Policy Statement | PS17/17

Regulated fees and levies: rates for 2017/18

July 2017

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

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1 Overview

1.1 This Prudential Regulation Authority (PRA) policy statement (PS) provides feedback to responses to Consultation Paper (CP) 4/17 'Regulated fees and levies: rates proposals 2017/18' ('the CP').[1] It sets out the final fee rates and rules to recover the PRA's Annual Funding Requirement (AFR), the ring-fencing implementation fee (RFIF) and the International Financial Reporting Standard (IFRS) 9 fee for the financial period 1 March 2017 to 28 February 2018. It also provides the final rules and an updated Supervisory Statement (SS) 3/16 'Fees: PRA approach and application' ('the SS'),[2] to implement changes to the supervisory approach relating to Special Project Fees (SPF) for restructuring and regulatory transaction fees. The final rules are included in Appendix 1 and the updated SS in Appendix 2.

1.2 This PS is relevant to all firms that currently pay PRA fees or are expecting to do so within the 2017/18 fee year.

1.3 In the CP, the PRA proposed:

- fee rates to meet the PRA's 2017/18 AFR;
- amendments to the definition of the general insurer (A3) fee block concerning insurance special purpose vehicles (ISPVs);
- amendments to the RFIF rules;
- rules for introducing an IFRS 9 implementation fee;
- amendments to the rules and supervisory guidance concerning SPF for restructuring;
- amendments to the rules and supervisory guidance concerning regulatory transaction fees; and
- how the PRA intends to manage a shortfall from the 2016/17 AFR, and distribute a surplus on the RFIF and retained penalties for 2016/17 (see Chapter 4).

1.4 The PRA's final AFR for 2017/18 is £268.4 million. This is comprised of Ongoing Regulatory Activities (ORA) of £248.3 million (increased by £1.9 million for the impact of external market conditions as at 28 February 2017 on the PRA's pensions costs, as indicated in the CP), EU withdrawal costs of £5.4 million (unchanged from the CP), and recovery of transition costs of £14.7 million (also unchanged from the CP). Detail of how the AFR will be allocated to fee blocks is set out in Chapter 3.

Statutory obligations

1.5 Where the final rules differ from the draft in the CP in a way which is, in the opinion of the PRA, significant, the Financial Services and Markets Act 2000 (FSMA) requires the PRA to publish:

- details of the difference (and the PRA's response to representations made to it regarding those changes) together with a cost benefit analysis; and

1 March 2017: www.bankofengland.co.uk/pra/Pages/publications/cp/2017/cp417.aspx.
2 June 2017: www.bankofengland.co.uk/pra/Pages/publications/ss/2017/ss316update.aspx.

- a statement setting out in the PRA's opinion whether or not the impact of the final rule on mutuals is significantly different to: the impact that the draft rule would have had on mutuals; or the impact that the final rule will have on other PRA-authorised firms.

1.6 The PRA has made one change from the draft proposals in the CP – increasing the AFR by £1.9 million for revised pension costs. The CP indicated that these costs may change and set a tolerance limit of £2.0 million. As the final amount is less than this limit, the PRA has not performed a cost benefit analysis of the impact of this change. The PRA considers that the increase in the AFR is necessary to effectively perform its functions.

1.7 The PRA does not consider that the change to the rule has a significant impact on mutuals, or is significantly different to the impact it will have on other PRA-authorised firms.

Online fees calculator

1.8 The FCA provides an online fees calculator[1] to enable firms to calculate their periodic fees for the forthcoming year using the PRA rates in Appendix 1. The fees calculator for 2017/18 fees and levies is now available for firms to use.

2 Feedback to responses

2.1 Before making any proposed rules or establishing its general policies and practices, the PRA is required by FSMA to have regard to any representations made to it, and to publish an account, in general terms, of those representations and its response to them.

2.2 The PRA received six responses to the CP. This section summarises the feedback received and the PRA's response.

2.3 The PRA received no responses relating to its proposals for SPFs for restructuring and new firm authorisations. As a result, no changes have been made to the draft rules. The PRA also received no comments on the proposed revisions to the SS. The updated SS (Appendix 2) is unchanged from the draft.

2017/18 Annual Funding Requirement

2.4 Three respondents expressed concern about the increase in the PRA's AFR in 2017/18, while one respondent welcomed the fact that the increase was modest. Respondents noted the importance of ensuring that PRA costs were kept under control and asked for more information to assist firms in assessing value for money and understanding how PRA fees are determined.

2.5 Alongside this PS, the Bank has published the Bank of England Annual Report and Accounts 2016-17[2] and the PRA Annual Report and Accounts 2016-17.[3] The PRA Annual Report and Accounts sets out the work completed to meet the PRA's business aims, its financial statements and includes the PRA Strategy and Business Plan for 2017-18. The Bank's mission for the efficient and economic delivery of its policies and actions is set out in the 'Transparent and Accountable' pillar, which is supported through the governance and decision making framework. The PRA has a strategic priority to 'deliver a strong and efficient operational platform – the right resources, technology, data analytics and tools, people and governance, to deliver its objectives effectively'.

1 www.fca.org.uk/firms/calculate-your-annual-fee/fee-calculator.
2 www.bankofengland.co.uk/publications/Documents/annualreport/2017/boereport.pdf.
3 www.bankofengland.co.uk/pra/Pages/publications/praannualreport/2017.aspx.

Balance of PRA funding

2.6 In Chapter 2 of the CP, the PRA set out proposals for rebalancing its funding approach so that a greater share of funding came from non-AFR sources (such as transaction fees and project fees) rather than the ORA. This would help to ensure that PRA costs were borne by those firms which generated these costs.

2.7 Three respondents expressed support for the PRA's proposed approach. However, some respondents also sought assurance that this approach would not lead to an overall increase in PRA funding requirements or reduced incentives for the PRA to function efficiently and effectively. The PRA does not intend to use transaction and special project fees to increase the overall fee burden on PRA-regulated firms, but it should be noted that in some instances additional costs may be incurred in relation to firm-specific special project fees for additional pieces of work undertaken to a defined timetable. Where transaction and project fees result in overall PRA fees collected exceeding actual spend in relation to a financial year, fee-payers will be refunded in line with the PRA's stated policies. To increase transparency on the impact of the changes, the PRA intends to include greater detail on the composition of fees raised over the previous year in its future annual fees consultative papers.

EU withdrawal

2.8 In Chapter 2 of the CP, the PRA proposed to recover the costs associated with certain work relating to withdrawal by the United Kingdom from the European Union within its AFR, but outside of the ORA. The PRA proposed that the fee would be allocated according to the fee paid by firms through the ORA, but that non-Solvency II and non-Capital Requirements Regulation (CRR) firms would receive a 50% discount to reflect that they would not be significantly impacted by some of the EU withdrawal activity (such as the transfer of Solvency II and CRR into UK legislation).

2.9 One trade body said that firms with less complex business models, such as building societies, should pay a lower EU withdrawal fee because they would not be undertaking significant business model design as a result of EU withdrawal. The PRA does not consider this to be appropriate because the EU withdrawal fee for 2017/18 is not intended to fund firm-specific work. Instead the fee will cover regulatory, legal and policy work carried out by the PRA relevant to the UK banking and insurance sectors as a whole, including building societies.

2.10 One respondent said that branches of third-country banks operating in the United Kingdom should receive a discount to the EU withdrawal fee because they were not subject to CRR. Although third-country bank branches with an equivalence finding are outside of scope of CRR,[1] under FSMA, they are subject to the PRA's Rulebook for CRR firms. The PRA considers that the work being done under the EU withdrawal fee for 2017/18 is directly relevant to these firms and therefore a discount would not be appropriate. As the nature of PRA work in relation to EU withdrawal develops, the PRA will consider carefully the applicability of any EU withdrawal fee in future years to different subsets of firms, including to both European Economic Area (EEA) and third-country branches.

2.11 The CP set out that due to the uncertainty surrounding the implications of EU withdrawal on the PRA's activities, there is a risk that further demand may emerge over the course of 2017/18. In the event that this risk crystallises, the PRA will consult on any proposed changes to fees accordingly.

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1 Those without an equivalence finding are directly subject to the CRR or other supervisory techniques to achieve the same objectives, Directive 2013/36/EU, article 127 (3).

Ring-fencing implementation fee (RFIF)

2.12 In Chapter 3 of the CP, the PRA consulted on amendments to the RFIF rules. These amendments included an increase to the RFIF to reflect the rise in PRA-budgeted costs for this work, from £7.9 million in 2016/17 to £23.6 million in 2017/18.

2.13 One firm asked for greater detail on the increase in ring-fencing costs. The main contributions to the increase are:

- costs associated with system changes intended to provide the PRA with the capacity to collect, store and analyse data from ring-fenced groups;
- overhead costs associated with ring-fencing implementation. These were previously borne by all firms through the ORA, but have now been assigned to the project in line with a change to the PRA's general approach to including overhead costs within implementation or special project fees; and
- an intensification of PRA activity in relation to ring-fencing ahead of the requirements taking effect in 2019, including in relation to new authorisation applications and the ring-fencing transfer schemes.

2.14 The PRA has made no changes to the proposed RFIF.

International Financial Reporting Standard (IFRS) 9 implementation fee

2.15 In Chapter 3 of the CP, the PRA consulted on proposals to recover its costs associated with the implementation of IFRS 9 through an implementation fee. One trade body asked for further clarification on why an implementation fee was being used for this workstream. It also said that the allocation method for the fee should take into account the complexity of a firms' business model.

2.16 The CP set out the PRA's proposals to align its funding more closely so that non-business as usual activity (such as implementing regulatory change that is outside of the PRA's control) is funded through non-AFR sources (such as implementation fees). The PRA considers implementation fees an appropriate way to ensure costs associated with major projects affect only those firms which are within scope of the project and not all firms within a fee block. IFRS 9 is one project where this is the case. There are expected to be other similar projects going forward.

2.17 Funding work on IFRS 9 in 2017/18 through an implementation fee rather than the ORA will benefit a significant number of building societies and smaller banks, many of which are not applying IFRS 9 or FRS 101. The proposed fee rates for the IFRS 9 have already been calibrated so that the largest and most complex firms pay a proportionally higher share of the costs.

2.18 No changes have been made to the draft fee proposals for IFRS 9 implementation.

Internal model fees

2.19 In Chapter 5 of the CP, the PRA consulted on proposals to recover its costs associated with Solvency II model applications through a model application fee. One trade body asked for confirmation that these fees would only apply to firms that apply for models after the new rules come into force. The PRA confirms that this is the case.

2.20 No changes have been made to the draft fee proposals for Solvency II model application fees.

Model changes

2.21 In Chapter 5 of the CP, the PRA said that it intended to consult on the possible introduction of a model change application fee in relation to Solvency II internal models. Two respondents raised concerns about the potential impact of such a charge, including potential disincentive effects on firms' willingness to update models. The PRA will consider these comments when developing its proposals, which will be consulted on later in 2017.

3 Annual Funding Requirement (AFR) for 2017/18

Changes in AFR and allocation to fee blocks relative to CP4/17

3.1 At the time of writing the CP, the impact of external market conditions as at 28 February 2017 on the PRA's pension costs for 2017/18 had yet to be fully assessed. This assessment has now taken place and the final ORA for 2017/18 is £248.3 million, an adjustment that is less than the expected £2.0 million. Table 3A sets out the allocation of the PRA's ORA to fee blocks and a comparison to the draft allocation set out in the CP and the allocation for 2016/17.

Table 3A Allocation of AFR for 2017/18 to fee blocks and comparison to the draft allocation

£ million	Final ORA	Draft ORA	Change	2016/17 ORA	Change
A0 Minimum Fee	0.5	0.5	-	0.6	(0.1)
A1 Deposit Takers	153.0	151.8	1.2	149.8	3.2
A3 Insurers - general	35.9	35.6	0.3	34.8	1.1
A4 Insurers - life	44.8	44.4	0.4	43.4	1.4
A5 Managing agents at Lloyd's	1.4	1.4	-	1.4	-
A6 The Society of Lloyd's	1.8	1.8	-	1.8	-
A10 Firms dealing as principal	10.9	10.9	-	10.7	0.2
	248.3	**246.4**	**1.9**	**242.5**	**5.8**

Changes in AFR allocations to firms within fee blocks relative to CP4/17

3.2 Table 3B sets out the analysis of final tariff data for 2017/18 used to allocate the PRA's AFR to firms within fee blocks compared to the draft data presented in the CP.

3.3 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 2017/18 have decreased compared to those in the CP for the A1 fee block due to an increase in tariff data since last year. The final fee rates for 2017/18 increased for the A4 and A10 fee blocks in line with the overall increase in ORA due to the impact of market conditions on the PRA's pension costs as set out in paragraph 3.1 above. The final rates for the A3 fee block have been further impacted by a reduction in the value of overall tariff data that the fee is apportioned across, largely driven by changes to the regulatory population. In the short term, these population changes will not necessarily lead to a decrease in PRA work but over the medium term may result in lower resource requirements, which will be reflected in future fees accordingly. For the A5 fee block, there has been a decrease in the fee rate due to a significant increase in the value of overall tariff data that the fee is apportioned across.

Table 3B Analysis of tariff data for allocation of fees within fee blocks compared to draft tariff data

Fee block	Tariff Basis	2017/18 final number of firms	2017/18 draft number of firms	Mvt (%)	2017/18 final tariff data	2017/18 draft tariff data	Mvt (%)	Movement in fee rates from draft (%)
A0	Minimum fee	1,387	1,396	(1)%	n.a.	n.a.	n.a.	-
A1	Modified Eligible Liabilities	841	842	<1%	£3,111.2bn	£2,830.4bn	10%	(9)%
A3	Gross Premium Income	330	336	(2)%	£66.0bn	£67.8bn	(3)%	5%
	Gross Technical Liabilities				£137.5bn	£138.6bn	(1)%	6%
A4	Adjusted Gross Annual Premium Income	171	172	(1)%	£59.7bn	£59.7bn	-	1%
	Mathematical Reserves				£942.8bn	£942.8bn	-	1%
A5	Active Capacity	58	59	(2)%	£29.9bn	£27.2bn	10%	(9)%
A10	Traders	8	8	-	1,780	1,791	(1)%	1%
PE1	ORA fee	1,388	1,397	(1)%	n.a.	n.a.	n.a.	n.a.
PT1	ORA Fee	1,388	1,397	(1)%	n.a.	n.a.	n.a.	(1)%

4 AFR shortfall/surplus for 2016/17

Changes in AFR shortfall for 2016/17 relative to CP4/17

4.1 A net amount of £1.6 million will be invoiced to firms to cover the AFR shortfall for 2016/17. The figure has been updated from the estimated £2.0 million contained in the CP following finalisation of the PRA's annual accounts. Table 4A sets out the 2016/17 shortfall.

Table 4A Allocation of AFR shortfall for 2016/17 to fee blocks and comparison to the draft allocation

£ million	Final shortfall	Draft shortfall	Change
A1 Deposit Takers	1.0	1.2	(0.2)
A3 Insurers - general	0.2	0.3	(0.1)
A4 Insurers - life	0.3	0.4	(0.1)
A5 Managing agents at Lloyd's	<0.1	<0.1	-
A6 The Society of Lloyd's	<0.1	<0.1	-
A10 Firms dealing as principal	0.1	0.1	-
	1.6	**2.0**	**(0.4)**

4.2 The shortfall allocated to the A5 fee block, Managing Agents at Lloyd's, and the A6 fee block, The Society of Lloyd's, are £9,000 and £11,000 respectively.

Allocation of surplus from 2016/17

4.3 There will be a refund to fee payers of unspent RFIF for 2016/17 of £0.4 million. This figure has been confirmed following the finalisation of the PRA's accounts and remains unchanged from the CP.

4.4 For 2016/17, there are retained penalties of £1.0 million, which the PRA will allocate across fee blocks using firm population data for 2016/17 (the financial year to which the retained penalties relate). Details of the distribution of retained penalties to firms remain unchanged from the CP.

Appendices

1	**PRA RULEBOOK: PERIODIC FEES (2017/18) AND OTHER FEES INSTRUMENT 2017, available at: www.bankofengland.co.uk/pra/Pages/publications/ps/2017/ps1717.aspx**
2	**Supervisory Statement 3/16 UPDATE 'Fees: PRA approach and application', available at: www.bankofengland.co.uk/pra/Pages/publications/ss/2017/ss316update.aspx**