (MR)	Column 1 General Periodic fee	Column 2 Solvency 2 implementation fee	Column 3 Solvency 2 special project fee
	Minimum fee (£)	~~[tbc]~~ Not applicable	25.00	25.00
	Band Width (£ million of MR)	Fee (£/£m or part £m of MR)		
	>1 –20	~~[tbc]~~ 8.06	-0.86	0.44
	>20 – 270	~~[tbc]~~ 8.06	-0.86	0.44
	>270 – 7,000	~~[tbc]~~ 8.06	-0.86	0.44
	>7,000 – 45,000	~~[tbc]~~ 8.06	-0.86	0.44
	>45,000	~~[tbc]~~ 8.06	-0.86	0.44
A.5	Band Width (£ million of Active Capacity (AC))	Fee (£/£m or part £m of AC)		
	>50 – 150	~~[tbc]~~ 54.36		
	>150 – 250	~~[tbc]~~ 54.36		
	>250 – 500	~~[tbc]~~ 54.36		

	>500 – 1,000	~~[tbc]~~ <u>54.36</u>	
	>1,000	~~[tbc]~~ <u>54.36</u>	
A.6	Flat fee <u>Solvency 2 Special Project Flat Fee (£)</u> <u>Solvency 2 Implementation Flat Fee (£)</u>	~~[tbc]~~ <u>1,394,436.00</u> <u>272,293.06</u> <u>-92,775.96</u>	
A.10	Band Width (No. of traders)		Fee (£/trader)
	2 – 3		~~[tbc]~~ <u>4,507.98</u>
	4 – 5		~~[tbc]~~ <u>4,507.98</u>
	6 – 30		~~[tbc]~~ <u>4,507.98</u>
	31 – 180		~~[tbc]~~ <u>4,507.98</u>
	>180		~~[tbc]~~ <u>4,507.98</u>

Part 2 This table sets out the tariff rate applicable to each of the fee blocks set out in Part 2 of *FEES* 4 Annex 1BR			
PA.0	(1)	The minimum fee payable by any *firm* referred to in (3) is ~~[tbc]~~ <u>500</u> unless:	
		(a)	it is a *credit union* that meets the conditions in (2), in which case the minimum fee payable is as set out in (2); or
		(b)	it is a *non-directive friendly society* that falls into the A.3 activity group but not the A.4 activity group and meets the conditions set out in (3)(a), in which case the minimum fee payable is ~~[tbc]~~<u>215</u>; or.
		(c)	it is a *non-directive friendly society* that falls into the A.4 activity group but not the A.3 activity group and meets the conditions in (3)(b), in which case the minimum fee payable is ~~[tbc]~~<u>215</u>; or
		(d)	it is a *non-directive friendly society* that falls into the A.3 and A.4 activity groups and meets the conditions in (3)(a) and (3)(b), in which case the minimum fee payable is ~~[tbc]~~215;
	(2)	The conditions referred to in (1)(a) are that the *credit union* has a tariff base (Modified Eligible Liabilities) of:	
		(a)	0 to 0.5million, in which case a minimum fee of ~~[tbc]~~80 is payable; or
		(b)	greater than 0.5millon but less than 2.0million, in which case a

			minimum fee of ~~[tbc]~~270 is payable.
	(3)	The conditions referred to in (1) are that:	
		(a)	…
PT.1	Periodic fees payable under Part 1 multiplied by rate ~~[tbc]~~ £0.0745		

Part 3 ...

Part 4		
This part sets out when a Solvency 2 Special Project fee is due for *firms* falling into fee block A.3 or A.4.		
(1)	The Solvency 2 Special Project fee forms part of the periodic fee payable under fee blocks A.3 and A.4.	
(2)	The Solvency 2 Special Project fee is only payable by a *firm* if it meets the conditions in Part 5 and the condition set out in paragraph (3) of this Part.	
(3)	The condition is that before 1 June 2013 the *firm*, or a member of the group of which the *firm* is also a member (in either case, the recipient), received a written communication from the *FSA* or, on or after 1 April 2013, the *PRA* that it has met the criteria for entry into pre-Internal Model Approval Process status (pre-IMAP) and the recipient remains in pre-IMAP status on 1 June 2013.	
(4)	For the purposes of (3), the recipient will be deemed to remain in pre-IMAP status unless, before 1 June 2013:	
	(a)	the recipient informs the *FSA* or, on or after 1 April 2013, the *PRA* in writing that it wishes to withdraw from pre-IMAP status; or
	(b)	the recipient has been informed by the *FSA* or, on or after the 1 April 2013, the *PRA* in writing that it is no longer in pre-IMAP status.
(5)	For the purposes of this Part, a reference to pre-IMAP means the status achieved by the recipient by joining the process established by the *FSA* whereby the *FSA* or, on or after 1 April 2013, the *PRA* and the recipient engage with a view to the *FSA* or, on or after 1 April 2013, the *PRA* establishing whether an internal model developed by the recipient is likely to meet the tests and standards specified in the *Solvency 2 Directive*.	
(6)	*FEES* 4.2.6R and *FEES* 4.2.7R do not apply to the Solvency 2 Special Project Fee.	

Part 5
This Part sets out when a Solvency 2 Implementation fee is due for *firms* in the A.3 and A.4 fee blocks.

(1)	The Solvency 2 Implementation fee is only payable by a *firm* if it meets all the conditions in (2) and neither of the conditions in (3).		
(2)	The conditions in this paragraph are:		
	(a)	*FEES* 4.3.13R (Firms Applying to Cancel or Vary Permission Before Start of Period) does not apply with respect to the relevant fee blocks;	
	(b)	the *firm* has not notified the *FSA* before the start of the 2013/2014 fee year that it intends to migrate out of the *United Kingdom* for regulatory purposes before the *Solvency 2 Directive* is implemented;	
	(c)	it meets either of the following conditions:	
		(i)	its gross premium income or adjusted gross premium income, as appropriate, referred to in *FEES* 4 Annex 1R Part 2, exceeds EUR 5 million at the end of the financial year ended in the calendar year ending 31 December prior to the 2013/2014 *fee year*; or
		(ii)	its gross technical liabilities or mathematic reserves, as appropriate, referred to in *FEES* 4 Annex 1R Part 2, exceed EUR 25 million at the end of the financial year ended in the calendar year ending 31 December prior to the 2013/2014 *fee year*;
	(d)	it was in one or both of the insurance fee blocks at the start of the 2013/2014 *fee year*;	
	(e)	it is not an *incoming EEA firm* or an *incoming Treaty firm*;	
(3)	The conditions in this paragraph are:		
	(a)	the *firm* is a *reinsurance undertaking* that has, by 10 December 2007, ceased to conduct a new *insurance business* and only administers its existing portfolio in order to terminate its activity as a *reinsurance undertaking*;	
	(b)	it is a *reinsurance undertaking* whose *insurance business* is conducted or fully guaranteed by the *United Kingdom* government for reasons of substantial public interest in the capacity of the *reinsurer* of last resort.	
(4)	Where a *firm* has notified the *FSA* or, on or after 1 April 2013, the *PRA* that it intends to migrate out of the *United Kingdom* for regulatory purposes before the *Solvency 2 Directive* is implemented in the *United Kingdom* but when the *Solvency 2 Directive* is implemented that *firm* remains in the *United Kingdom* for regulatory purposes, it must pay the Solvency 2 Implementation fee for each *FSA* financial year and each *PRA fee year* commencing 1 April 2013 for which the Solvency 2 Implementation fee would have applied to the *firm* but for the *firm* notifying the *FSA* or the *PRA* of its intention to migrate.		
(5)	Where a *firm* is required to pay a Solvency 2 Implementation fee because of the circumstances described in (4) it must pay this fee within 30 *days* of the date of the invoice.		
(6)	For the purposes of this Part, the exchange rate from the Euro to the pound sterling is calculated as at the last day of October preceding the financial year of the *FSA* or, on or after 1 April 2013, the *PRA fee year* in question for which the exchange rates for the currencies of all European Union member states were published in the Official Journal of the European Union.		

(7)	*FEES* 4.2.6R and *FEES* 4.2.7R do not apply to the Solvency 2 Implementation fee.