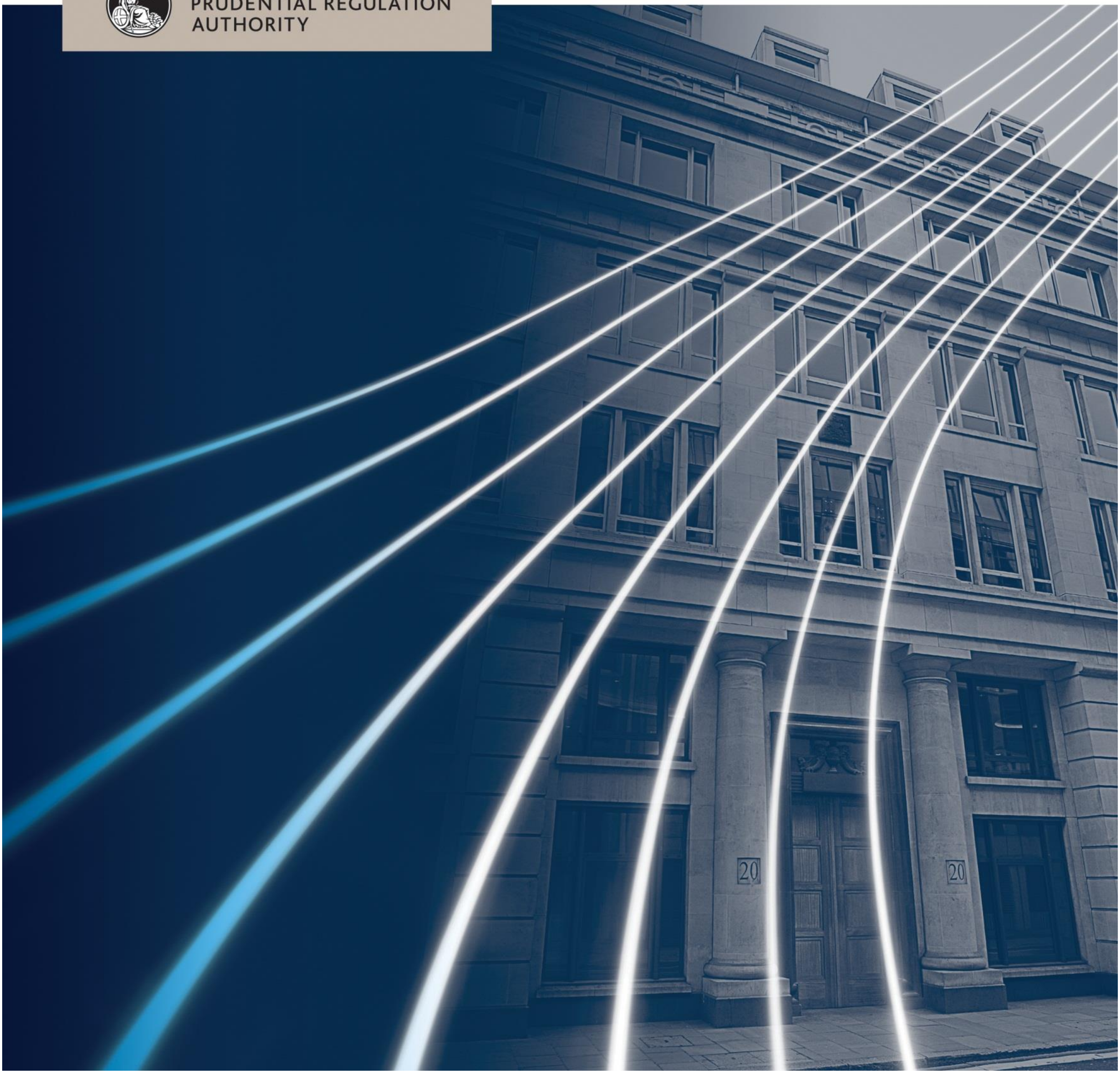
Policy Statement | PS16/20

Regulated fees and levies: rates for 2020/21

July 2020

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY



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Prudential Regulation Authority | 20 Moorgate | London EC2R 6DA

Contents

1 Overview

1.1 This Prudential Regulation Authority (PRA) Policy Statement (PS) provides feedback to responses to Consultation Paper (CP) 4/20 'Regulated fees and levies: Rates proposals 2020/21'.[1] It also contains the PRA's final policy, as follows:

- the fee rates to meet the PRA's 2020/21 Annual Funding Requirement (AFR) for the financial period Sunday 1 March 2020 to Sunday 28 February 2021;
- amendments to the Fees Part of the PRA Rulebook (Appendix 1); and
- updates to Supervisory Statement (SS) 3/16 'Fees: PRA approach and application' (Appendix 2).

1.2 This PS is relevant to all firms that currently pay PRA fees or are expecting to do so within the 2020/21 fee year.

Background

1.3 In CP4/20 the PRA proposed:

- the fee rates to meet the PRA's 2020/21 AFR;
- simplifying the variation of permission regulatory transaction fees;
- updating the hourly rates for special project fees for restructuring to reflect current PRA costs;
- to update the definitions for the A3 and A4 fee blocks;
- how the PRA intends to distribute a surplus from the 2019/20 AFR; and
- how the PRA intends to distribute the retained penalties for 2019/20.

Summary of responses

1.4 The PRA received five responses to the CP. No changes have been made to the proposals outlined in the CP as a result of these responses. Details on the responses received can be found in Chapter 2 of this PS.

Implementation

1.5 The implementation date for the PRA FEES AMENDMENT INSTRUMENT 2020 and the updated SS3/16 'Fees: PRA approach and application' is Tuesday 7 July 2020.

1.6 The policy set out in this PS has been designed in the context of the United Kingdom's (UK's) withdrawal from the European Union (EU) and entry into the transition period, during which time the UK remains subject to European law. The PRA will keep the policy under review to assess whether any changes would be required due to changes in the UK regulatory framework at the end of the transition period, including those arising once any new arrangements with the EU take effect.

1 April 2020: https://www.bankofengland.co.uk/prudential-regulation/publication/2020/regulated-fees-and-levies-rates-proposals-2020-21.

1.7 The PRA has assessed that the policy would not need to be amended under the EU (Withdrawal) Act 2018 (EUWA). Please see PS5/19 'The Bank of England's amendments to financial services legislation under the European Union (Withdrawal) Act 2018'[2] for further details.

Online fees calculator

1.8 The Financial Conduct Authority (FCA) provides an online fees calculator[3] to enable firms to calculate their periodic fees for the forthcoming year using the PRA rates in Appendix 1. The updated fees calculator for 2020/21 fees and levies using the final fee rates as set out in this PS will be available for firms to use from Tuesday 7 July 2020.

2 Feedback to responses

2.1 Before making any proposed rules, the PRA is required by the Financial Services and Markets Act 2000 (FSMA) to have regard to any representations made to it, and to publish an account, in general terms, of those representations and its feedback to them.[4]

2.2 The PRA has considered the responses received to the CP. This chapter sets out the PRA's feedback to those responses, and its final decisions.

2.3 The PRA received five responses to the CP. Responses to the CP concerned:

- the impact of the European Insurance and Occupational Pensions Authority (EIOPA) eight-week extension to regulatory reporting on PRA fees;
- the increase in the PRA's ongoing regulatory activities (ORA) costs;
- the impact of the fee block allocation methodology on deposit takers, including building societies;
- transparency on the fee block allocation; and
- the proposals affecting smaller firms.

Impact of the EIOPA eight-week extension to regulatory reporting on PRA Fees

2.4 Two respondents requested an update on the tariff data the PRA will use to determine the periodic fees for insurance firms in the 2020/21 fee year.

2.5 Shortly before CP4/20 was published, the PRA adopted an EOIPA recommendation to extend the Solvency II reporting deadlines to 2 June 2020 because of Covid-19. Data from these forms is used to determine periodic fees for insurance firms. At the time CP4/20 was published, the impact of the reporting extension on the PRA's ability to calculate fee invoices for insurance firms was unknown. Consequently, the PRA has concluded that it can use the 2019 year-end data for determining the fees for insurance firms, and this is reflected in the final fee rates detailed in Appendix 1.

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2 April 2019: https://www.bankofengland.co.uk/paper/2019/the-boes-amendments-to-financial-services-legislation-under-the-eu-withdrawal-act-2018.

3 https://www.fca.org.uk/firms/calculate-your-annual-fee/fee-calculator.

4 Sections 138J(3) and 138J(4) of FSMA.

The increase in the PRA's ORA

2.6 Two respondents requested further detail on the reasons behind the 9% increase to the PRA's ORA, the change in the approach to the PRA's budget, and how the PRA is planning to spend the additional funding.

2.7 The PRA's ORA has increased due to an increase in pension costs and investment costs; undertaking work on operational resilience and climate change; depreciation charges; developments in technology; and the cessation of the ring-fencing fee. This means that costs that were previously allocated outside of the ORA, have now been brought inside, as the PRA's resources have been reorganised.

2.8 The Bank of England, which includes the PRA, has operated a 'flat nominal' budget for the past two years. As mentioned in the PRA Business Plan 2020/21,[5] the PRA's budget without the increase in pension costs would have only increased by 2.2%. This increase provides an allowance to take into account the impact of inflation. Further detail on what the additional funding will be spent on for 2020/21 can be found in the PRA's Business Plan, which was published alongside CP4/20.

The impact of the fee block allocation model on deposit takers, including building societies

2.9 Respondents queried why the proposed fee tariff rates for deposit takers, and consequently its fee block allocation, did not take into account the fact there were eight fewer deposit takers this financial year. Respondents also suggested that a separate fee block be established for building societies, citing that they operate lower risk business models and have a domestic focus, and asked for greater detail on how the PRA's costs were allocated to its fee blocks.

2.10 Allocating costs to fee blocks is a complex process and involves many different factors. The PRA aims to match the fees a firm pays as closely as possible to the risk those firms pose to its objectives. In the case of deposit takers, the modified eligible liabilities metric links a firm's fee to the size of its deposit book, which is an important indicator of the riskiness these entities pose to the PRA's objectives. In addition, by having non-linear fees for deposit takers, as well as mechanisms such as special project fees (SPFs), model application fees (MAFs), and the model maintenance fee (MMF), the PRA has taken measures to ensure larger and more complex firms pay fees proportionate to the risks they pose.

2.11 Although the population in the A1 fee block reduced by eight firms, these were mainly small firms with small deposit books, which meant their departure had little impact on supervisory resource requirements and therefore the overall size of the A1 fee block.

2.12 The PRA will continue to look closely at the impact of fees on different sectors, including mutuals, in future reviews of the periodic fee methodology for deposit takers.

Transparency on the fee block allocation methodology

2.13 Respondents requested greater transparency on how the PRA's costs are allocated to its fee blocks. The PRA will review the methodology it employs in allocating costs to the fee blocks, with a view to consulting on any proposals in a forthcoming fees consultation.

The proposals affecting smaller firms

2.14 Respondents expressed support for the PRA's proposal to extend the payment terms for small firms with consolidated regulatory fees of less than £10,000, and for the proposal to maintain the minimum fees at the existing level.

5 https://www.bankofengland.co.uk/prudential-regulation/publication/2020/pra-business-plan-2020-21.

3 Annual Funding Requirement for 2020/21

Change in AFR and allocation to fee blocks relative to CP4/20

3.1 At the time of writing CP4/20, the impact of external market conditions as at Friday 28 February 2020 on the PRA's pension costs for 2020/21 had yet to be fully assessed. This assessment has now been completed, with the pension costs being £0.7 million more than anticipated in CP4/20. The CP indicated that these costs might change and set a tolerance limit of £5 million. The £0.7 million change is below that tolerance limit.

3.2 Table 1A sets out the allocation of the PRA's ORA to fee blocks for 2020/21, a comparison to the draft allocation set out in the CP, and the allocation for 2019/20.

Table 1A Allocation of ORA for 2020/21 to fee blocks and comparison to the draft allocation

£ million		Final ORA	Draft ORA	Change	2019/20 ORA	Change
A0	Minimum fees	0.5	0.5	-	0.5	-
A1	Deposit takers	168.4	168.1	0.3	153.7	14.7
A3	Insurers – general	35.3	35.2	0.1	32.2	3.1
A4	Insurers – life	45.8	45.7	0.1	41.8	4.0
A5	Managing agents at Lloyd's	1.6	1.6	0.0	1.4	0.1
A6	The Society of Lloyd's	2.0	2.0	0.0	1.8	0.2
A10	Firms dealing as principal	10.8	10.8	0.0	9.8	0.9
		264.4	**263.8**	**0.5**	**241.3**	**23.0**

3.3 Table 1B sets out an analysis of the final tariff data for 2020/21, used to allocate the PRA's AFR to firms within fee blocks compared to the draft data presented in the CP.

Table 1B Analysis of tariff data for allocation of fees within fee blocks compared to draft tariff data

Fee block	Tariff basis	2020/21 final number of firms	2020/21 draft number of firms	Mvt to number of firms	2020/21 final tariff data	2020/21 draft tariff data	Mvt to tariff data	Mvt in fee rates from draft
A0	Minimum Fees	1,312	1,315	(0%)	n.a.	n.a.	n.a.	-
A1	Modified Eligible Liabilities	793	793	(1%)	£3,450bn	£3,450bn	0%	0%
A3	Gross Written Premiums (GWP)	5	312	1%	£71bn	£73bn	(2%)	(0%)
	Best Estimate Liabilities (BEL)				£131bn	£144bn	(9%)	12%
A4	Gross Written Premiums (GWP)	164	169	(3%)	£130bn	£121bn	7%	(12%)
	Best Estimate Liabilities (BEL)				£1,167bn	£1,048bn	(11%)	(10%)
A5	Active Capacity	57	57	-	£33.5bn	£31bn	6%	(6%)
A10	Total Trading Book Assets	8	8	-	£2,176bn	£2,107bn	3%	(3%)
	Financial & Operating Income				£14.2bn	£13bn	6%	(5%)
PE1	EU Withdrawal Fee	725	721	1%	n.a.	n.a.	n.a.	1%

3.4 The final fee rates for 2020/21 are largely unchanged for most fee blocks. The largest changes are in the A4 fee block, where the fee rates for GWP and BEL have fallen by 12% and 10% respectively from the draft figures. As highlighted in CP4/20,[6] the indicative fee rates for the A3 and A4 fee blocks were completed using 2019/20 fee tariff data, as the Solvency II reporting deadline was after the publication of the CP which meant the draft rates were a less useful predictor of the final fee rates.

2020/21 Annual Funding Requirement

3.5 The PRA's AFR for 2020/21 is £276.1 million, which is £22.1 million higher than the AFR for 2019/20 of £254 million. The 9% increase in the AFR is primarily driven by increases in investment activities, work on operational resilience and climate change, developments in technology, and the increase in PRA pension costs. The AFR also includes lower than anticipated special project and application fees than those assumed in 2019/20.

6 April 2020: https://www.bankofengland.co.uk/prudential-regulation/publication/2020/regulated-fees-and-levies-rates-proposals-2020-21.

3.6 The PRA proposed that it would recover £11.8 million of costs associated with work arising from the UK's withdrawal from the EU through an EU Withdrawal Fee as part of the AFR. This figure has increased by £0.2 million from the CP due to the increase in final pension costs.

4 Annual Funding Requirement shortfall/surplus for 2019/20

Confirmation of surplus/shortfall for 2019/20 relative to CP4/20

4.1 CP4/20 stated that there was a surplus of £6.2 million between the total fees collected for 2019/20 and the actual spend, based on a draft, unaudited figure. Following the finalisation of the PRA's annual accounts and a review of the allocation across fee blocks to ensure correct application of the rules, the total £6.2 million figure remains unchanged.[7]

4.2 Table 4A sets out the 2019/20 surplus.

Table 4A Allocation of AFR surplus for 2019/20 to fee blocks and comparison to the draft allocation

£ million	Final	Draft	Change
A1 Deposit takers	3.9	3.9	-
A3 Insurers – general	0.9	0.9	-
A4 Insurers – life	1.1	1.1	-
A5 Managing agents at Lloyd's	0.0	0.0	-
A6 The Society of Lloyd's	0.0	0.0	-
A10 Firms dealing as principal	0.3	0.3	-
Surplus	**6.2**	**6.2**	**-**

Allocation of shortfall from 2019/20

4.3 There will be an extra call on payers of the ring-fencing fee for 2019/20 of £0.1 million. This figure has been confirmed following the finalisation of the PRA's accounts, and remains unchanged from the CP. The shortfall will be allocated to ring-fenced firms proportionate to the ring-fencing fee paid for the 2019/20 fee year.

4.4 For 2019/20, there are retained penalties of £3.1 million which the PRA will allocate across fee blocks using firm population data for 2019/20 (the financial year to which the retained penalties relate). This amount will be refunded to firms across all fee blocks excluding those firms that incurred the fines.

7 The PRA's statement of accounts for the year ended 28 February 2019 is available in the Bank of England Annual Report and Accounts 2019: www.bankofengland.co.uk/annual-report/2019.

Appendices

1 **PRA RULEBOOK: PRA FEES AMENDMENT INSTRUMENT 2020, available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps1620app1.pdf**

2 **SS3/16 'Fees: PRA approach and application', available at: https://www.bankofengland.co.uk/prudential-regulation/publication/2016/fees-pra-approach-and-application-ss**