BANK OF ENGLAND

Financial Market Infrastructure

Policy Statement

Fees regime for financial market infrastructure supervision 2020/21

Responses to Consultation on 'Fees regime for financial market infrastructure supervision 2020/21', fee rates for the 2020/21 fee year and Statement of Policy September 2020 (Updating June 2018 and July 2019)

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(Updating June 2018 and July 2019).

1 Introduction

This Bank of England (the Bank) Policy Statement (PS) provides feedback to responses to the Consultation Paper (CP) 'Fees regime for financial market infrastructure supervision 2020/21'. The PS also sets out:

- the final fee rates in relation to the Bank's 2020/21 funding requirement for its financial market infrastructure (FMI) supervisory activity and the policy activity that supports this, as permitted by the Bank's fee-levying powers;
- how the Bank will apportion the surplus from the 2019/20 FMI fee year; and
- amendments to the Special Project Fee (SPF) invoicing process and the SPF hourly rate to be charged, where applicable. This section should be read in conjunction with the 'Fees regime for the supervision of financial market infrastructure (FMI) Policy Statement June 2018'.

This PS is relevant to all FMIs that currently pay FMI supervisory fees to the Bank or are expecting to do so within the 2020/21 fee year.(1)

Feedback to responses

The Bank's public consultation on the fees regime for FMI supervision 2020/21 ran from 29 May until 29 July 2020. The Bank received four responses to the consultation. Having carefully considered these responses, the Bank does not propose to make any changes to the proposals that were set out in the CP. Details regarding the consultation feedback and the Bank's responses to the feedback can be found in Chapter 2.

Implementation

Invoices are expected to be issued in September for the 2020/21 fee year. Invoices will include any rebate from the 2019/20 fee year.

2 Feedback to responses

The Bank received four responses which commented on two aspects of the fee regime for FMI supervision.

Fee methodology

One response suggested that the ratio of fees payable across the categories of FMI should be reassessed in line with the risks posed to the Bank's objectives and that the Bank should aim to reduce the variability of the fee rate and assess the rebate given on the 2019/20 annual fee.

The Bank's powers to charge fees do not allow for cross-subsidisation between different types of FMI. The Bank's fees for FMIs are based on their importance to the financial system, with reference to the allocation of supervisory resource costs across the different types of FMIs. As such, the fees levied on each type of FMI are a reflection of the supervisory resource which is allocated, as well as the powers the Bank has to levy such fees. The Bank keeps under review the level of supervisory resource that is allocated to the population of FMIs which are supervised by the Bank, with a view to ensuring it is appropriate and proportionate.

Regarding the variability of the annual FMI fee, the Bank acknowledges the importance of this issue to FMIs, especially with regard to setting annual budgets. Consequently, the Bank will phase in the increase in the FMI supervisory fee for the 2020/21 fee year. However, the annual fee is set on the basis of expected business-as-usual supervisory resource expenditure for each type of FMI for the upcoming fee year. The Bank operates the FMI fee regime on a cost recovery basis and therefore undertakes a final adjustment of the annual fee at the end of the fee year.

(1) The 2020/21 fee year began on 1 March 2020 and will end on 28 February 2021.

In the 2019/20 fee year, the Bank underspent against its fee budget for the year. The underspend was caused by lower actual spend than budgeted on direct expenditure and staff costs. As the Bank operates the FMI fee regime on a cost recovery basis, it is appropriate that the Bank refunds the underspend to the FMIs that were subject to annual supervisory fees in 2019/20. However, the Bank will issue one invoice for annual fees in 2020/21 which will contain the 2019/20 rebate as well as the 2020/21 annual supervisory fee.

The Bank will endeavour to give FMIs as much notice as possible if there are any exceptional changes to the annual fee due to circumstances not anticipated at the start of the fee year. As set out in the CP, there may be variation in the final fee rates for the 2020/21 fee year as resource assumptions were made prior to recent events in relation to Covid-19. Any variances will be addressed at the conclusion of the 2020/21 fee year through either a rebate or a request for additional fees.

Allocation of supervisory resources

One response suggested that additional resources should be allocated to other supervisory activities.

As set out in the June 2018 Policy Statement, the Bank will levy fees for its FMI supervisory activity and policy work that supports this, as permitted by the Bank's fee-levying powers. The Bank's supervision of FMIs and allocation of its supervisory resources is based on the risks presented by each type of FMI and the systemic importance of each individual FMI. The Bank keeps supervisory resource allocation under regular review.

One response requested more information regarding resources allocated to operational resilience work.

At the end of 2019 the Bank, the Prudential Regulation Authority and the Financial Conduct Authority announced that a key priority is to put in place a stronger regulatory framework to promote operational resilience of firms and FMIs. The safe and reliable operation of supervised FMIs is central to the Bank's overarching mission to maintain monetary and financial stability in the UK. The focus on the operational resilience of FMIs is a key aspect of the Bank's approach to FMI supervision. The challenges for operational resilience have become even more demanding given a complex cyber-environment and large-scale technological changes. The result is that the Bank has increased resources that are allocated to operational resilience work, which is undertaken within the context of the FMI supervisory framework.

3 FMI supervisory fees for 2020/21

Taking into consideration the comments received, the ratios for allocating fees between the different categories of FMIs remain the same as for the 2019/20 fee year and are confirmed in **Table A**.

Table A Fee ratio across FMI categories[a]

CCPs — the ratio between Category 1, Category 2 and Category 3 CCPs	1.75 : 1.00 : 0.57
CSDs — the ratio between Category 1, Category 2 and Category 3 CSDs	1.50 : 1.00 : 0.67
Recognised payment systems and specified service providers — the ratio between Category 1 and Category 2 firms	1.50 : 1.00

(a) The FMI categories are described as follows: Category 1 — most significant systems which have the capacity to cause very significant disruption to the financial system by failing or by the manner in which they carry out their business; Category 2 — significant systems which have the capacity to cause some disruption to the financial system by failing or by the manner in which they carry out their business; and Category 3 — systems which have the capacity to cause at most minor disruption to the financial system by failing or by the manner in which they carry out their business.

The Bank can confirm that the supervisory fees for the 2020/21 fee year will, in line with the estimates consulted on, be as set out in **Table B**.

Table B Fees for the 2020/21 fee year[a]

	CCPs	CSD	Payment systems and service providers
Category 1	£2.06 million	£1.11 million	£0.58 million
Category 2	£1.18 million		£0.39 million
Category 3			

(a) These are rounded figures and FMIs within scope of the regime can expect to be billed exact amounts.

4 Shortfall/surplus for 2019/20

The surplus for the 2019/20 fee year is set out in **Table C**. Invoices for the 2020/21 fee year will include the rebate from the 2019/20 fee year.

Table C Surplus in fees for the 2019/20 fee year[a]

	CCPs	CSD	Payment systems and service providers
Category 1	£87,260	£48,652	£8,234
Category 2	£49,863		£5,490

(a) These are rounded figures and FMIs within scope of the regime can expect to be billed exact amounts.

5 An amendment to SPF invoicing and hourly rates

The Bank will amend the invoicing process for SPFs. The Bank considers that greater clarity regarding project spend can be provided to FMIs that are undertaking a special project by invoicing for actual work carried out on a quarterly basis. The Bank will therefore adopt a quarterly invoicing process for SPFs.

The Bank can confirm that the SPF hourly rates will, in line with the estimates consulted on, be as set out in **Table D**.

Table D SPF hourly rates

	£/hour
Administrator	55
Associate	115
Technical specialist	170
Manager	215
Any persons employed by the Bank[a]	320

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