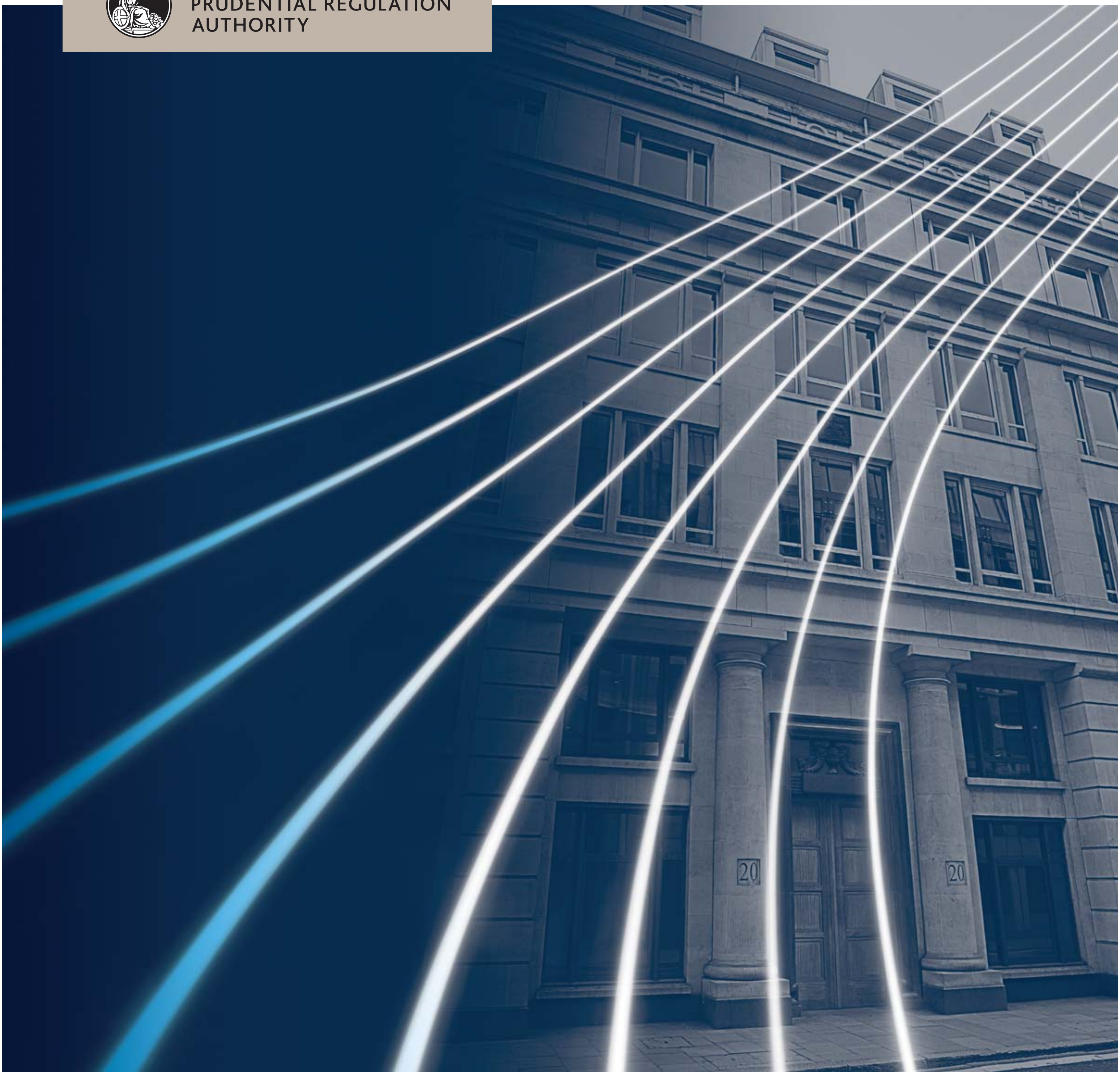
Policy Statement | PS6/14

Regulated fees and levies: rates for 2014/15

July 2014

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY



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AUTHORITY

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This policy statement sets out the final fee rates to meet the Prudential Regulation Authority's 2014/15 Annual Funding Requirement and Special Project Fee for Solvency II.

Contents

1 Overview

Introduction

1.1 In April 2014, the Prudential Regulation Authority (PRA) published a consultation paper[1] (CP) on:

- The Annual Funding Requirement and allocation to fee blocks for 2014/15;
- The Special Project Fees for Solvency II for 2014/15; and
- a refund of the underspend for 2013/14.

1.2 This policy statement summarises the feedback received on the CP, provides the PRA's response to this feedback and sets out the final fee rules.[2] This statement is relevant to all PRA-authorised firms.

1.3 The PRA received a number of responses to the CP. These came primarily from trade bodies and firms representing the insurance industry, credit unions and building societies. The PRA response to feedback is in Chapter 2.

1.4 Having carefully considered the feedback, the PRA deems that the rules set out in this policy statement are appropriate for the PRA to effectively perform its functions. One amendment has been made to the proposed rules in relation to the refund of any underspend for the prior year as set out in Chapters 2 and 4.

Annual Funding Requirement and allocation to fee blocks

1.5 The PRA's budgeted cost of Ongoing Regulatory Activities for 2014/15 is £232 million. Transition costs to be recovered for 2014/15 amount to £14.8 million, which represents the accumulated regulatory reform costs that are being recovered over a period of five years. The PRA's resulting Annual Funding Requirement for 2014/15 is £246.8 million.

1.6 The allocation of costs to fee blocks differs to the previous fee year. This is due to the allocation of a greater proportion of front-line staff to insurance supervision work and the PRA's expanded remit in relation to specific new policy initiatives or where the scope of the work being undertaken is at a substantially enhanced level or to a shortened timescale.

Special Project Fees for Solvency II

1.7 The PRA will continue to levy a Special Project Fee for Solvency II in relation to non-internal model approval process (IMAP) activity. The non-IMAP Solvency II Special Project Fee for 2014/15 is £13.2 million.

Refund of underspend for 2013/14

1.8 The PRA's final underspend for the eleven-month period from 1 April 2013 to 28 February 2014 was £23 million, and this amount will be refunded to firms. This is comprised of a lower spend than the amount levied on:

- Ongoing Regulatory Activities of £20.3 million;
- the IMAP Solvency II Special Project Fee of £1.1 million; and
- the non-IMAP Solvency II Special Project Fee of £1.6 million.

1.9 The amount of the underspend allocated to firms within fee blocks has been calculated based on the firm population and tariff data for 2013/14 and excludes new entrants for 2014/15 and firms that, although regulated in 2013/14, are no longer regulated. As explained further in Chapter 4, this is different to the CP, which allocated the underspend to firms within fee blocks based on the firm population and tariff data for 2014/15. Hence new entrants for 2014/15 will no longer benefit from any underspend for 2013/14. The PRA deems it more equitable to refund any underspend, or invoice for any overspend, based on the firm population and reference data for the year to which the refund or additional fee relates.

1.10 Other than the difference in the treatment of the underspend, no amendments have been made to the rules as consulted on in the CP. No additional impacts on mutual societies have been identified since the CP. The PRA has had due regard to equality and diversity issues and the conclusion reached is that the rules do not give rise to any discrimination issues and are of low relevance to the equality agenda.

(1) *PRA Consultation Paper CP8/14*, 'Regulated fees and levies: rates proposals 2014/15', April 2014; www.bankofengland.co.uk/pra/Pages/publications/feesandleviescp814.aspx.
(2) See appendix.

2 The Annual Funding Requirement for 2014/15

Feedback on the CP

2.1 The PRA received a number of responses to the CP. These came primarily from trade bodies and firms representing the insurance industry, credit unions and building societies. This section summarises the feedback received and the PRA's response.

2.2 Most respondents cited the fact that the National Audit Office (NAO) had recently undertaken a value for money review[1] of financial regulation — covering both the Financial Conduct Authority (FCA) and the PRA — and welcomed its findings. They felt that the PRA should consider its findings carefully when fee structures are contemplated. Respondents also cited a lack of transparency concerning the basis on which the fee structure is based. Some noted that the FCA provided more detail than the PRA on its fee structures and felt that the PRA should emulate the FCA's publication of a Business Plan.

2.3 As highlighted by the NAO, appropriate resourcing remains a significant challenge for the PRA and levels of staff turnover continue to be higher than expected. The PRA is in the process of reviewing and implementing some of the recommendations made by the NAO, including greater transparency regarding publication of fee blocks.

2.4 The PRA has discussed the review of its fee structure with the FCA and continues to assess the potential impact on firms of this review. 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.

2.5 Respondents from the insurance industry noted that an increase in 'frontline supervision' was cited in the CP as a rationale for increased costs, but felt that there was limited evidence of this. Insurance sector responses also noted that the overall cost of regulation (both PRA, FCA and s166 costs) had gone up significantly for the industry as a whole. Respondents sought further clarification on the rationale behind the allocation of costs.

2.6 The PRA considers that the allocation of fees is appropriate. The increase in cost reflects the need to continue to attract high-quality staff and the effort required to embed the new supervisory approach and to work with other regulatory bodies to advance the fulfilment of the PRA's policyholder objectives. The PRA will, in accordance with the Financial Services and Markets Act 2000 (as amended), take into account the overall fee burden upon PRA/FCA dual-regulated firms when setting annual fees. This increase is consistent with the commitment made, ahead of legal cutover, by the PRA on costs. Further detail on the allocation of fees within fee blocks is set out in this chapter.

2.7 Having carefully considered the feedback, the PRA deems that the rules in this policy statement are appropriate for the effective performance of its functions, remain compatible with the PRA's objectives and Regulatory Principles and do not have a detrimental impact on competition.

The 2014/15 Annual Funding Requirement and comparison to the 2013/14 Requirement

2.8 The Annual Funding Requirement is the amount of money that the PRA needs to raise to fund the regulatory activities required to meet its statutory objectives. This section sets out the factors that determine the PRA's Annual Funding Requirement for 2014/15, the final Annual Funding Requirement and the principal movements from the Annual Funding Requirement for 2013/14. The final rules are set out in the rules instrument in the appendix.

2.9 The PRA's Annual Funding Requirement for 2014/15 reflects the budget for Ongoing Regulatory Activities, which amounts to £232 million and the recovery of transition costs which amounts to £14.8 million.

2.10 **Table 2.A** shows the calculation of the PRA's total Annual Funding Requirement for 2014/15, which is an increase of 4% on the PRA's Annual Funding Requirement for 2013/14.

2.11 In order to provide greater transparency over the components and allocation of fees, be more equitable to fee payers for 2013/14 and remain in line with the PRA's accounting policies, the prior year underspend has been separated from the Annual Funding Requirement for 2014/15 and will be refunded separately. Hence the Annual Funding Requirement for 2014/15 is higher than the one presented in the CP. This has resulted in changes in the rates within the final instrument as set out in the appendix compared to the

(1) www.nao.org.uk/report/regulating-financial-services/.

Table 2.A 2014/15 budget Annual Funding Requirement calculation and movement from 2013/14 budget Annual Funding Requirement

£ millions

	2014/15	2013/14	Change	Change (per cent)
Ongoing Regulatory Activities				
Period ended 28 February	232.0	199.4		
IMAP Solvency II Special Project Fee[(a)]	–	6.0		
Total Ongoing Regulatory Activities	**232.0**	**205.4**	**26.6**	**13**
Adjustment to twelve months for 2013/14	–	18.2	(18.2)	
Total adjusted Ongoing Regulatory Activities[(b)]	**232.0**	**223.6**	**8.4**	**4**
Bank of England transition costs	14.8	14.8	–	
Total adjusted Annual Funding Requirement[(c)]	**246.8**	**238.4**	**8.4**	**4**
2013/14 underspend				
Ongoing Regulatory Activities	–	(20.3)	20.3	
IMAP Solvency II Special Project Fee	–	(1.1)	1.1	
Total	**246.8**	**217.0**	**29.8**	**14**

(a) The IMAP Solvency II Special Project Fee for the prior fee year has been included in the total adjusted Ongoing Regulatory Activities. In the 2014/15 fee year these costs will be recovered through the Annual Funding Requirement rather than through a Special Project Fee.
(b) The Ongoing Regulatory Activities figure for 2013/14 has been adjusted to reflect a full year of operation and the IMAP Solvency II Special Project Fee costs previously recovered through a Special Project Fee so that they are comparable to the 2014/15 Ongoing Regulatory Activities figure.
(c) The Annual Funding Requirement figure for 2013/14 has been adjusted to reflect a full year of operation and the IMAP Solvency II Special Project Fee costs previously recovered through a Special Project Fee so that they are comparable to the 2014/15 Annual Funding Requirement figure.

instrument presented in the CP. Further information on the underspend for 2013/14 and its treatment can be found in Chapter 4.

2014/15 Ongoing Regulatory Activities

2.12 The PRA's 2014/15 budget for Ongoing Regulatory Activities has been set at £232 million compared to an equivalent of £223.6 million for 2013/14. The 2013/14 Ongoing Regulatory Activities figure has been adjusted to include the previous year's IMAP Solvency II Special Project Fee and has been annualised so that it is presented on the same basis as the figure for the 2014/15 Ongoing Regulatory Activities.

2.13 In advance of the transition to the new regulatory structure, a counterfactual cost estimate of £234 million was established to estimate the potential cost of the PRA's regulatory responsibilities for 2013/14 had those responsibilities remained with the FSA. The PRA's 2014/15 budget for Ongoing Regulatory Activities remains below this counterfactual cost estimate despite the expansion of its remit as set out in paragraph 2.14 below.

2.14 **Table 2.B** sets out the change in the PRA's cost of Ongoing Regulatory Activities from 2013/14 to 2014/15. The £8.4 million (4%) increase is predominantly attributable to the increase in frontline staff costs (£7.8 million). The increase reflects the cost of additional insurance supervision staff and the PRA's expanded remit in relation to specific new policy initiatives or where the scope of the work being undertaken is at a substantially enhanced level or to a shortened timescale. This includes the cost of:

- developing a framework for regular stress testing of the UK banking system to assess capital adequacy in line with the recommendations of the Financial Policy Committee (FPC);
- delivering structural reform of financial services firms, with proposals for ring-fencing and loss-absorbing capacity;
- implementing the Recommendations of the Parliamentary Commission on Banking Standards; and
- implementing the PRA's secondary objective to facilitate effective competition in the markets for services provided by PRA-authorised persons carrying on regulated activities, which came into force on 1 March 2014.

Table 2.B Change in Ongoing Regulatory Activity

£ millions

	2014/15	2013/14 Adjusted	Change	Change (per cent)
Frontline staff costs	125.3	117.5	7.8	7
Total support costs	106.7	106.1	0.6	<1
Total adjusted Ongoing Regulatory Activities	**232.0**	**223.6**	**8.4**	**4**

Transition costs

2.15 The PRA's Annual Funding Requirement for 2014/15 includes an amount of £14.8 million to recover transition costs incurred in preparation and in facilitation of the exercise of the PRA's functions under the Financial Services and Markets Act 2000 (as amended) prior to the creation of the PRA. The Bank of England spent £73.9 million (excluding capital expenditure) on regulatory reform initiatives and the creation of the PRA. These costs will be recovered over a period of five years from 2013/14 to 2017/18 from all fee blocks (except the minimum fee block) in proportion to the allocation of fees for Ongoing Regulatory Activity as set out in **Table 2.A**. The recovery of the outstanding amount will result in an amount of £14.8 million per year to be added to the PRA's Annual Funding Requirement from 2015/16 through 2017/18.

2.16 The PRA recovered transition costs in 2013/14 based on an estimate of the total costs of £74.1 million expected to be incurred by the Bank of England. Actual costs incurred were £73.9 million, which is £0.2 million less than the previous estimate, resulting in the recovery of transition costs in 2014/15 being broadly in line with those for 2013/14.

Allocation of the 2014/15 Annual Funding Requirement to fee blocks

2.17 The allocation of the Annual Funding Requirement across the six PRA-regulated fee blocks (and the minimum fee block) is set out in **Table 2.C**. 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 fulfilment of the PRA's objectives.

Table 2.C Proposed 2014/15 Annual Funding Requirement allocation

£ millions

	Ongoing Regulatory Activities	Transition costs	**Annual Funding Requirement**	Allocation (per cent)
A0 Minimum fee	0.6	–	**0.6**	–
A1 Deposit acceptors	152.2	9.7	**161.9**	65
A3 Insurers — general	28.6	1.8	**30.4**	12
A4 Insurers — life	37.0	2.4	**39.4**	16
A5 Managing agents at Lloyd's	1.3	0.1	**1.4**	1
A6 The Society of Lloyd's	1.8	0.1	**1.9**	1
A10 Firms dealing as principal	10.5	0.7	**11.2**	5
Total	**232.0**	**14.8**	**246.8**	

2.18 The PRA has utilised allocation keys in line with the previous year except where the activities are new, in which case an allocation key is assigned to allocate costs to the fee blocks which benefit from the work performed. **Table 2.D** sets out the change in allocations from the previous year and more detail is provided below.

Allocation of costs

2.19 The cost of Ongoing Regulatory Activities is allocated across fee blocks in the following ways.

- Direct costs: these are costs 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 and 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.
- Transition costs: these are allocated across fee blocks in proportion to the allocation of Ongoing Regulatory Activities costs.

2.20 Within each fee block, the costs to be recovered from individual firms are based on the size of their business. Consequently, those firms that could potentially cause the greatest harm to the stability of the UK financial system will be the main contributors to the PRA's funding needs.

Changes in Annual Funding Requirement allocations to fee blocks relative to 2013/14

2.21 **Table 2.D** sets out the change from 2013/14 to 2014/15 in the allocation of the PRA's Annual Funding Requirement.

Table 2.D Allocation of Annual Funding Requirement costs to fee blocks

£ millions

	2014/15	2013/14 Adjusted	Change	Change (per cent)
A0 Minimum fee	0.6	0.6	–	–
A1 Deposit acceptors	161.9	158.4	3.5	2
A3 Insurers — general	30.4	28.8	1.6	6
A4 Insurers — life	39.4	36.3	3.1	9
A5 Managing agents at Lloyd's	1.4	1.4	–	–
A6 The Society of Lloyd's	1.9	1.9	–	–
A10 Firms dealing as principal	11.2	11.0	0.2	2
Total	**246.8**	**238.4**	**8.4**	**4**

2.22 To enable comparison with the 2014/15 Annual Funding Requirement, the 2013/14 Annual Funding Requirement has been adjusted to include what would have been charged to each fee block if the fee period had been twelve months and the IMAP Solvency II costs had been recovered through the Annual Funding Requirement rather than through a Special Project Fee. Changes to individual fee blocks are explained below.

2.23 As set out in paragraph 2.11 the underspend for 2013/14 deducted from the Annual Funding Requirement for 2014/15 in the CP has been removed. In order to improve the transparency of the PRA's fees the underspend will now be dealt with separately. Further information can be found in Chapter 4.

Minimum A0 fee block

2.24 The minimum fee for 2014/15 remains flat compared to 2013/14.

Deposit acceptors A1 fee block

2.25 There has been an increase in the fee allocated to the deposit acceptors fee block, predominantly due to the weighting of costs to deposit acceptors for delivery of the PRA's expanded remit as set out in paragraph 2.14. The CP presented a decrease in the fee allocated to the deposit acceptors fee block due to the deduction of the 2013/14 underspend from the 2014/15 Annual Funding requirement. As set out in paragraph 2.11 the underspend is now dealt with separately to improve transparency of the amount of the fee allocated to each fee block.

General and Life Insurance A3 and A4 fee blocks

2.26 There has been an increase in the fee allocated to the general and life insurance fee blocks. As identified in the NAO value for money report, attracting skilled staff is a challenge faced by regulators and the PRA has been developing strategies to attract and recruit talented staff. A key focus has been on the recruitment of frontline insurance supervisors and recent efforts have ensured that staffing levels in this area, in particular, will increase over the next year. Given the time taken to recruit and train staff, the impact of this new recruitment drive has not yet been fully felt. However, the PRA is forecast to deliver increased supervision staffing levels within the next year and the increase in the insurance fee blocks for the next year reflects the increased costs associated with this.

2.27 The CP presented a smaller increase in the fee allocated to the General and Life Insurance fee blocks as the deduction of the 2013/14 underspend from the 2014/15 Annual Funding requirement countered some of the increase in the allocation for 2014/15. As set out in paragraph 2.11 the underspend is now dealt with separately to improve transparency of the amount of the fee allocated to each fee block.

Managing Agents at Lloyd's and the Society of Lloyd's A5 and A6 fee blocks

2.28 The A5 and A6 fee blocks allocation has remained broadly consistent with 2013/14.

Firms dealing as principal A10 fee block

2.29 Fee allocation to firms dealing as principal has increased slightly due to some weighting of costs to the A10 fee block for delivery of the PRA's expanded remit as set out in paragraph 2.14.

2.30 The CP presented a decrease in the fee allocated to firms dealing as principal due to the deduction of the 2013/14 underspend from the 2014/15 Annual Funding requirement. As set out in paragraph 2.11 the underspend is now dealt with separately to improve transparency of the amount of the fee allocated to each fee block.

Allocation of the 2014/15 Annual Funding Requirement within fee blocks

Changes in Annual Funding Requirement allocations to firms within fee blocks relative to 2013/14

2.31 **Table 2.E** sets out the analysis of tariff data for 2013/14 and 2014/15 used to allocate the PRA's Annual Funding Requirement to firms within fee blocks.

2.32 The fee rates for 2014/15 have increased compared to 2013/14 for all fee blocks except the PT1 Transition Costs fee block. The increase is due to the increase in the full year budgeted Annual Funding Requirement, an additional month of cost compared to the previous period which was eleven months and a decrease in the number of firms in most fee blocks. This is countered slightly by the increase in tariff data for each of the fee blocks. The fee rates for the Transition Costs fee block has decreased as the total cost of Ongoing Regulatory Activities has increased leading to the transition costs being spread over higher tariff data.

Changes in Annual Funding Requirement allocations to firms within fee blocks relative to the CP

2.33 **Table 2.F** sets out the analysis of final tariff data for 2014/15 used to allocate the PRA's Annual Funding Requirement to firms within fee blocks compared to the draft data presented in the CP.

2.34 As highlighted in the CP the consultation fee rates were calculated using estimated fee-payer populations and tariff data. The fee rates have also moved due to the removal of the deduction of the prior year underspend from the 2014/15 Annual Funding Requirement.

2.35 The final fee rates for 2014/15 have increased compared to estimated rates presented in the CP for the A1 and A4

Table 2.E Analysis of tariff data for allocation of fees within fee blocks compared to 2013/14

Fee block	Tariff basis	2014/15 Number of firms	2013/14 Number of firms	Movement (per cent)	2014/15 Final tariff data	2013/14 Tariff data	Movement (per cent)	Movement in fee rates from 2013/14 (per cent)
A0	Minimum Fee	1,518	1,571	(3)	n.a.	n.a.	n.a.	–
A1	Modified Eligible Liabilities	895	912	(2)	£2,857 billion	£2,818 billion	1	10
A3	Gross Premium Income	370	389	(5)	£65.9 billion	£62.3 billion	6	19
	Gross Technical Liabilities				£135.8 billion	£131.8 billion	3	22
A4	Gross Premium Income	204	215	(5)	£62.1 billion	£59.3 billion	5	25
	Mathematical Reserves				£893.4 billion	£876.7 billion	2	29
A5	Active Capacity	61	60	2	£26.4 billion	£24.8 billion	6	1
A10	Traders	10	11	(9)	2,130	2,110	1	10
PT1	ORA fee	1,519	1,572	(3)	n.a.	n.a.	n.a.	(14)

Table 2.F Analysis of tariff data for allocation of fees within fee blocks compared to the CP

Fee block	Tariff basis	2014/15 Final number of firms	2014/15 Estimated number of firms	Movement (per cent)	2014/15 Final tariff data	2014/15 Estimated tariff data	Movement (per cent)	Movement in fees rates from CP (per cent)
A0	Minimum Fee	1,518	1,534	(1)	n.a.	n.a.	n.a.	–
A1	Modified Eligible Liabilities	895	898	–	£2,857 billion	£2,909 billion	(2)	4
A3	Gross Premium Income	370	380	(3)	£65.9 billion	£61.6 billion	7	(4)
	Gross Technical Liabilities				£135.8 billion	£130.7 billion	4	(1)
A4	Gross Premium Income	204	204	–	£62.1 billion	£56.9 billion	9	(5)
	Mathematical Reserves				£893.4 billion	£890.2 billion	–	3
A5	Active Capacity	61	60	2	£26.4 billion	£24.7 billion	7	(5)
A10	Traders	10	10	–	2,130	2,017	6	(4)
PT1	ORA fee	1,519	1,535	(1)	n.a.	n.a.	n.a.	(2)

Mathematical Reserves fee blocks. The increase is due to the increase in the Annual Funding Requirement predominantly due to the removal of the deduction of the prior year underspend. For the A1 fee block there has been an additional increase in the rate due to the decrease in tariff data and for A4 Mathematical Reserves, the movement in tariff data has countered the rate increase slightly.

2.36 The final fee rates for 2014/15 have decreased compared to estimated rates presented in the CP for the A3, A4 Gross Premium Income, A5 and A10 fee blocks. The increase caused by the increase in the Annual Funding Requirement, due to the removal of the deduction of the prior year underspend and the reduction in the number of firms across most fee blocks, has been more than countered by the increase in the tariff data.

2.37 The fee rates for the PT1 Transition Costs fee block has decreased as the total cost of Ongoing Regulatory Activities has increased due to the removal of the deduction for the 2013/14 underspend leading to the transition costs being spread over a higher volume of tariff data.

Online fees calculator

2.38 The FCA provide a facility on its website to enable firms to calculate their periodic fees for the 2014/15 fees year based on the PRA rates in the appendix of this policy statement. The fees calculator for 2014/15 fees and levies will be available from 3 July 2014 for firms to use.

3 Special Project Fee for Solvency II for 2014/15

Non-IMAP Solvency II Special Project Fee

3.1 The finalisation of key elements of Solvency II policy means that a significant amount of work will be undertaken by the PRA during 2014/15 to prepare for the transposition of Solvency II on 31 March 2015 and its implementation on 1 January 2016.

3.2 Despite significant delays in the legislation stretching the delivery timeframe, the total spend is expected to be in the region of approximately £115 million. This is within the target range of £100 million to £150 million expected costs when Solvency II was originally planned. The non-IMAP Solvency II budgeted costs for 2014/15 are £13.2 million, an increase of £6.5 million compared to the 2013/14 budget and an increase of £8.1 million compared to actual spend in 2013/14.

3.3 The budgeted costs for 2014/15 include the cost of:

- developing, building and testing an IT system to receive regulatory reporting from July 2015;
- designing post-Solvency II supervisory processes and procedures ready for 'day 1' of Solvency II aligned to the PRA's approach to insurance supervision;
- consulting on and publishing the changes required by Solvency II in the PRA Rulebook and any supervisory statements before transposition on 31 March 2015;
- developing the materials and processes to introduce non-IMAP approvals from 1 April 2015; and
- collecting and analysing data to assess firms' preparedness for Solvency II.

3.4 These activities are specific to the requirements of the Solvency II Directive and are not part of the PRA's usual supervisory activity. Therefore the PRA will continue to levy the non-IMAP Solvency II Special Project Fee.

3.5 **Table 3.A** sets out the final Special Project Fee to recover non-IMAP Solvency II budgeted costs for 2014/15.

3.6 In order to improve transparency over the components and allocation of fees, the prior year underspend has been separated from the Solvency II Special Project Fee for 2014/15 and will be refunded separately. Hence the non-IMAP Solvency II Special Project Fee for 2014/15 is higher than the one presented in the CP. Further information on the underspend for 2013/14 and its treatment can be found in Chapter 4.

Table 3.A 2014/15 non-IMAP Solvency II Special Project Fee

£ millions

	2014/15	2013/14	Change
Non-IMAP Solvency II Special Project Fee	13.2	6.2	7.0
Adjustment for eleven-month period	–	0.5	(0.5)
Non-IMAP Solvency II Budget	**13.2**	**6.7**	**6.5**
2013/14 underspend	–	(1.6)	1.6
Total	**13.2**	**5.1**	**8.1**

4 Refund of underspend for 2013/14

Underspend in prior year

4.1 The PRA will refund an underspend from 2013/14 in the coming year. **Table 4.A** shows that the PRA's underspend of £23.0 million is to be refunded to firms for the eleven-month period from 1 April 2013 to 28 February 2014. This underspend figure is the difference between the amount levied in 2013/14 and the actual expenditure for 2013/14.

Table 4.A 2013/14 underspend and comparison to 2012/13 underspend

£ millions

	2013/14	2012/13	Change
Underspend in prior year			
Ongoing Regulatory Activities	20.3	–	20.3
IMAP Solvency II Special Project Fee	1.1	2.9	(1.8)
Non-IMAP Solvency II Special Project Fee	1.6	11.2	(9.6)
Total underspend	**23.0**	**14.1**	**8.9**

4.2 It is the PRA's policy to invoice for any overspend from the previous year (or refund any underspend) unless the PRA Board determine that any underspend should be retained as reserves. The PRA's Board has determined that the PRA does not need to retain any of the 2013/14 underspend as reserves and therefore it will issue a refund to 2013/14 fee payers of the amount of the levy collected in excess of expenditure. The PRA recognised the surplus levy for 2013/14 as payable to fee payers at the end of the financial year and intends to refund fee payers in 2014/15 in line with the PRA's accounting policies.

4.3 In the CP, the underspend for 2013/14 was deducted from the funding requirements for 2014/15. In order to achieve greater transparency of the elements of the fee, the underspend will now be dealt with and refunded separately. Therefore, the Annual Funding Requirement for 2014/15, as demonstrated in the final instrument in the appendix, will be higher than the Annual Funding Requirement stated in the instrument presented in the CP.

4.4 As 2013/14 was the PRA's first period of operation there was no under or overspend on Ongoing Regulatory Activities in the previous period's Annual Funding Requirement. There has been a decrease in the amount of underspend for Solvency II compared to the prior year with the finalisation of key elements of policy reducing the uncertainty over the timing of spend.

Financial penalties

4.5 The PRA did not collect financial penalties in 2013/14, therefore the amount of underspend was not affected by any financial penalties.

Allocation of underspend

4.6 The underspend for 2013/14 will be allocated to firms in two stages as follows.

Allocation to fee blocks

4.7 The PRA will allocate the 2013/14 underspend on Ongoing Regulatory Activities across all fee blocks, except for the A0 minimum fee block,(1) in proportion to the Ongoing Regulatory Activities for the 2013/14 fee year. The PRA will allocate the 2013/14 underspend on the IMAP and non-IMAP Solvency II Special Project Fee to the same fee blocks (A3, A4 and A6) and percentages as the 2013/14 IMAP and non-IMAP Solvency II Special Project Fee costs were allocated.

4.8 **Table 4.B** sets out the allocation of the 2013/14 underspend to fee blocks.

Table 4.B Allocation of underspend for 2013/14 to fee blocks

£ millions

	Annual Funding Requirement underspend	Solvency II IMAP SPF underspend	Solvency II Non-IMAP SPF underspend	Total underspend
A0 Minimum fee	–	–	–	–
A1 Deposit acceptors	13.9	–	–	13.9
A3 Insurers — general	2.3	0.4	0.6	3.3
A4 Insurers — life	2.9	0.7	0.9	4.5
A5 Managing agents at Lloyd's	0.1	–	–	0.1
A6 The Society of Lloyd's	0.1	<0.1	0.1	0.2
A10 Firms dealing as principal	1.0	–	–	1.0
Total 2013/14 underspend	**20.3**	**1.1**	**1.6**	**23.0**

(1) The A0 minimum fee block applies to all firms and is not relevant to the proportionate refund of the underspend.

Allocation to individual firms within fee blocks

4.9 The underspend is allocated to individual firms within each fee block with reference to fee block population and tariff data for the 2013/14 fee year, excluding firms that are no longer PRA fee payers. Prior to the creation of the PRA, any under or overspend compared to the budgeted cost for the previous year was refunded or levied to firms in the following financial year based on the most recent fee block population and tariff data available.

4.10 However, the PRA deems it more equitable to refund any underspend, or invoice for any overspend, based on the firm population and reference data for the year to which the refund or additional fee relates. Any new entrants in the year will not be eligible for a refund or liable for any additional fee in respect of the prior year. Fee payers no longer regulated in the following financial year, when any underspend is refunded or additional funding requirement claimed, will not be eligible for a refund or liable for any fee in respect of the prior year.

5 Miscellaneous Fee Rule Amendments

Rates for Special Project Fees for restructuring

5.1 For fee year 2014/15, the costs of supervisory time spent on Special Projects for restructuring will be charged at the hourly rates as set out in **Table 5.A**. The change in rates reflects the expected actual average cost of supervisory time.

Table 5.A PRA Special Project Fee staff rates for restructuring

	Rate
Administrator	£30
Associate	£55
Technical Specialist	£90
Manager	£115
Any other	£165

Information on which fees are calculated

5.2 An MTF operator will not be required to include the value of its MTF business when notifying the FCA of the value of each part of their business on which their periodic fee payable is calculated as set out in the appendix.

Appendix

PRA Periodic Fees (2014/2015) and Other Fees Instrument 2014

PRA PERIODIC FEES (2014/2015) AND OTHER FEES INSTRUMENT 2014

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 2 July 2014.

Amendments to the Handbook

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

Citation

F. This instrument may be cited as the PRA Periodic Fees (2014/2015) and Other Fees Instrument 2014.

G. The Prudential Regulation Authority gives as guidance each provision in the Annex that is marked with a G.

By order of the Board of the Prudential Regulation Authority
1 July 2014

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

…

FEES 3 Annex 9 Special Project Fee for restructuring

(11) R	…	
	…	
(11) AR	Table of *PRA* hourly rates:	
	PRA pay grade	Hourly rate (£)
	Administrator	30
	Associate	55
	Technical Specialist	~~100~~ <u>90</u>
	Manager	~~110~~ <u>115</u>
	Any other person employed by the *PRA*	~~160~~ <u>165</u>
(12) G	…	

…

4.4 Information on which Fees are calculated

4.4.1 R A *firm* (other than the *Society*<u> and an *MTF* operator in relation to its *MTF* business</u>) must notify to the *FCA* (in its own capacity and, if applicable, in its capacity as collection agent for the *PRA*) the value (as at the valuation date specified in Part 5 of *FEES* 4 Annex 1AR in relation to fees payable to the *FCA* or Part 5 of *FEES* 4 Annex 1BR in relation to fees payable to the *PRA*) of each element of business on which the periodic fee payable by the *firm* is to be calculated.

…

4 Annex 2B **FEES 4 Annex 2B PRA fee rates and EEA/Treaty firm modifications for the period from ~~1 April 2013 to 28 February 2014~~ <u>1 March 2014 to 28 February 2015</u>**

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.

(1)	…
…	

Note	In the case of activity groups A.3 and A.4 there are ~~three~~ two 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~~ both 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	~~33.38~~ 36.81		
	>140 - 630	~~33.38~~ 36.81		
	>630 - 1,580	~~33.38~~ 36.81		
	>1,580 - 13,400	~~41.73~~ 46.01		
	>13,400	~~55.08~~ 60.74		
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 (£)	Not applicable	25.00	~~25.00~~
	Band Width (£ million of GPI)	Fee (£/£m or part £m of GPI)		
	>0.5 - 10.5	~~370.25~~ 439.00	~~27.03~~ 66.82	~~20.84~~

	>10.5 - 30	~~370.25~~ 439.00	~~-27.03~~ 66.82	~~20.84~~
	>30 - 245	~~370.25~~ 439.00	~~-27.03~~ 66.82	~~20.84~~
	>245 - 1,900	~~370.25~~ 439.00	~~-27.03~~ 66.82	~~20.84~~
	>1,900	~~370.25~~ 439.00	~~-27.03~~ 66.82	~~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	~~19.93~~ 24.41	~~-1.41~~ 3.62	~~1.22~~
	>12.5 - 70	~~19.93~~ 24.41	~~-1.41~~ 3.62	~~1.22~~
	>70 - 384	~~19.93~~ 24.41	~~-1.41~~ 3.62	~~1.22~~
	>384 - 3,750	~~19.93~~ 24.41	~~-1.41~~ 3.62	~~1.22~~
	>3,750	~~19.93~~ 24.41	~~-1.41~~ 3.62	~~1.22~~
	For *UK ISPVs* the tariff rates are not relevant and a flat fee of £430.00 is payable in respect of each *fee year*.			
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 (£)	Not applicable	25.00	~~25.00~~
	Band Width (£ million of AGPI)	Fee (£/£m or part £m of AGPI)		
	>1 - 5	~~360.32~~ 451.00	~~-38.31~~ 97.49	~~20.39~~
	>5 - 40	~~360.32~~ 451.00	~~-38.31~~ 97.49	~~20.39~~
	>40 - 260	~~360.32~~ 451.00	~~-38.31~~ 97.49	~~20.39~~
	>260 - 4,000	~~360.32~~ 451.00	~~-38.31~~ 97.49	~~20.39~~
	>4,000	~~360.32~~ 451.00	~~-38.31~~ 97.49	~~20.39~~
	PLUS			
A.4	Mathematical reserves (MR)	Column 1 General periodic fee	Column 2 Solvency 2 implementation fee	~~Column 3 Solvency 2 special project fee~~

	Minimum fee (£)	Not applicable	25.00	~~25.00~~
	Band Width (£ million of MR)	Fee (£/£m or part £m of MR)		
	>1 - 20	~~8.06~~ 10.41	~~-0.86~~ 2.26	~~0.44~~
	>20 - 270	~~8.06~~ 10.41	~~-0.86~~ 2.26	~~0.44~~
	>270 - 7,000	~~8.06~~ 10.41	~~-0.86~~ 2.26	~~0.44~~
	>7,000 - 45,000	~~8.06~~ 10.41	~~-0.86~~ 2.26	~~0.44~~
	>45,000	~~8.06~~ 10.41	~~-0.86~~ 2.26	~~0.44~~
A.5	Band Width (£ million of Active Capacity (AC))	Fee (£/£m or part £m of AC)		
	>50 - 150	~~54.36~~ 55.10		
	>150 - 250	~~54.36~~ 55.10		
	>250 - 500	~~54.36~~ 55.10		
	>500 - 1,000	~~54.36~~ 55.10		
	>1,000	~~54.36~~ 55.10		
A.6	Flat fee ~~Solvency 2 Special Project Flat Fee (£)~~ Solvency 2 Implementation Flat Fee (£)	~~1,394,436.00~~ 1,772,360.08 ~~272,293.06~~ ~~-92,775.96~~ 264,360.00		
A.10	Band Width (No. of traders)			Fee (£/trader)
	2 - 3			~~4,507.98~~ 4,951.00
	4 - 5			~~4,507.98~~ 4,951.00
	6 - 30			~~4,507.98~~ 4,951.00
	31 - 180			~~4,507.98~~ 4,951.00
	>180			~~4,507.98~~ 4,951.00

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 500[2] unless:

		(a)	…
		…	
PT.1	Periodic fees payable under Part 1 multiplied by rate ~~£0.0745~~ £0.0639		

Part 3 This table shows the modifications to fee tariffs that apply to *incoming EEA firms* and *incoming Treaty firms* which have established branches in the UK.

Activity Group	Percentage deducted from the tariff payable under Part 1 applicable to the *firm*
A.1	…
…	

~~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)~~	~~he 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.~~

…

6.5 Compensation costs

…

6.5.13R (1) Unless exempt under *FEES* 6.2.1R or *FEES* 6.2.1AR, a *participant firm* must provide the *FSCS* by the end of February each year (or, if it has become a *participant firm* part way through the financial year, by the date requested by the *appropriate regulator*) with a statement of:

(a) …

…