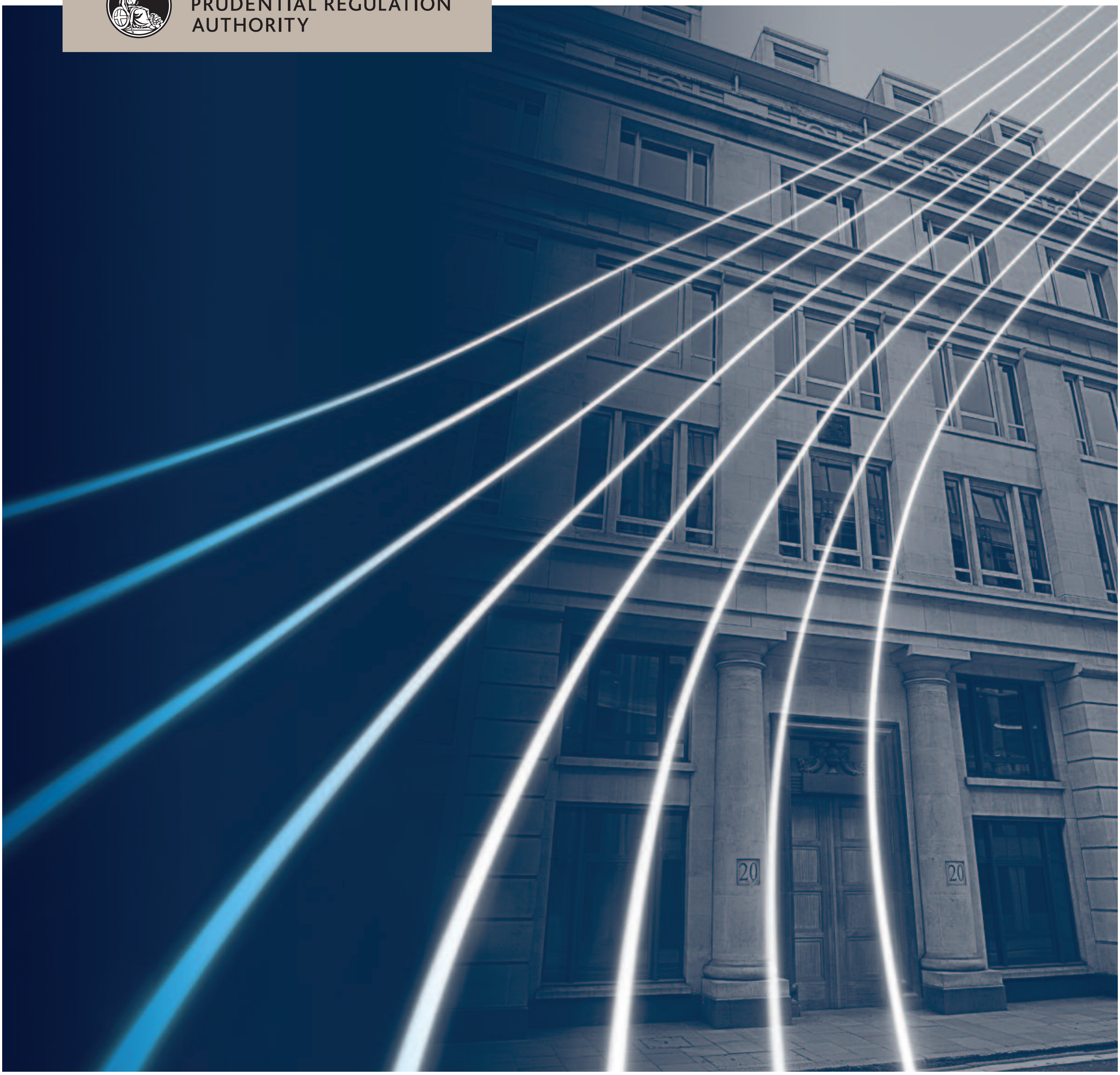
Policy Statement | PS13/15

Regulated fees and levies: rates for 2015/16

June 2015

BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY



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PRUDENTIAL REGULATION AUTHORITY

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June 2015

This policy statement sets out the final fee rates to meet the Prudential Regulation Authority's (PRA's) 2015/16 Annual Funding Requirement and rates for Special Project Fees. It also sets out the revised version of the PRA's Financial Penalty Scheme.

Contents

1 Overview

Introduction

1.1 In March 2015 the Prudential Regulation Authority (PRA) published a consultation paper 10/15 (CP)(1) to consult on:

- fee rates to meet the PRA's 2015/16 Annual Funding Requirement (AFR);
- fee rates for the Special Project Fee (SPF) for Solvency II;
- fee rates for the SPF for restructuring; and
- an amendment to the Financial Penalty Scheme (FPS).

1.2 This policy statement (PS) summarises the feedback received on the CP and provides the PRA's response to this feedback. It sets out the final fee rates to recover the PRA's AFR and for SPFs for the financial period 1 March 2015 to 29 February 2016(2) and contains the revised FPS.(3)

1.3 The paper also sets out how the PRA intends to refund unspent budget from the 2014/15 AFR, 2014/15 Solvency II SPF and retained penalties. This statement is relevant to all PRA-authorised firms.

1.4 This PS should be read in conjunction with CP10/15.

Summary

1.5 The PRA received seven responses to the CP. These came from trade bodies, insurance firms and credit unions. A summary of the feedback received and the PRA's response is in Chapter 2.

1.6 Following the consultation period, no changes have been made to the policy as proposed in the CP. Updates to the figures in the rules in Appendix 1 compared to the rules in the CP are due to the finalisation of the PRA's accounts. Having carefully considered the feedback, the PRA considers that the rules in Appendix 1 are appropriate for the PRA to effectively perform its functions.

1.7 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 proposals do not give rise to any discrimination issues and are of low relevance to the equality agenda.

Annual Funding Requirement and allocation to fee blocks

1.8 The CP set out proposals for how the PRA's AFR for 2015/16 of £257.8 million is allocated to fee blocks and how tariff data is used to allocate the AFR to firms within fee blocks. No changes have been made to this approach following consultation; updates to the figures in the rules in Appendix 1 are due to the finalisation of the PRA's accounts. This is covered in Chapter 2.

Special Project Fees for Solvency II

1.9 The CP set out proposals for the recovery of the PRA's costs of implementing the Solvency II Directive in relation to the Non-Internal Model Approval Process (IMAP). No changes have been made to these proposals following consultation. The Non-IMAP Solvency II SPF for 2015/16 is budgeted to be £13.4 million. This is covered in Chapter 3.

Special Project Fee for restructuring

1.10 The CP set out proposals for changes to the hourly rates under which the SPF for restructuring is charged. No changes have been made to these proposals following consultation. This is covered in Chapter 3.

Financial Penalty Scheme

1.11 The CP proposed a minor amendment to the PRA's FPS. No responses were received in relation to the proposed amendment and therefore the FPS has been revised as proposed in the CP. This is covered in Chapter 6 and the updated FPS is in Appendix 2.

1.12 For 2014/15 there are retained penalties of £1.4 million, which the PRA will allocate across fee blocks using firm population data for 2014/15 (the financial year to which the retained penalties relate). Details of the distribution of retained penalties to firms are in Chapter 6.

Additional information

Distribution of refund for 2014/15

1.13 There will be a refund to fee payers of unspent AFR in 2014/15 of £2.5 million. This figure has been confirmed

(1) *PRA Consultation Paper CP10/15*, 'Regulated fees and levies: rates proposals 2015/16', March 2015; www.bankofengland.co.uk/pra/Documents/publications/cp/2015/cp1015.pdf.
(2) See Appendix 1.
(3) See Appendix 2.

following the finalisation of the PRA's accounts. Information on how this will be refunded to fee payers is in Chapter 4.

1.14 There will be a refund to fee payers of the unspent Non-IMAP Solvency II SPF in 2014/15 of £2.8 million. This figure has been confirmed following the finalisation of the PRA's accounts. The PRA will refund this to the same fee blocks (A3, A4 and A6) and in the same proportion as the 2014/15 Non-IMAP Solvency II SPF cost was levied. This is covered in Chapter 5.

PRA Rulebook

1.15 The PRA will be consulting on the section of the PRA Rulebook which will replace the FEES 1–4 chapters of the current Handbook. This will be part of the wider PRA project to transpose the shared PRA/Financial Conduct Authority (FCA) Handbook into the PRA Rulebook. A CP will be published later this year and new rules published for the beginning of fee year 2016/17.

2 Regulated fees and levies for 2015/16

Feedback on the CP

2.1 The PRA is required to have regard to any representations made in relation to the CP. It must publish an account of these in general terms, its responses to them and details of any difference the PRA considers to be significant between the rules and the draft rules in the CP.[(1)]

2.2 The PRA received seven responses to the CP from trade bodies, insurance firms and credit unions. This section summarises the feedback received and the PRA's response.

Summary of representations made

Apportionment of AFR for 2015/16

2.3 Respondents from the insurance sector requested more information regarding the basis on which the AFR and Solvency II SPF are apportioned to fee blocks.

2.4 A respondent from the insurance industry commented that medium and large firms fund too great a proportion of the PRA's costs compared to small firms.

2.5 A respondent from the general insurance sector expressed its belief that it pays a disproportionate amount of the Bank's transition costs.

Increase in AFR for 2015/16

2.6 Respondents from the insurance sector commented on the increase in the AFR for the insurance fee blocks, particularly the general insurance fee block. They expressed concern that the increase is above inflation and follows increases in previous years. One respondent questioned whether the PRA had introduced efficiencies to offset the increases.

Other

2.7 Respondents representing the credit union sector welcomed the continuation of the PRA's proportionate regime for credit unions. They highlighted that there has been a slight increase in fees for small credit unions and a slight drop in fees for larger credit unions and requested that the fees for the smallest credit unions should remain at the same level.

2.8 Insurance sector respondents commented that the United Kingdom has higher regulatory costs than other EU countries and that the increase in the AFR may have a consequential impact on the cost of products and the UK's competitiveness.

2.9 A rule-based query on consumer credit application fees was also raised.

The PRA's response

Apportionment of AFR for 2015/16

2.10 The allocation of the AFR to fee blocks is based on the work undertaken in the budget centre that is applicable to the relevant fee blocks. For example, the cost of insurance policy is allocated between the general and life insurance fee blocks (A3 and A4 respectively) in proportion to the time forecast to be spent on general and life insurance policy work; none of the cost is allocated to the other fee blocks. The cost of the Non-IMAP Solvency II SPF is similarly allocated by apportioning the work being done between the relevant fee blocks.

2.11 Transition costs are allocated in line with the percentage allocation of the AFR to fee blocks. The costs are being borne across all fee blocks except the minimum fee block. The PRA considers the allocation of costs to be fair.

Increase in AFR for 2015/16

2.12 Insurance frontline supervision saw the greatest increase in headcount in 2014/15. Which has increased the forecast budget for 2015/16 This is needed in preparation for Solvency II, including the delivery of a significant programme of pre-application work as well as review and assessment of formal applications ahead of January 2016. Within insurance supervision, general insurance supervision required a greater increase in frontline staff than life insurance.

2.13 As Solvency II has progressed towards implementation, development of the IMAP framework has been embedded into the PRA's continuous supervisory programme. As well as applications received for Solvency II internal models, supervisors are considering a number of other non-IMAP approvals such as applications for the matching adjustment, volatility adjustment and transitional measures. For the wider firm population, supervisors assess the ongoing

(1) S138J Financial Services and Markets Act 2000.

appropriateness of the standard formula and the preparedness of firms for Pillar 2 governance requirements and Pillar 3 reporting requirements.

2.14 The PRA is implementing a number of new regulatory policies and inputting into forthcoming regulatory developments which increases demand on resources across the PRA. The PRA's Business Plan, contained in the PRA Annual Report and Accounts 2014/15,(1) contains more information. In the context of the evolving regulatory landscape the PRA continues to seek efficiencies in its operations and take advantage of shared costs with the Bank in line with the National Audit Office's recommendations.(2)

Other

2.15 The increase in fees identified for the smallest credit unions has been resolved following finalisation of the PRA's accounts.

2015/16 Annual Funding Requirement and comparison to 2014/15

2.16 The AFR is the budget that the PRA needs to raise to fund the regulatory activities required to meet its statutory objectives. This section sets out the factors that make up the PRA's AFR for 2015/16, the final AFR and the principal movements from the AFR for 2014/15. The final rules are set out in the instrument in Appendix 1.

2.17 The PRA's AFR of £257.8 million for 2015/16 reflects:

- the budget for Ongoing Regulatory Activities (ORA), which amounts to £243 million; and
- recovery of a proportion of transition costs, which amounts to £14.8 million per year.

2.18 **Table 2.A** shows the calculation of the PRA's total AFR for 2015/16.

Table 2.A Annual Funding Requirement for 2015/16 and movement from 2014/15 Annual Funding Requirement

£ millions

	2015/16	2014/15	Change	Change (per cent)
Ongoing Regulatory Activities	243.0	232.0	11.0	5
Transition costs	14.8	14.8	–	–
Annual Funding Requirement	**257.8**	**246.8**	**11.0**	**4**

2015/16 Ongoing Regulatory Activities

2.19 The PRA's 2015/16 budget for ORA is £243 million compared to £232 million for 2014/15. The £11 million increase from fee year 2014/15 is attributable to:

(i) a one-off cost uplift of £6 million arising from the transition to bring all Bank of England staff onto the same terms and conditions; and

(ii) costs of £5 million to meet the requirement for additional resource to deliver an expansion in the PRA's responsibilities and implement specific new policy initiatives:

- implementation of the Parliamentary Commission on Banking Standard's recommendations through the new Senior Managers Regime and Senior Insurance Managers Regime;
- implementation costs of the Solvency II Directive outside those costs recovered by the Non-IMAP Solvency II SPF;
- implementation of the Capital Requirements Directive IV for banks, building societies and designated investment firms; and
- evolution of the framework to undertake regular stress testing of the UK banking system to assess capital adequacy of the most systemic firms in line with Financial Policy Committee (FPC) recommendations.

Transition costs

2.20 The PRA's AFR for 2015/16 includes an amount of £14.8 million to recover a proportion of transition costs, incurred in the establishment of the PRA, which were consulted on in 2013 and set out in PS4/13.(3) These costs are being recovered over a period of five years from 2013/14 to 2017/18, from all fee blocks except the A0 minimum fee block, in proportion to the allocation of fees for ORA as set out in **Table 2.B**. Recovery of the outstanding amount will result in £14.8 million per year being included in the PRA's AFR until 2017/18.

Allocation of 2015/16 Annual Funding Requirement to fee blocks

2.21 The allocation of the AFR across the seven PRA-regulated fee blocks including the minimum fee block is set out in **Table 2.B**. Firms are allocated to PRA fee blocks based on the regulated activities they hold permissions for and pay a periodic fee for each fee block into which they fall. The allocation to fee blocks is based on the work performed within each area, which reflects the PRA's focus on the firms that pose the greatest risk to the PRA's objectives.

(1) *PRA Annual Report and Accounts 2015*, June 2015; www.bankofengland.co.uk/publications/Documents/annualreport/2015/prareport.pdf.
(2) NAO 'Regulating financial services', March 2014; www.nao.org.uk/report/regulating-financial-services-2/.
(3) *PRA Policy Statement PS4/13*, 'Regulated fees and levies: rates for 2013/14', June 2013; www.bankofengland.co.uk/pra/Documents/publications/policy/2013/regfeesleviesps4-13.pdf.

Table 2.B 2015/16 Annual Funding Requirement allocation

£ millions

	Ongoing Regulatory Activities	Transition costs	**Annual Funding Requirement**	Allocation (per cent)
A0 Minimum fee	0.6	–	**0.6**	<1
A1 Deposit takers	158.6	9.6	**168.2**	65
A3 Insurers — general	30.8	1.9	**32.7**	13
A4 Insurers — life	38.7	2.4	**41.1**	16
A5 Managing Agents at Lloyd's	1.4	0.1	**1.5**	<1
A6 The Society of Lloyd's	1.9	0.1	**2.0**	<1
A10 Firms dealing as principal	11.0	0.7	**11.7**	5
Total	**243.0**	**14.8**	**257.8**	

Allocation of Ongoing Regulatory Activities costs

2.22 The cost of ORA is allocated across fee blocks based on the proportion of the PRA's frontline staff undertaking activities relating to each fee block.

Allocation of transition costs

2.23 Transition costs are allocated across fee blocks (with the exception of the A0 minimum fee block) in proportion to the allocation of ORA costs.

Allocation within fee blocks

2.24 Within each fee block, the costs to be recovered from individual firms are based on the size of their relevant business. Tariff measures are used to indicate activity volumes and thereby calculate the size of firms' business relative to the overall fee block 'tariff data'. Consequently, those firms that could potentially cause the greatest harm to the stability of the UK financial system should be the main contributors to the PRA's AFR. As in previous years, cost recovery from the A1 fee block will be weighted further towards higher-impact firms. Any firm authorised to carry out any of the regulated activities covered by the 'A' fee blocks is also subject to the A0 minimum fee, with the exception of the A6 fee block which consists of the Society of Lloyd's only and is invoiced on an individual basis.

Changes in Ongoing Regulatory Activity allocations to fee blocks relative to 2014/15

2.25 **Table 2.C** sets out the change from 2014/15 to 2015/16 in the allocation of the PRA's ORA.

Minimum A0 fee block

2.26 The PRA is able to increase the minimum fee in line with the overall increase in the budgeted ORA.(1) For 2015/16 the PRA is maintaining the minimum fee at the same level as 2014/15 in order to maintain its proportionate approach for smaller firms.

Table 2.C Allocation of Ongoing Regulatory Activity to fee blocks and movement from 2014/15 allocation

£ millions

	2015/16	2014/15	Change	Change (per cent)
A0 Minimum fee	0.6	0.6	–	–
A1 Deposit takers	158.6	152.2	6.4	4.2
A3 Insurers — general	30.8	28.6	2.2	7.7
A4 Insurers — life	38.7	37.0	1.7	4.6
A5 Managing Agents at Lloyd's[a]	1.4	1.3	0.1	7.7
A6 The Society of Lloyd's[b]	1.9	1.8	0.1	5.6
A10 Firms dealing as principal	11.0	10.5	0.5	4.8
Total	**243.0**	**232.0**	**11.0**	**4.7**

(a) The movement from 2014/15 is £85,000.
(b) The movement from 2014/15 is £93,000.

Deposit Takers A1 fee block

2.27 The proposed increase in the fee allocated to the deposit takers fee block is broadly in line with the overall increase in the ORA.

General Insurance A3 fee block

2.28 The general insurance fee block allocation has risen above the average increase in the ORA compared to 2014/15. This reflects the greater proportion of the PRA's staff undertaking general insurance supervision work in preparation for the start of the Solvency II regime on 1 January 2016. Further detail on the increase across insurance fee blocks is included in the PRA's response to the consultation on page 7.

Life Insurance A4 fee block

2.29 The increase in the fee allocated to the life insurance fee block is broadly in line with the overall increase in the ORA.

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

2.30 The allocations to the A5 and A6 fee blocks have increased above the overall increase in the ORA compared to 2014/15. This reflects an increase in the number of staff undertaking supervision of managing agents and Lloyd's in 2015/16.

Firms dealing as principal A10 fee block

2.31 The increase in the fee allocated to the A10 fee block is broadly in line with the overall increase in the ORA.

(1) In 2014, the PRA consulted on the proposal to increase the minimum fee in line with any increase in the AFR. *PRA Consultation Paper CP8/14*, 'Regulated fees and levies: rates proposals 2014/15', April 2014; www.bankofengland.co.uk/pra/Documents/publications/policy/2014/feesandleviescp814.pdf.

Online fees calculator

2.32 There is a facility on the FCA's website to enable firms to calculate their periodic fees for the year using the PRA rates in Appendix 1. The fees calculator for 2015/16 fees and levies will be available from 1 July 2015.

Changes to tariff data used in Annual Funding Requirement allocations to fee blocks relative to 2014/15

2.33 **Table 2.D** sets out the analysis of tariff data for 2014/15 and 2015/16 used to allocate the PRA's AFR to firms within fee blocks.

2.34 The PRA has increased fee rates for 2015/16 compared to 2014/15 for all fee blocks with the exception of the PA0 minimum fee and PT1 transition costs fee blocks. The changes are due to the increase in the total AFR between the two years. A change in the population and size of fee blocks also has an impact on individual firm fee rates. Where there is an increase in tariff data for the whole fee block, individual firms within the fee block experience a smaller increase in their individual fee rate; where there is a decrease in overall tariff data firms will experience a relatively larger increase individually.

2.35 The fee rates for the PT1 transition costs fee block have fallen as the total cost of ORA has increased and therefore the transition costs are being spread over higher tariff data. The A0 minimum fee has been maintained at the same level as prior year.

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

2.36 **Table 2.E** sets out the analysis of final tariff data for 2015/16 used to allocate the PRA's AFR to firms within fee blocks compared to the draft data presented in the CP.

2.37 As noted in the CP the fee rates presented for consultation were calculated using estimated fee-payer populations and tariff data. The final fee rates for 2015/16 have increased compared to the estimated rates presented in the CP across all fee blocks except for A0 minimum fee, A4 mathematical reserves and PT1 transition costs. The fee blocks which have seen an increase in fee rates have done so because there has been a reduction in the value of overall tariff data that the fee is apportioned across.

2.38 The fee rate for A4 mathematical reserves has decreased as there has been an increase in the value of overall tariff data that the fee is apportioned across.

2.39 The PT1 transition costs rate has decreased relative to the draft data in the CP due to a refinement of the population of firms to remove those that are only paying the minimum fee.

2.40 The A0 minimum fee is at the same level as presented in the CP.

Table 2.D Analysis of tariff data for allocation of fees within fee blocks compared to 2014/15

Fee block	Tariff basis	2015/16 Number of firms	2014/15 Number of firms	Movement (per cent)	2015/16 Tariff data	2014/15 Tariff data	Movement (per cent)	Movement in fee rates from 2014/15 (per cent)
A0	Minimum fee	1,486	1,518	(2.1)	n.a.	n.a.	n.a.	–
A1	Modified eligible liabilities	878	895	(1.9)	£2,818.6 billion	£2,857 billion	(1.3)	5.6
A3	Gross premium income	357	370	(3.5)	£63.9 billion	£65.9 billion	(3.0)	12.6
	Gross technical liabilities				£133.1 billion	£135.8 billion	(2.0)	11.9
A4	Gross premium income	196	204	(3.9)	£58.8 billion	£62.1 billion	(5.3)	10.8
	Mathematical reserves				£952.4 billion	£893.4 billion	6.6	(1.6)
A5	Active capacity	64	61	4.9	£26.8 billion	£26.4 billion	1.5	7.5
A10	Traders	8	10	(20.0)	1,910	2,130	(10.3)	16.7
PT1	ORA fee	1,487	1,519	(2.1)	n.a.	n.a.	n.a.	(2.0)

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

Fee block	Tariff basis	2015/16 Final number of firms	2015/16 Estimated number of firms (CP)	Movement (per cent)	2015/16 Final tariff data	2015/16 Estimated tariff data	Movement (per cent)	Movement in fees rates from CP (per cent)
A0	Minimum fee	1,486	1,508	(1.5)	n.a.	n.a.	n.a.	–
A1	Modified eligible liabilities	878	889	(1.2)	£2,818.6 billion	£2,857 billion	(1.3)	1.4
A3	Gross premium income	357	364	(1.9)	£63.9 billion	£65.9 billion	(3.0)	5.5
	Gross technical liabilities				£133.1 billion	£135.8 billion	(2.0)	3.1
A4	Gross premium income	196	200	(2.0)	£58.8 billion	£62.1 billion	(5.3)	2.5
	Mathematical reserves				£952.4 billion	£893.4 billion	6.6	(6.4)
A5	Active capacity	64	62	3.2	£26.8 billion	£26.4 billion	1.5	1.1
A10	Traders	8	9	(11.1)	1,910	2,130	(10.3)	10.6
PT1	ORA fee	1,487	1,509	(1.5)	n.a.	n.a.	n.a.	(0.3)

3 Special Project Fees for 2015/16

3.1 This chapter sets out how the PRA will recover the costs of its implementation of the Solvency II Directive and the rates for the recovery of supervisory time spent on special projects for restructuring.

Non-IMAP Solvency II Special Project Fee(1)

3.2 The transposition of the Solvency II Directive on 31 March 2015 and its implementation on 1 January 2016 require a significant amount of work to be undertaken by the PRA in 2015/16.

3.3 The Solvency II project budgeted costs for 2015/16 are £13.4 million, compared to £13.2 million in 2014/15. Actual costs were £2.8 million below budget. This will be refunded to fee payers as set out in Chapter 5.

3.4 The budgeted costs for 2015/16 to be covered by the Non-IMAP Solvency II SPF include the cost of:

- developing, building and testing an IT system to receive regulatory reporting in 2015;
- designing and implementing post-Solvency II supervisory processes and procedures which align with 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;
- modifying the current processes for authorisations and regulatory transactions;
- review of applications submitted from 1 April 2015; and
- collecting and analysing data for Solvency II as part of the European and Insurance Occupational Pensions Authority (EIOPA) preparatory guidelines.

3.5 These activities are specific to the requirements of the Solvency II Directive and are not part of the PRA's normal supervisory activity. The PRA will therefore continue to raise the Non-IMAP Solvency II SPF for 2015/16.

3.6 Despite the re-scheduling of some work due to delays in the legislation this is expected to be the last year the Non-IMAP Solvency II SPF is levied on firms in the insurance sector.

3.7 **Table 3.A** sets out the Non-IMAP Solvency II SPF 2015/16 budget and allocation to fee blocks.

Table 3.A 2015/16 Non-IMAP Solvency II Special Project Fee and movement from 2014/15

£ millions

	2015/16	2014/15	Change	Change (per cent)
A3 Insurers — general	5.0	4.9	0.1	2
A4 Insurers — life	8.1	8.0	0.1	1
A6 The Society of Lloyd's	0.3	0.3	–	
Total	**13.4**	**13.2**	**0.2**	**2**

Special Project Fees rates for restructuring

3.8 An SPF for restructuring is a funding mechanism by which fees are raised for individual firms or groups of firms which undertake significant restructuring or raising of capital. An SPF is calculated based on the number of hours, charged at a set hourly rate, to undertake the work arising as a consequence of the restructuring.

3.9 From fee year 2015/16 the PRA will charge the hourly rates as set out in **Table 3.B** for the time spent on special projects for restructuring.

Table 3.B PRA SPF hourly rates for restructuring

£/hour

	New rate	Current rate	Change
Administrator	30	30	–
Associate	60	55	5
Technical Specialist	90	90	–
Manager	115	115	–
Any other(a)	170	165	5

(a) The 'any other' category is predominantly used for senior management.

(1) Referred to as the 'Solvency II Implementation Fee' in Fees 4 Annex 2B, Part 5.

4 Annual Funding Requirement refund for 2014/15

4.1 The PRA will refund to fee payers £2.5 million of unspent budget arising from the 2014/15 AFR (see **Table 4.A**). The figure has been updated from the estimated £4 million contained in the CP following finalisation of the PRA's annual accounts.

Table 4.A 2014/15 Annual Funding Requirement refund

£ millions

	2015/16
Ongoing Regulatory Activities	2.9
Transition Costs under-recovery	(0.4)
Total	**2.5**

4.2 It is the PRA's policy to refund all unspent AFR unless the PRA Board determines that a portion should be retained as reserves. The PRA Board has determined that the 2014/15 unspent AFR should not be retained for the purpose of reserves.

Ongoing Regulatory Activities refund

4.3 There is an unspent amount relating to ORA of £2.9 million for 2014/15. This figure is the difference between the amount levied in 2014/15 and the actual expenditure for 2014/15.

Transition costs recovery

4.4 As outlined in Chapter 2, the PRA is recovering transition costs of £14.8 million a year for five years until 2017/18. In the 2014/15 fee year only £14.4 million of transition costs were recovered due to administration errors. The shortfall of £0.4 million will be recouped from the unspent ORA budget.

Annual Funding Requirement refund

4.5 A net amount of £2.5 million will be refunded. **Table 4.A** sets out the 2014/15 refund.

4.6 The AFR refund will be allocated to firms in two stages:

Stage 1 — Allocation to fee blocks

4.7 The PRA will allocate the unspent AFR across all fee blocks, with the exception of the A0 minimum fee block, in proportion to the AFR allocation for the 2014/15 fee year.

Stage 2 — Allocation to individual firms

4.8 Within each fee block the unspent AFR is allocated by reference to fee block population and tariff data for the 2014/15 fee year, excluding firms that are no longer PRA fee payers.

4.9 **Table 4.B** sets out the allocation of the refunded AFR for 2014/15 to fee blocks.

Table 4.B Allocation of Annual Funding Requirement refund for 2014/15 to fee blocks

£ millions

	Ongoing Regulatory Activities	Transition costs under recovery	Total
A0 Minimum fee	–	–	–
A1 Deposit takers	1.9	(0.2)	1.7
A3 Insurers — general	0.4	(0.1)	0.3
A4 Insurers — life	0.5	(0.1)	0.4
A5 Managing Agents at Lloyd's	<0.1	<0.1	<0.1
A6 The Society of Lloyd's	<0.1	<0.1	<0.1
A10 Firms dealing as principal	0.1	<0.1	0.1
Total	**2.9**	**(0.4)**	**2.5**

5 Non-IMAP Solvency II Special Project Fee refund for 2014/15

5.1 The responses to the CP received did not comment on the proposed Non-IMAP Solvency II refund. The PRA will refund £2.8 million of unspent budget raised through the 2014/15 Non-IMAP Solvency II SPF. This figure has been updated from the estimated £2.5 million contained in the CP following finalisation of the PRA accounts. The PRA will allocate the refund to the same fee blocks (A3, A4 and A6) and percentages as the 2014/15 Non-IMAP Solvency II SPF costs were levied.

5.2 As with the AFR refund, the Non-IMAP Solvency II SPF refund will be allocated by reference to the firm population and tariff data for the 2014/15 fee year, excluding firms that are no longer PRA fee payers.

5.3 **Table 5.A** sets out the allocation of the Non-IMAP Solvency II SPF refund for 2014/15 to fee blocks.

Table 5.A Allocation of SII SPF refund for 2014/15 to fee blocks

	£ millions
A3 Insurers — general	1.0
A4 Insurers — life	1.7
A6 The Society of Lloyd's	0.1
Total	**2.8**

6 Financial Penalty Scheme and application of Retained Penalties for 2014/15

6.1 Responses to the CP received by the PRA did not comment on the proposal to amend the FPS or the proposed allocation of the retained penalties for 2014/15. Therefore, the PRA confirms the modification to the FPS and will allocate the retained penalties to firms as proposed in the CP.

Financial Penalty Scheme

6.2 The PRA has made one minor modification to the FPS in line with the proposal set out in the CP. Total retained penalties from any financial year will be allocated across fee blocks in proportion to the allocations of periodic fees for ORA for the financial year to which the retained penalties relate and not the following financial year. The PRA considers this to be a more equitable approach that aligns the treatment of retained penalties with that of unspent AFR.

6.3 The amended FPS is set out in Appendix 2.

Application of Retained Penalties for 2014/15

6.4 In 2014/15 enforcement activity by the PRA resulted in fines and penalties in excess of £14 million. The total retained penalties for this period of £1.4 million will be refunded to firms across all fee blocks (except for the A0 minimum fee block) excluding those firms that incurred the fines.

Table 6.A Allocation of Financial Penalty Scheme refund for 2014/15 to fee blocks

	£ millions
A0 Minimum fee	–
A1 Deposit takers	0.9
A3 Insurers — general	0.2
A4 Insurers — life	0.2
A5 Managing Agents at Lloyd's	<0.1
A6 The Society of Lloyd's	<0.1
A10 Firms dealing as principal	0.1
Total	**1.4**

Appendices

PRA PERIODIC FEES (2015/2016) AND OTHER FEES INSTRUMENT 2015

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.

Pre-conditions to making

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

Amendments to the Handbook

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

Commencement

E. This instrument comes into force on 30 June 2015.

Citation

F. This instrument may be cited as the PRA Periodic Fees (2015/2016) and Other Fees Instrument 2015.

By order of the Board of the Prudential Regulation Authority

26 June 2015

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~~ <u>60</u>
	Technical Specialist	90
	Manager	115
	Any other person employed by the *PRA*	~~165~~ <u>170</u>
(12) G	…	

…

4 Annex 2B FEES 4 Annex 2B PRA fee rates and EEA/Treaty firm modifications for the period from ~~1 March 2014 to 28 February 2015~~ 1 March 2015 to 29 February 2016

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)	…
…	

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	~~36.81~~ 38.87	
	>140 - 630	~~36.81~~ 38.87	
	>630 - 1,580	~~36.81~~ 38.87	
	>1,580 - 13,400	~~46.01~~ 48.59	
	>13,400	~~60.74~~ 64.14	
A.3	Gross premium income (GPI)	Column 1 General periodic fee	Column 2 Solvency 2 implementation fee
	Minimum fee (£)	Not applicable	25.00
	Band Width (£ million of GPI)	Fee (£/£m or part £m of GPI)	
	>0.5 - 10.5	~~439.00~~ 494.15	~~66.82~~ 70.02
	>10.5 - 30	~~439.00~~ 494.15	~~66.82~~ 70.02
	>30 - 245	~~439.00~~ 494.15	~~66.82~~ 70.02
	>245 - 1,900	~~439.00~~ 494.15	~~66.82~~ 70.02
	>1,900	~~439.00~~ 494.15	~~66.82~~ 70.02
	Plus		
	Gross technical liabilities (GTL)	Column 1 General periodic fee	Column 2 Solvency 2 implementation fee
	Band Width (£ million of GTL)	Fee (£/£m or part £m of GTL)	
	>1 - 12.5	~~24.41~~ 27.31	~~3.62~~ 3.75
	>12.5 - 70	~~24.41~~ 27.31	~~3.62~~ 3.75
	>70 - 384	~~24.41~~ 27.31	~~3.62~~ 3.75
	>384 - 3,750	~~24.41~~ 27.31	~~3.62~~ 3.75
	>3,750	~~24.41~~ 27.31	~~3.62~~ 3.75

	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
	Minimum fee (£)	Not applicable	25.00
	Band Width (£ million of AGPI)	Fee (£/£m or part £m of AGPI)	
	>1 - 5	~~451.00~~ <u>499.65</u>	~~97.49~~ <u>104.61</u>
	>5 - 40	~~451.00~~ <u>499.65</u>	~~97.49~~ <u>104.61</u>
	>40 - 260	~~451.00~~ <u>499.65</u>	~~97.49~~ <u>104.61</u>
	>260 - 4,000	~~451.00~~ <u>499.65</u>	~~97.49~~ <u>104.61</u>
	>4,000	~~451.00~~ <u>499.65</u>	~~97.49~~ <u>104.61</u>
	PLUS		
A.4	Mathematical reserves (MR)	Column 1 General periodic fee	Column 2 Solvency 2 implementation fee
	Minimum fee (£)	Not applicable	25.00
	Band Width (£ million of MR)	Fee (£/£m or part £m of MR)	
	>1 - 20	~~10.41~~ <u>10.24</u>	~~2.26~~ <u>2.15</u>
	>20 - 270	~~10.41~~ <u>10.24</u>	~~2.26~~ <u>2.15</u>
	>270 - 7,000	~~10.41~~ <u>10.24</u>	~~2.26~~ <u>2.15</u>
	>7,000 - 45,000	~~10.41~~ <u>10.24</u>	~~2.26~~ <u>2.15</u>
	>45,000	~~10.41~~ <u>10.24</u>	~~2.26~~ <u>2.15</u>
A.5	Band Width (£ million of Active Capacity (AC))	Fee (£/£m or part £m of AC)	
	>50 - 150	~~55.10~~ <u>59.22</u>	
	>150 - 250	~~55.10~~ <u>59.22</u>	
	>250 - 500	~~55.10~~ <u>59.22</u>	
	>500 - 1,000	~~55.10~~ <u>59.22</u>	
	>1,000	~~55.10~~ <u>59.22</u>	

A.6	Flat fee Solvency 2 Implementation Flat Fee (£)	~~1,772,360.08~~1,895,574.68 ~~264,360.00~~ 268,659.70	
A.10	Band Width (No. of traders)		Fee (£/trader)
	2 - 3		~~4,951.00~~ 5,776.00
	4 - 5		~~4,951.00~~ 5,776.00
	6 - 30		~~4,951.00~~ 5,776.00
	31 - 180		~~4,951.00~~ 5,776.00
	>180		~~4,951.00~~ 5,776.00

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 unless:	
		(a)	…
		…	
PT.1	Periodic fees payable under Part 1 multiplied by rate ~~£0.0639~~ 0.0626		

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	…
…	

Appendix 2 Financial penalty scheme

1 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.

2 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.

3 The PRA will apply retained penalties paid in any financial year as a rebate to the periodic fees paid in that 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.

4 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 that financial year except for the firm(s) upon whom any penalty was levied.

5 Enforcement costs are not allocated to the A0 minimum fee block or the PT1 Transition costs fee block. Retained penalties will not therefore be allocated to these fee blocks.

6 Each year the PRA will publish a schedule setting out the:

- total retained penalties in the previous year; and
- amount of retained penalties allocated to each fee block.

Approved by PRA Board: 26 June 2015
With effect from: 30 June 2015