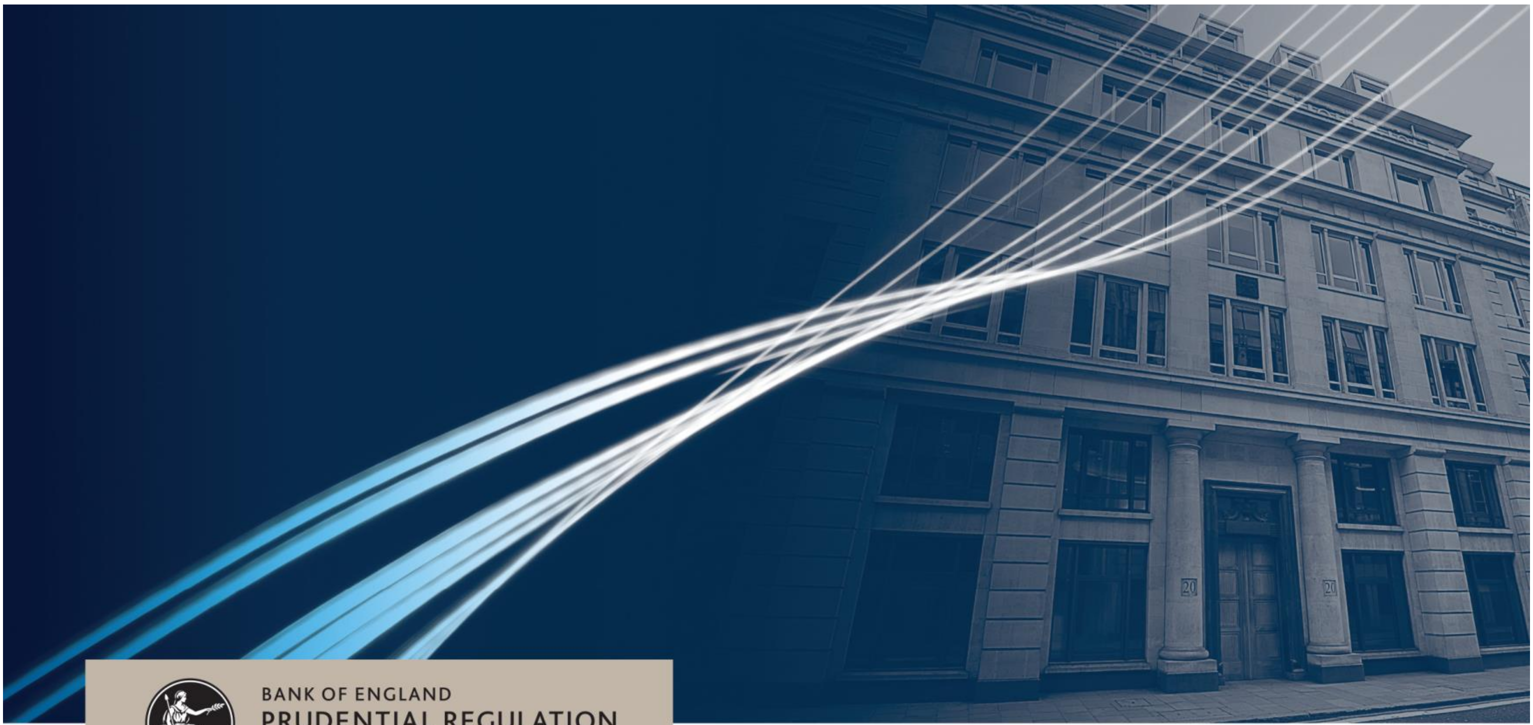

BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Consultation Paper | CP4/17

# Regulated fees and levies: rates proposals 2017/18

March 2017

Prudential Regulation Authority
20 Moorgate
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BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

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March 2017

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Responses are requested by Wednesday 24 May 2017.

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# 1 Overview

1.1 This consultation paper (CP) sets out proposals for the Prudential Regulation Authority's (PRA) fees and levies for 2017/18. The proposals include:

- the fee rates to meet the PRA's 2017/18 Annual Funding Requirement (AFR);
- amendments to the definition of the general insurer (A3) fee block concerning insurance special purpose vehicles (ISPVs);
- amendments to the ring-fencing implementation fee rules;
- rules for introducing an International Financial Reporting Standard (IFRS) 9 implementation fee;
- amendments to the rules and supervisory guidance concerning Special Project Fees (SPF) for restructuring;
- amendments to the rules and supervisory guidance concerning regulatory transaction fees;
- how the PRA intends to manage a shortfall from the 2016/17 AFR and distribute a surplus on the ring-fencing implementation fee; and
- how the PRA intends to distribute the retained penalties for 2016/17.

1.2 This consultation is relevant to all firms that currently pay PRA fees or are expecting to do so within the 2017/18 fee year.[1]

## Summary of proposals

1.3 The PRA's AFR for 2017/18 is made up of the budgeted cost of Ongoing Regulatory Activities (ORA), costs associated with the withdrawal from the European Union (EU) by the United Kingdom and a proportion of transition costs arising from the establishment of the PRA. Further information on these can be found in Chapter 2. The proposed ORA for 2017/18 is £246.4 million, an increase of £3.9 million (2%) on 2016/17.

1.4 This figure is provisional and may need to be revised when final estimates for the PRA's pension costs are available. At the time of writing, the anticipated variation in pension cost estimates is expected to be less than £2.0 million. If the final estimate (due by mid-April 2017) exceeds this, an updated CP will be issued. If any responses have been received prior to the issuance of any updated CP, these will be followed up individually to check whether the respondent wishes to revise their response in the light of any updated CP.

1.5 A new element of the PRA AFR is being proposed for 2017/18 for the recovery of certain costs associated with EU withdrawal. The PRA's estimated costs associated with EU withdrawal activity in 2017/18 are £5.4 million. In the prior year, the costs incurred by the PRA associated with this work were absorbed within the cost of Ongoing Regulatory Activities.

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1 The 2017/18 fee year began on 1 March 2017 and will lend on 28 February 2018. See paragraph 1.18.

1.6 Implementation of the Financial Services (Banking Reform) Act 2013 (the 'Banking Reform Act') requires work by the PRA through to 2019 when the new ring-fencing regime comes into effect. The costs incurred by the PRA in completing this work are recovered through the ring-fencing implementation fee. This fee is payable by the firms that are ring-fencing their core activities in line with the Banking Reform Act. The PRA's budgeted costs associated with the implementation of ring-fencing in 2017/18 are £23.6 million, compared with £7.9 million in 2016/17.

1.7 A new implementation fee is being proposed to cover the PRA costs associated with the implementation of IFRS 9 and Financial Reporting Standard (FRS) 101. The proposed fee will be payable by deposit-takers and firms acting as principal that are expected to use IFRS 9 or FRS 101 in 2018. The PRA's budgeted costs associated with IFRS 9 and FRS 101 in 2017/18 are £3.6 million. In previous years, the costs incurred by the PRA associated with this work were absorbed by ORA. Increasing levels of preparation work mean that it is now appropriate to move to an implementation fee.

1.8 Chapter 3 of this CP explains the ring-fencing and IFRS 9 implementation fees in more detail.

1.9 The PRA is proposing to update the rates it charges for SPFs for restructuring so that the hourly rates incorporate the relevant portion of overhead costs attributable to the project. It is also seeking to simplify the process for calculating SPFs involving more than one firm, and to clarify the circumstances and activities which could give rise to an SPF. Full details on these proposals are provided in Chapter 4.

1.10 The PRA is proposing to update its supervisory guidance to clarify that where an existing PRA-regulated firm undertakes restructuring activity that results in a new authorisation application (for example, as a result of a move to subsidiarise an existing branch), the firm may, in appropriate cases, be subject to an SPF for restructuring to ensure that the full costs of this activity to the PRA are recovered. Details are set out in Chapter 5.

1.11 There are currently significant differences in the charging structure for firms subject to the Capital Requirements Regulation ('CRR firms') seeking permissions to use Internal Ratings Based (IRB), Internal Model Approach (IMA), and Internal Model Methods (IMM) models despite the costs to the PRA of assessing these models to be broadly similar. The PRA is therefore proposing to introduce a new charge for firms seeking approval for IMA models, and to raise the charge for IMM models, so that both are in line with the current charges for IRB models. In addition, a new charge is proposed for insurers making an application to use a Solvency II internal model (full and partial). Details on these charges are set out in Chapter 5.

1.12 The PRA proposes to invoice firms for the shortfall between the amount of AFR collected from firms and the final costs for 2016/17. The charge is estimated to be £2.0 million. The PRA proposes to allocate the additional charge across fee blocks and to firms using firm population and fee data from 2016/17. Details of the additional charges to firms are outlined in Chapter 6.

1.13 In June 2013, the PRA published its Financial Penalty Scheme (FPS) describing how it will treat fines and other financial penalties paid by firms. This was amended in Appendix 2 of Policy Statement (PS) 13/15 'Regulated fees and levies: rates for 2015/16'.[1] The PRA collected financial penalties in 2016/17 and there are estimated retained penalties of £1.0 million that

1 June 2015: www.bankofengland.co.uk/pra/Pages/publications/ps/2015/ps1315.aspx.

will be paid to all eligible PRA-authorised firms.[1] The PRA proposes to allocate retained penalties across the fee blocks using firm population data from 2016/17. Details of the distribution of retained penalties to firms are outlined in Chapter 7.

1.14 Fee payers should be aware that the final rates for 2017/18 and the final additional charge for the shortfall for 2016/17, which will be published by the PRA in June 2017, may vary from those proposed in this CP. The following may have a material impact on the final figures:

- The estimated number of fee payers and estimated tariff data for each fee payer (as set out in Table 2.C) which is used to calculate the rates proposed in this CP.
- The proposed refunds set out in Table 6.A, Table 7.A and paragraph 6.5 which are draft, unaudited figures.
- The review of proposed rates and refunds in light of responses to this CP.

## Changes to fees rules

1.15 In addition to the usual updates to PRA fee rates, the changes to the fee rules proposed in this CP reflect the introduction of the EU withdrawal costs allocation and the IFRS 9 implementation fee, changes to the regulatory transaction fees for all internal models, the incorporation of further examples for firm or group restructuring which may attract an SPF and a mechanism to apportion such fees between firms where restructuring directly affects more than one firm. There are also minor amendments to the ring-fencing implementation fee rules and the rules for ISPVs. It should be noted that firms which only pay the minimum fee, and ISPVs are excluded from the scope of the EU withdrawal costs allocation, and EEA and non-directive firms are granted a reduction at varying levels. EEA firms are also excluded from the scope of the IFRS 9 implementation fee. As in the 2016 consultation, the draft rules instrument in the appendix to this consultation, if adopted, will amend the Fees Part of the PRA Rulebook.

## Fees supervisory statement

1.16 A revised draft updated Supervisory Statement (SS) 3/16 'Fees: PRA approach and application' is included in Appendix 2. The draft SS gives guidance to firms on how the Fees Part of the PRA Rulebook should be interpreted and should be read alongside that part. As well as the policy-related changes set out in this CP, the PRA has made non-policy related grammar and referencing changes to the existing text in the SS to conform with current drafting policy.

## Bank of England and Financial Services Act 2016

1.17 As a result of desubsidiarisation, effective 1 March 2017, the PRA has ceased to be a wholly owned subsidiary of the Bank and is now a distinct part of the Bank with continued responsibility for prudential regulation. The assets and liabilities of the PRA have transferred to the Bank, where they will be reported on separately in the Bank's accounts for future financial years.

1.18 In order to effect this transition in the 2016/17 financial year, the Directors have extended the accounting period by one day, making the PRA's year end 1 March 2017 rather than 28 February 2017. This was solely to ensure that the transfer of assets and liabilities took place within the 2016/17 financial year. The PRA's fee year is unaffected by the extension of the accounting period, so the 2016/17 fee year still began on 1 March 2016 and ended on

1 'Retained penalties' are the amounts representing enforcement costs which the PRA is entitled to retain from fines and other financial penalties received as the result of its regulatory enforcement activity.

28 February 2017, with the 2017/18 fee year commencing on 1 March 2017. The AFRs for each year are for discrete periods and any refund or shortfall due for 2016/17 will be in relation to the period 1 March 2016 to 28 February 2017. The Bank has commenced its obligations to report separately on PRA finances from 1 March 2017, in line with the Bank's financial year, ensuring continued public transparency over the use of PRA fees.

### Responses and next steps

1.19 This consultation closes on Wednesday 24 May 2017. The PRA invites feedback on the proposals set out in this consultation. Please address any comments or enquiries to CP4_17@bankofengland.co.uk.

## 2 Regulated fees and levies for 2017/18

2.1 This chapter sets out the proposals on the fee rates to meet the PRA's 2017/18 AFR.

### 2017/18 Annual Funding Requirement (AFR) and comparison to 2016/17

2.2 The AFR is the budget required by the PRA to advance its statutory objectives. The PRA's proposed AFR for 2017/18 is £266.5 million. This is £9.2 million higher than the AFR for 2016/17 of £257.3 million, an increase of 4%. The AFR is made up of:

- the budget for ORA, which amounts to £246.4 million;
- recovery of the PRA's costs associated with withdrawal from the EU by the United Kingdom, which amounts to £5.4 million; and
- recovery of transition costs, which amounts to £14.7 million.

2.3 Table 2.A shows the calculation of the PRA's total estimated AFR for 2017/18 compared to the PRA's AFR for 2016/17.

**Table 2.A Estimated Annual Funding Requirement for 2017/18 and movement from 2016/17 Annual Funding Requirement**

| £ million | 2017/18 | 2016/17 | Change | Percentage Change |
|---|---|---|---|---|
| Ongoing Regulatory Activities | 246.4 | 242.5 | 3.9 | 2% |
| EU withdrawal | 5.4 | - | 5.4 | - |
| Transition costs | 14.7 | 14.8 | (0.1) | (1)% |
| **Annual Funding Requirement** | 266.5 | 257.3 | 9.2 | 4% |

2.4 The impact of external market conditions as at 28 February 2017 on the PRA's pensions costs for 2017/18 has yet to be fully assessed. Hence the figure for the ORA is provisional and may need to be revised when final estimates are available (due by mid-April 2017). The anticipated variation is likely to be less than £2.0 million, an increase or decrease of less than 1%. If the final variation exceeds this, an updated CP will be issued. If any responses have been received prior to the issuance of any updated CP, these will be followed up individually to check whether the respondent wishes to revise their response in the light of any updated CP.

### Smaller insurers

2.5 The PRA is proposing to continue to apply a discount of 11% to the periodic fees payable by firms outside the scope of Solvency II, reallocating this cost across other firms in the A3 and

A4 fee blocks which are within scope of Solvency II. The total amount required to fund the discount in 2017/18 is just over £42,000. When spread across the A3 and A4 fee blocks, the impact on individual firms is not significant.

## 2017/18 Ongoing Regulatory Activities (ORA)

2.6 The PRA's 2017/18 proposed budget for ORA is £246.4 million compared with £242.5 million for 2016/17. Key factors impacting on the year-on-year increase of £3.9 million (2%) in the ORA budget are:

- additional cost pressures arising from rent and rates increases and expanded remit, eg carrying out additional stress testing activity; and
- incremental pensions service costs arising due to declining gilt and corporate bond rates.

These are offset by:

- the PRA's proposal to include overhead and indirect costs in non-ORA sources of funding such as implementation fees and SPFs for restructuring (see paragraphs 2.28-2.29) resulting in a decrease in cost recovered through the ORA; and
- cost saving initiatives planned to optimise operational efficiencies across the PRA.

## EU withdrawal

2.7 The PRA proposes to recover costs incurred in relation to EU withdrawal within the AFR but outside of the ORA. It is expected that activity in relation to EU withdrawal will require a significant amount of work to be undertaken by the PRA over a number of years.

2.8 Costs in 2016/17 associated with EU withdrawal were recovered through the ORA, but as the work is expected to move into the implementation phase a more transparent and targeted solution is proposed.

2.9 The PRA's budgeted costs associated with this work in 2017/18 are £5.4 million, which includes: developing policy in light of EU withdrawal; preparing for, and responding to, regulatory issues as the United Kingdom's exit from the EU is negotiated; reviewing existing regulatory rules to ensure their workability in light of EU withdrawal; undertaking policy and legal work to support the task of reproducing directly applicable EU provisions through UK law or regulatory rules; undertaking policy and legal work across the PRA to prepare for the future regulatory environment; undertaking supervisory action and putting in place processes that may be appropriate in light of EU withdrawal; and liaising with the wider Bank, the Financial Conduct Authority (FCA) and other stakeholders as to the implications of EU withdrawal for prudential supervision and the PRA's statutory objectives.

2.10 It is proposed that these costs are recovered over all fee blocks except the minimum fee block, in proportion to the allocation of fees for the ORA as set out in Table 2.B, excluding any EEA branches.

2.11 As non-Solvency II and non-CRR firms are not expected to be impacted by some of the EU withdrawal activity, the PRA is proposing that a discount of 50% is introduced for these firms in relation to the EU withdrawal element of the AFR (many of these firms only pay the minimum fee and hence will be unaffected by any fee associated with EU withdrawal).

2.12 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. The anticipated variation is likely to be an increase or decrease of less than 20%. In the event that further costs are identified, the PRA will consult further later in the year.

## Transition costs

2.13 The PRA's AFR for 2017/18 includes an amount of £14.7 million to recover a proportion of transition costs that were incurred in preparation for the establishment of the PRA as consulted on and set out in PS4/13 'PRA Regulated fees and levies: rates proposals'.[1] These costs are being recovered over a period of five years from 2013/14 to 2017/18 for all fee blocks except the minimum fee block, in proportion to the allocation of fees for ORA as set out in Table 2.B. This will therefore be the last year in which transition costs are recovered.

## Allocation of 2017/18 ORA to fee blocks

2.14 The proposed allocation of ORA 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 for which they hold permissions, and pay a periodic fee for each fee block into which they fall. This proposed allocation to fee blocks is based on the anticipated work to be performed within each area, which reflects the PRA's focus on the firms that pose the greatest risk to the PRA's objectives.

2.15 The cost of the ORA is allocated across fee blocks taking into account the proportion of the PRA's frontline staff undertaking activities relating to each fee block.

2.16 Within each fee block, the costs to be recovered from individual firms are based on the size of their business. The aim is to ensure those firms that could potentially cause the greatest harm to the stability of the UK financial system are the main contributors to the PRA's AFR. As for previous years, cost recovery within the A1 fee block will be weighted further towards higher-impact firms.

2.17 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.

2.18 The PRA is proposing to leave the A0 minimum fee unchanged for 2017/18. However, it notes that the minimum fee has been unchanged since the PRA's inception in 2013, shielding firms which only pay the minimum fee from increases in the PRA's costs which have been funded by other fee payers. The PRA will continue to keep the level of the minimum fee under review and may look to increase it in future years.

## Change in ORA allocations to fee blocks relative to 2016/17

2.19 Table 2.B sets out the change from 2016/17 to 2017/18 in the allocation of the PRA's ORA to fee blocks. The table shows that the change to each fee block is broadly in line with the overall movement in ORA.

1 June 2013: www.bankofengland.co.uk/pra/Pages/publications/regulatedfeelevies.aspx.

**Table 2.B Proposed 2017/18 allocation of Ongoing Regulatory Activities and movement from 2016/17 allocation**

| £ million | 2017/18 | 2016/17 | Change | Percentage Change |
|---|---|---|---|---|
| A0 Minimum fee | 0.5 | 0.6 | (0.1) | (2)% |
| A1 Deposit takers | 151.8 | 149.8 | 2.0 | 1% |
| A3 Insurers – general | 35.6 | 34.8 | 0.8 | 2% |
| A4 Insurers – life | 44.4 | 43.4 | 1.0 | 2% |
| A5 Managing agents at Lloyd's | 1.4 | 1.4 | - | - |
| A6 The Society of Lloyd's | 1.8 | 1.8 | - | - |
| A10 Firms dealing as principal | 10.9 | 10.7 | 0.2 | 2% |
| **Ongoing Regulatory Activities** | **246.4** | **242.5** | **3.9** | **2%** |

## Online fees calculator

2.20 The FCA will provide a facility on its website to enable firms to calculate their periodic fees for the forthcoming year based on the proposed PRA consultative rates in Appendix 1. The fee calculator for 2017/18 fees and levies is expected to be available to firms from Wednesday 19 April 2017.

## Changes to tariff data used in AFR allocations to fee blocks relative to 2016/17

2.21 Table 2.C sets out the analysis of tariff data used for allocating the PRA's proposed AFR to firms within fee blocks for 2017/18 and a comparison to 2016/17.

2.22 The PRA proposes an increase in fee rates for 2017/18 compared with 2016/17 for all fee blocks except the minimum and transition fee blocks. The proposed changes are due to the movement in the allocation of ORA to fee blocks between the two years as set out in Table 2.B. The impact of this change is lessened where there is an increase in tariff data within the fee blocks and magnified where there is a decrease in tariff data. For example if the combined total Modified Eligible Liabilities for all firms within the A1 fee block increase, the rate charged to each firm per £ million of Modified Eligible Liabilities will decrease, and vice versa.

2.23 Table 2.C additionally sets out the number of firms in each fee block for the purposes of transparency as the proposed fee each firm would pay may be impacted by the number of firms included in the relevant fee blocks.

2.24 The proposed allocations within the PT1 Transition Costs fee block decrease as the total cost of ORA increases leading to the transition costs being spread over higher tariff data.

**Table 2.C Analysis of tariff data for allocation of fees within fee blocks compared to 2016/17**

| Fee block | Tariff Basis | 2017/18 draft number of firms | 2016/17 number of firms | Mvt (%) | 2017/18 draft tariff data | 2016/17 tariff data | Mvt (%) | Movement in fee rates from 2016/17 (%) |
|---|---|---|---|---|---|---|---|---|
| A0 | Minimum fee | 1,396 | 1,431 | (2)% | n.a. | n.a. | n.a. | - |
| A1 | Modified Eligible Liabilities | 842 | 856 | (2)% | £2,830.4bn | £2,831.3bn | <(1)% | 1% |
| A3 | Gross Premium Income | 336 | 344 | (2)% | £67.8bn | £68.1bn | <(1)% | 2% |
| | Gross Technical Liabilities | | | | £138.6bn | £140.4bn | (1)% | 2% |
| A4 | Adjusted Gross Annual Premium Income | 172 | 179 | (4)% | £59.7bn | £60.1bn | (1)% | 3% |
| | Mathematical Reserves | | | | £942.8bn | £943.4bn | <(1)% | 2% |
| A5 | Active Capacity | 59 | 64 | (8)% | £27.2bn | £27.6bn | (1)% | 2% |
| A10 | Traders | 8 | 8 | - | 1,791 | 1,944 | (8)% | 10% |
| PE1 | ORA fee | 1,397 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| PT1 | ORA Fee | 1,397 | 1,432 | (2)% | n.a. | n.a. | n.a. | (2)% |

## Insurance Special Purpose Vehicles (ISPVs)

2.25 PRA fees for ISPVs are currently covered by the general insurance fee block (A3). ISPVs pay a flat fee of £430 in respect of each fee year.

2.26 In a consultation document released on 23 November 2016, HM Treasury explained it intended to introduce legislation to implement a new regime for ISPVs in 2017. Under the new regime, anyone wishing to operate in the United Kingdom as an ISPV will need permission to perform the new regulated activity of insurance risk transformation, as set out in Regulation 13A of the Financial Services and Markets Act (Regulated Activities) Order 2001 (SI 2001/544).

2.27 In order to ensure ISPVs can continue to be covered by the A3 fee block following the introduction of this new regulated activity, the PRA proposes to amend the definition of the A3 fee group. It is proposed that the fee arrangements for ISPVs are otherwise unchanged for this fee year, though they may be subject to change in future fee years.

## Balance of PRA funding

2.28 A large majority of PRA funding is raised through the AFR, and in particular ORA, and the PRA expects this to continue. However, going forward, the PRA is proposing to change the balance of funding with the intention of increasing the proportion of funding coming from non-AFR sources, such as implementation fees, SPFs and regulatory transaction fees. This change is intended to ensure that the PRA's costs are more closely borne by the firms which generate those costs. It will also enable the PRA to better align its business as usual activities with its regular income sources (the AFR), and non-business as usual activity with other income sources.

2.29 As part of this new approach, from 2017/18, the PRA is proposing to include overhead and indirect costs in non-AFR sources of funding such as implementation fees and SPFs for restructurings. Overhead costs are already included in the PRA's total funding requirement and charged to firms through the AFR. However, assigning relevant overheads directly to the projects they are associated with will enable the PRA to ensure that the costs charged to individual firms are closer to the true costs to the PRA. This will also mean that firms which are not taking part in a particular project or carrying out an activity are no longer indirectly paying for the project's costs through the AFR.

2.30 This proposed change affects the ring-fencing implementation fee and the proposed IFRS 9 implementation fee (see Chapter 3). The proposed hourly rates for SPFs for restructuring have also been updated to include relevant overhead costs (see Chapter 4).

# 3 Implementation fees

3.1 This chapter sets out the proposals on implementation fees in 2017/18, including continuation of the ring-fencing implementation fee and introduction of a new implementation fee for work relating to IFRS 9 and FRS 101. Additional context on the PRA's approach to introducing implementation fees is set out in the revised draft of SS3/16 'Fees: PRA approach and application' (Appendix 2).

## Ring-fencing implementation fee

3.2 The proposed ring-fencing implementation fee (RFIF) will apply to firms that are ring-fencing their core activities in line with the requirements of the Banking Reform Act ahead of the Government's 1 January 2019 deadline. The fee would recover PRA costs associated with the implementation of ring-fencing. The implementation of the new regime requires a significant amount of work to be undertaken by the PRA through to 2019.

3.3 The PRA's budgeted costs associated with this work in 2017/18 are £23.6 million, compared with £7.9 million in 2016/17. The RFIF has increased this year as the PRA has reviewed and modified the range of costs attributable to in-scope firms. This includes additional activity associated with the collection of regulatory data and increasing work on firms' implementation of ring-fencing plans. The increase is also affected by changes to the allocation of overheads for staff working directly on the ring-fencing programme (see paragraph 2.29).

3.4 Firms captured by ring-fencing legislation ('in-scope firms') should expect to pay the implementation fee in 2017/18. Draft rules can be found in Appendix 1.

3.5 The PRA's budgeted costs for 2017/18 include the costs of:

- identifying and defining changes to the PRA's supervisory model that will apply to groups subject to ring-fencing;
- supervisory review of ring-fencing plans received from groups subject to ring-fencing, including heightened support to this work by risk specialists, policy specialists and other PRA experts;
- reviewing banks' applications for ring-fencing transfer schemes (RFTS), reviewing skilled person's scheme reports and ongoing engagement with the banks, skilled persons and courts in respect of RFTS;

- reviewing and processing banks' applications for regulatory transactions connected with ring-fencing, including (where applicable) work on banks' applications for new bank authorisations; and

- systems changes to provide the capability for the PRA to collect, store and analyse data from ring-fenced groups.

3.6 These activities are specific to the requirements to implement the Banking Reform Act and are not part of the PRA's usual supervisory activity. Consistent with the approach set out in paragraph 2.29, the ring-fencing implementation fee for 2017/18 includes overheads and other costs associated with the project. The PRA will consult each year on further costs to be charged by this mechanism after 2017/18.

3.7 The allocation of the PRA's ring-fencing implementation costs to groups will reflect two equally-weighted factors: i) how their core deposits compare with the core deposits of all in-scope banking groups; and ii) how their total group assets outside their proposed ring-fenced body subgroups compare with the non-ring-fenced assets of all in-scope banking groups. Calculations will be based on forecasted (1 January 2019) data provided by banking groups in March 2017. The PRA considers these metrics to be an appropriate proxy for the balance of work the PRA will need to do across these banking groups to implement ring-fencing.

## IFRS 9 implementation fee

3.8 The PRA is proposing to introduce a new IFRS 9 implementation fee to recover PRA costs associated with the implementation of IFRS 9 and FRS 101. This requires a significant amount of work to be undertaken by the PRA, expected to continue for a number of years.

3.9 PRA costs in 2016/17 associated with IFRS 9 and FRS 101 were recovered through the AFR but as the work moves to a more complex and intensive phase, a new solution is being proposed. As set out in paragraph 2.28, the PRA intends to make greater use of tailored fees, including implementation fees, to ensure that the costs of regulation fall more closely on the firms which call on its resources. This includes PRA work associated with implementation of significant regulatory change introduced by third parties, such as IFRS 9 and FRS 101. An implementation fee is also considered appropriate in this case because not all firms in the A1 deposit-taker fee block will apply IFRS 9 or FRS 101: if these costs were covered by the AFR rather than an implementation fee, then some firms not applying IFRS 9 and FRS 101 would pay for the work.

3.10 The PRA's budgeted costs associated with this work in 2017/18 are £3.6 million. The most significant work effort for IFRS 9 and FRS 101 relates to the new impairment approach, which introduces a requirement for firms to provide for expected credit losses. The fee will therefore apply to all deposit-takers (other than non-EEA branches) and firms dealing as principal, which prepared their most recent set of annual accounts for the firm's financial year end on or before 31 March 2017 in accordance with IFRS 9 or FRS 101 (in scope firms), as it is assumed these firms will also be applying these standards in 2018. The fee will not apply to general or life insurers, which are likely to be able to delay adoption of IFRS 9 until 2021. Draft rules are set out in Appendix 1.

3.11 The PRA's budgeted costs for 2017/18 include the costs of:

- understanding and assessing firms' implementation plans and their impact on supervisory objectives and activities;

- assessment of the impact of IFRS 9 and FRS 101 on capital and reporting standards, and contributing to any necessary domestic, European and international rule and guidance changes; and

- preparatory work on the introduction of IFRS 9 in annual stress test exercises.

3.12 These activities are specific to the implementation of IFRS 9 and FRS 101 for deposit-takers and firms dealing as principal. The PRA will consult each year on further costs to be charged by this mechanism after 2017/18, including for the implementation of IFRS 9 or FRS 101 by general and life insurers.

3.13 The allocation of the PRA's IFRS 9 and FRS 101 implementation costs to firms will reflect the relative size of firms' total non-trading book assets. Calculations will be based on firm data for end-2016. The proposed fee for larger firms (those with non-trading book assets over £200 billion) will be set at a higher rate than for other firms to reflect the greater focus of work on these firms in 2017/18, including in relation to annual stress test exercises. Firms which only pay the minimum fee, EEA branches, and firms with low levels of non-trading book assets, will pay zero. The PRA considers these metrics to be an appropriate proxy for the balance of work that the PRA will need to do across these firms as they implement IFRS 9 and FRS 101.

# 4 Special Project Fees for restructuring

4.1 This chapter summarises the proposals relating to SPFs for restructuring, including changes to the Fees Part of the PRA Rulebook and SS3/16 'Fees: PRA approach and application'.

## SPFs for restructuring: payment calculation

4.2 In order to simplify the approach for calculating fees for SPFs for restructuring involving more than one firm, the PRA is proposing to amend the calculation method set out in the Fees Part of the PRA Rulebook. The total fee for the SPF will continue to be calculated using the 'hourly-rates' approach set out in Fees 5.7, however, a rule change is proposed to clarify that the PRA may use an apportionment approach based on firm size to allocate the calculated fee between firms subject to the SPF. This is as an alternative to tracking the specific costs incurred directly in relation to each firm, which is administratively more costly, and may result in unpredictability where work is of equal relevance to more than one firm affected by the restructuring. The PRA intends to review further its approach for calculating fees for SPFs and carry out a separate consultation on this topic in due course. This may include proposals to replace the use of hourly rates with other calculation methods.

4.3 Consistent with the approach set out in paragraphs 2.28-2.30, the PRA is also proposing to change the rates charged for SPFs for restructuring to include relevant overhead costs.

4.4 Overhead costs are already included in the PRA's total funding requirement and charged to firms through the AFR. However, assigning relevant overheads directly to the projects they are associated with will enable the PRA to ensure that the costs charged to individual firms are closer to the true costs to the PRA. This will also mean that firms which are not taking part in an SPF or carrying out an activity are no longer indirectly paying for SPFs costs through the AFR.

4.5 Table 4.A shows the revised SPF hourly chargeable rates. Changes to the PRA's approach to charging SPFs for restructuring have been reflected in the revised draft SS3/16 in Appendix 2.

**Table 4.A Proposed PRA SPF hourly rates for restructuring**

| £/hour | Current rate | Proposed rate | Change |
|---|---|---|---|
| Administrator | 30 | 50 | 20 |
| Associate | 60 | 105 | 45 |
| Technical Specialist | 90 | 155 | 65 |
| Manager | 115 | 195 | 80 |
| Any other persons employed by the PRA[a] | 170 | 290 | 120 |

[a] The 'any other' category is predominantly used for senior management

4.6 In addition, the PRA is proposing to amend SS3/16 to reduce the threshold at which it would ordinarily charge an SPF for restructuring, from £50,000 to £25,000 (Appendix 2).

### Scope of SPFs for restructuring

4.7 Fees 5 sets out the circumstances and firm activity that can give rise to an SPF. The PRA proposes to amend Fees 5.2 to include the following within the SPF definition:

(a) where a firm proposes a significant change to its business model; and

(b) where a firm proposes to undertake a significant internal change programme.

4.8 In both cases, the PRA considers these activities already to be within the scope of an SPF for restructuring and so this change does not result in a broadening of the rules. However, explicitly capturing these examples in the rules provide firms with greater clarity and certainty on the types of transactions and activities that can give rise to an SPF due to the potential for generating significant additional supervisory activity.

4.9 Please note the set of activities described in Fees 5.2 is not exhaustive. Proposed guidance on the use of SPFs can be found in the revised draft SS3/16 (Appendix 2).

## 5 Regulatory transaction fees

5.1 This chapter sets out proposed changes to the Fees Part of the PRA Rulebook relating to regulatory transactions fees, including fees for new authorisations and model applications.

### New authorisations

5.2 Fees 4 set out charges payable by firms applying for new authorisations. These charges do not always fully recover the costs incurred by the PRA and are intended instead to facilitate greater competition by removing barriers to new entrants entering the UK financial system. However, existing PRA regulated firms sometimes can also undertake activities that result in applications for new authorisations. These include firms which are carrying out a major restructuring or change to their authorised status, for example by subsidiarising an existing branch. In these circumstances, the costs incurred by the PRA can be significantly greater than the charges for a new authorisation, particularly if the firm is large or complex.

5.3 The PRA therefore proposes to revise SS3/16 to clarify that when a firm engages in a restructuring which includes a new authorisation (thereby giving rise to a new authorisation fee), the PRA may choose to levy an SPF for restructuring to cover the entire regulatory work conducted by the PRA, including the costs of the authorisation. The PRA's regulatory transaction fees associated with the activity would then be waived. A similar approach may also be taken if existing regulated firms undertake an activity that could generate both an SPF for restructuring and other regulatory transaction fees. The PRA expects to only use an SPF in these circumstances where justified by a firm's size, nature or complexity.

5.4 The use of SPFs for restructuring will be subject to individual assessment of their appropriateness and proportionality, ensuring that they are implemented on a consistent, non-discriminatory basis, with regard to any implications for competition and the international competitiveness of the United Kingdom.

## CRR internal models

5.5 While CRR firms that seek permission to apply IRB models are charged between £42,000 and £268,000, the current charging structure does not set a fee for permissions for models under the IMA. The review and assessment of applications for IMA models are as complex and require as much PRA resource as other model application types. The PRA therefore proposes to amend the rules to include IMA applications within Table D of Fees 4.15 and bring fees for these model types in line with IRB model types.

5.6 This will mean that firms applying for an IMA model permission will be subject to a regulatory transaction fee between £42,000 and £268,000 depending on the size of a firm's Modified Eligible Liabilities (A1 fee block) or number of traders (A10 fee block).

5.7 The proposal removes the anomaly whereby the costs to the PRA of assessing IMA model applications is included within the AFR, whereas the costs of the other CRR model types are covered by regulatory transaction fees.

5.8 The PRA also proposes to amend the rules to bring the regulatory transaction fee payable in relation to an IMM application, which is currently set at £54,000, in line with the fee for other CRR model application types. The review and assessment of applications for IMM models are as complex and require as much PRA resource as other model application types. Therefore, it is appropriate to bring the regulatory transaction fee into line with other model application types. Not doing so would mean that a significant portion of the costs of an IMM assessment are transferred to the AFR.

5.9 Fees 4.15 will therefore be amended so the regulatory transaction fee for an IMM application will be between £42,000 and £268,000 depending on the firm's Modified Eligible Liabilities (A1 fee block) or number of traders (A10 fee block).

## Solvency II internal models

5.10 Unlike for CRR firms' IRB, IMA and IMM models, the PRA does not currently charge insurers regulatory transaction fees for Solvency II (SII) internal model approvals. These costs were previously absorbed within the SII implementation project fee, which was last charged in 2015/2016.

5.11 To recover the cost of assessing these applications, the PRA is proposing to introduce regulatory transaction fees for SII full and partial internal model applications. While the complexity and costs associated with assessing an SII internal model application may vary on a case-by-case basis, the costs to the PRA are broadly similar to those of assessing CRR model applications.

5.12 The PRA therefore proposes to create a new rule setting out regulatory transaction fees for SII full and partial internal model applications of between £80,000 and £268,000 depending on whether the application is for a solo or group model and the size of the applicants' gross technical liabilities or mathematical reserves. Where an application is made for a partial model, the PRA notes that it retains discretion to waive or reduce the application fee in cases where it would be inequitable to require full payment.

5.13 Since gross technical liabilities and mathematical reserves are no longer reported under SII, this will be based on data submitted by firms as at 31 December 2015, subject to adjustments set out in Fees 3.20. An updated calculation basis for SII model application fees will be consulted on at the same time as the PRA consults on its approach to allocations within the A3 and A4 fees blocks, expected 2017 Q3.

### Model change

5.14 Fees 4.13 states that a fee is payable where a CRR firm seeks to modify an approach where permission has already been granted. In practice, the PRA has only required a fee for a model change application where the requested change to the model has been significant and broadly equivalent to a new model application. The PRA intends to review the policy and rules in relation to model change applications including for major changes an SII internal model. This review will include consideration of whether to introduce an annual fee for firms with a model permission to cover the costs of the PRA's model review requirements. The PRA will publish a separate CP on this topic in due course.

5.15 Until this review has taken place and any policy changes have been implemented, the PRA does not intend to amend the rules in relation to major model change applications. This includes an intention not to introduce rules in relation to applications for major changes to SII internal models. The PRA is aware that this will mean there is a disparity between the CRR and SII model regimes; however, the PRA notes it has discretion to waive fees including regulatory transaction fees where it would be inequitable to require payment.

## 6 Shortfall for 2016/17

### AFR shortfall

6.1 The PRA proposes to invoice firms the shortfall between the total amount of fees collected and the actual spend in relation to the 2016/17 financial year. The amount of the AFR shortfall to be invoiced to fee payers is estimated to be £2.0 million. This is a draft, unaudited figure and therefore will be subject to change, with the final figure to be confirmed in the PS to be published in June 2017.

6.2 The overspend compared to the amount levied in 2016/17 has arisen due to:

- under-collection of fees due to some significant changes in tariff data submitted within the fee year; and
- changes to planned PRA expenditure due to EU withdrawal activity.

6.3 The additional amount to be recovered will be allocated to firms in two stages:

Stage 1 – Allocation to fee blocks. The PRA proposes to allocate the AFR shortfall across all fee blocks, with the exception of the A0 minimum fee block, in proportion to the AFR for the 2016/17 fee year.

Stage 2 – Allocation to individual firms. Within each fee block the AFR shortfall is allocated with reference to fee block population and tariff data for the 2016/17 fee year, excluding firms that are no longer PRA fee payers.

6.4 Table 6.A sets out the proposed allocation of the AFR shortfall for 2016/17 to fee blocks.

**Table 6.A Proposed allocation of the 2016/17 Annual Funding Requirement shortfall**

| **£ million** | **2016/17** |
|---|---|
| A0 Minimum fee | - |
| A1 Deposit-takers | 1.2 |
| A3 Insurers - general | 0.3 |
| A4 Insurers - life | 0.4 |
| A5 Managing agents at Lloyd's | <0.1 |
| A6 The Society of Lloyd's | <0.1 |
| A10 Firms dealing as principal | 0.1 |
| **Total estimated shortfall** | **2.0** |

### Ring-fencing implementation fee refund

6.5 The PRA proposes to refund the difference between fees collected and actual spend in relation to the 2016/17 financial year. The amount of the ring-fencing implementation fee to be refunded to fee payers is estimated to be £0.4 million. This is a draft, unaudited figure and therefore will be subject to change, with the final figure to be confirmed in the PS to be published in June 2017.

6.6 The refund will be allocated to firms proportionate to the ring-fencing implementation fee paid for the 2016/17 fee year. Any firm eligible for a refund will be informed by letter on or before Monday 1 May 2017.

## 7 Financial penalty scheme and application of retained penalties for 2016/17

7.1 The legislative framework for financial penalties is set out in the Financial Services and Markets Act 2000 (FSMA). Under FSMA, the PRA must:

- pay any fines and other financial penalties received as a result of regulatory enforcement activity to HM Treasury after deducting certain enforcement costs (these costs are referred to as 'retained penalties');
- publish and operate a financial penalty scheme (the 'Financial Penalty Scheme') to ensure that retained penalties are applied for the benefit of PRA-authorised firms; and
- ensure that any firm that has had a penalty imposed does not share in the distribution of retained penalties for the relevant fee year.

7.2 The PRA's Financial Penalty Scheme provides for retained penalties to be refunded as a rebate to the periodic fees payable by firms in the six fee blocks indicated in Table 7.A. There is no allocation to the A0 minimum fee or the PT1 Transition Costs fee blocks as they do not bear any share of enforcement costs.

### Application of retained penalties for 2016/17

7.3 In 2016/17, enforcement activity by the PRA resulted in fines and penalties of £28.3 million, of which £1.0 million is being retained by the PRA and the remaining £27.3 million will be remitted to HM Treasury. Therefore £1.0 million will be refunded to firms across all the fee blocks indicated, excluding those firms that incurred the fines.

7.4 Table 7.A sets out the proposed allocation of the Financial Penalty Scheme refund for 2016/17 to fee blocks and comparison to 2015/16.

**Table 7.A Proposed allocation of Financial Penalty Scheme refund for 2016/17 to fee blocks and comparison to 2015/16**

| £ million | 2016/17 | 2015/16 | Change |
|---|---|---|---|
| A1 Deposit Takers | 0.6 | 0.8 | (0.2) |
| A3 Insurers - general | 0.1 | 0.2 | (0.1) |
| A4 Insurers - life | 0.2 | 0.2 | - |
| 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 | - |
| | **1.0** | **1.3** | **(0.3)** |

## 8 The PRA's statutory obligations

8.1 Before making any rules, FSMA[1] requires the PRA to publish a draft of the proposed rules accompanied by:

- a cost benefit analysis;
- a statement as to whether the impact of the proposed rules will be significantly different to mutuals than to other persons;[2]
- an explanation of the PRA's reasons for believing that making the proposed rules is compatible with the PRA's duty to act in a way that advances its general objective,[3] insurance objective[4] (if applicable), and secondary competition objective;[5] and
- an explanation of the PRA's reasons for believing that making the proposed rules are compatible with its duty to have regard to the regulatory principles.[6]

8.2 The PRA is also required by the Equalities Act 2010[7] to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out its policies, services and functions.

### Cost benefit analysis

8.3 The PRA is exempt from having to carry out a cost benefit analysis on its draft fee rates.[8]

1 Section 138J of FSMA.
2 Section 138K of FSMA.
3 Section 2B of FSMA.
4 Section 2C of FSMA.
5 Section 2H(1) of FSMA.
6 Sections 2H(2) and 3B of FSMA.
7 Section 149.
8 Section 138J(6)(d) FSMA.

## Compatibility with the PRA's objectives

8.4 The PRA considers the proposals to be compatible with the PRA's statutory objectives under FSMA:

- to promote the safety and soundness of PRA-authorised firms;
- in the context of insurance, to contribute to policyholder protection; and
- as a secondary objective to facilitate effective competition in the markets for services provided by PRA-authorised persons in carrying out regulated activities.

8.5 The PRA considers that the proposed PRA Periodic Fees (2017/2018) and Other Fees Instrument 2016 set out in Appendix 1 will enable the PRA to fund the regulatory activities required to advance its statutory objectives during 2017/18. The proposed fees levels are not expected to have a material impact on the PRA's secondary competition objective since the cost will be spread proportionately across all PRA-regulated entities and is therefore not expected to act as deterrent for new entrants to the industry or the expansion of smaller firms. By targeting costs more precisely at the – generally larger – firms which are subject to the work, both the ring-fencing implementation fee and IFRS 9 implementation fee will help to ensure that smaller firms are protected from PRA costs. Leaving minimum fees unchanged further protects smaller firms from increases in PRA costs, while changes to project and transaction fees will help to ensure that larger firms which generate additional costs for the PRA pay for these costs rather than passing them on to all firms through the AFR. For these reasons, the PRA considers the proposals to be compatible with the requirements on the PRA to act in a way that advances its objectives.[1]

## Regulatory principles

8.6 In making its rules and establishing its practices and procedures, the PRA must have regard to the regulatory principles. This involves assessing which, if any, of the regulatory principles apply to its proposals and ensuring that they are aligned. The PRA considers the proposals in this CP to be compatible with the PRA's duties under the regulatory principles in section 3B of FSMA and in the Regulators' Code,[2] in particular:

- a burden or restriction which is imposed on a person, or on the carrying on of an activity, should be proportionate to the benefits which are expected to result from the imposition of that burden or restriction – the PRA allocates fees in a proportionate way through the use of fee blocks that take into account the size and nature of our regulated community;
- the desirability where appropriate of each regulator exercising its functions in a way that recognises differences in the nature of, and objectives of, businesses carried on by different persons - by giving separate consideration to the interests of minimum fee payers and firms not affected by certain PRA activities; and
- the regulators should exercise their functions as transparently as possible – by clearly setting out the basis on which the proposed fees are calculated and providing advance notice of the proposed changes to its fees and charges.

1 Section 138J(2) FSMA.
2 www.gov.uk/government/uploads/system/uploads/attachment_data/file/300126/14-705-regulators-code.pdf.

## Impact on mutuals

8.7 Within each fee block, the proposed costs to be recovered from individual firms are based on the size of their business. In addition to this the PRA has decided to continue to apply a discount of 11% to the periodic fees payable by non-Directive firms, many of which are mutuals. Therefore, the PRA does not expect the impact of these proposed fee rates on mutual societies to be significantly different from their impact on other types of authorised persons.[1]

## Equality and diversity

8.8 The PRA has had due regard to equality and diversity issues that may arise from the proposals in this consultation and has concluded that the proposals do not give rise to any discrimination issues.

1 See s.138K FSMA.

# Appendices

| | |
|---|---|
| **1** | **Draft periodic fees (2017/18) and Other fees instrument 2017** |
| **2** | **Revised draft SS3/16 'Fees: PRA approach and application'** |

# Appendix 1: Draft periodic fees (2017/18) and Other fees instrument 2017

**PRA RULEBOOK: PRA PERIODIC FEES (2017/18) AND OTHER FEES INSTRUMENT 2017**

**Powers exercised**

A. The Prudential Regulation Authority ("PRA") 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);
(3) section 166 and 166 A (Reports by skilled persons); and
(4) paragraph 31 (Fees) of Part 3 (Penalties and Fees) of Schedule 1ZB (The Prudential Regulation Authority) of the Act.

B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (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 the proposed rules and had regard to representations made.

**PRA Rulebook: PRA Periodic Fees (2017/18) and Other Fees Instrument 2017**

D. The PRA makes the rules in the Annex to this instrument.

**Commencement**

E. This instrument comes into force on [DATE]

**Citation**

F. This instrument may be cited as the PRA Rulebook: PRA Periodic Fees (2017/18) and Other Fees Instrument 2017.

**By order of the Prudential Regulation Committee**
DATE

**Annex**

**Amendments to the Fees Part of the PRA Rulebook**

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated:

## 1. APPLICATION AND DEFINITIONS

.......

1.2 In this Part, the following definitions shall apply:

*assets outside expected RFB subgroups*

means assets of a *ring-fencing fees group* which ~~*its ring fencing business plan* indicated were~~ it has advised the *PRA* are not intended to be held ~~within~~ by a *ring-fenced body* (or its *UK* sub-group for *ring-fencing purposes)* ~~on~~ from 1 January 2019.

…

*core deposit*

means core deposits within the meaning of ~~a~~Article 2(2) of the *FSMA* (Ring-~~F~~fenced Bodies and Core Activities) Order 2014.

…

*EU withdrawal costs*

means the *PRA*'s costs associated with the *United Kingdom*'s withdrawal from the European Union, as determined by the *PRA.*

*EU withdrawal costs fee block*

means the *firms* which are liable to pay *EU withdrawal costs* as shown in Table VI of the *Periodic Fees Schedule.*

…

*FRS 101*

means Financial Reporting Standard 101 issued by the Financial Reporting Council.

…

*general insurance fee block*

means *firms* whose *Part 4A permission* includes effecting or carrying *out contracts of general insurance* or *contracts of long term insurance* other than life policies or firms whose *Part 4A permission* is insurance risk transformation*.*

…

*Group internal model*

means the internal models referred to in Articles 230 and 231 of the *Solvency II Directive.*

*IFRS 9 implementation fee(s)*

means the fee or fees in 3.21.

…

*Internal model approach or IMA*

means the internal models approach referred to in Article 363 of the *CRR.*

*Internal model method or IMM*

means the internal approach to counterparty credit risk referred to in Article 283 of the *CRR.*

*international financial reporting standards or IFRS*

means the international accounting standards issued by the International Accounting Standards Board, whether as adopted in the EU under Regulation 1606/2002 or otherwise.

…

*non-EEA branches*

means *United Kingdom* branches of *firms* which are incorporated outside the *EEA.*

*non-trading book assets for fees purposes*

means total non-trading book assets as reported to the *PRA* under item 20B of form FSA001 minus £500 million.

…

~~*ring-fencing business plan*~~

~~means the near-final business plans submitted to the *PRA* on or before 1 March 2016 setting out *firms'* proposals for *ring-fencing.*~~

*ring-fencing fees group*

means a banking group, or part of a banking group, which (i) has submitted ~~a ring fencing business plan~~ forecasts to the *PRA* indicating that, from 1 January 2019, it will not meet the *core deposit* level condition in Article 12 of the *FSMA* (Ring-fenced Bodies and Core Activities) Order 2014 and (ii)~~was~~ has been notified by the *PRA* ~~on or prior to~~ between 1 May 2016 and 1 May 2017 that a fee relating to the implementation of ring-fencing ~~would~~ will be payable by one or more members of its group.

…

*Solo internal model*

means the internal model referred to in Article 112 of the *Solvency II Directive.*

……

## 3 PERIODIC FEES

.......

3.3 *Periodic fee*s payable by *firm*s in any *fee year* will be the sum of the following (so far as applicable to them):

(1) a minimum *periodic fee* at the rate specified in Table I of the *Periodic Fees Schedule*;~~.~~

(2) a *transition costs* allocation calculated in accordance with Table II of the *Periodic Fees Schedule;*

(3) *periodic fees* at the rate specified in Table III, subject to any modifications in Table IV and Table V, of the *Periodic Fees Schedule* calculated as follows:

(a) applying the *tariff bases* and *valuation points* set out in 3.4 to the *tariff data* which they have supplied to the *PRA* or its *collection agent*;

(b) where applicable, grouping *tariff data* into the *tariff bands* shown in Column 3 of Table III of the *Periodic Fees Schedule;* and

(c) applying the appropriate *tariff rate* as shown in Column 4 of Table III of the *Periodic Fees Schedule;*

the fee being the total of sums payable in respect of all *tariff bands*; ~~and~~

(4) an *EU withdrawal costs* allocation calculated in accordance with Table VI, subject to any modifications in Table IV and Table V, of the of the *Periodic Fees Schedule*;

(5) the *ring-fencing implementation fee* if applicable~~.~~; and

(6) the *IFRS 9 implementation fee* if applicable, calculated in accordance with Table VII, subject to any modifications in Table IV of the *Periodic Fees Schedule.*

.....

3.5 The *periodic fees* payable by:

(1) the *Society* are as specified in Table III of the *Periodic Fees Schedule*~~; and~~

(2) *fee-payers* subject to the *ring-fencing implementation fee* are as specified in 3.18~~.~~and

(3) *fee-payers* subject to the *IFRS 9 implementation fee* are as specified in 3.21.

.....

Modifications to periodic fees for incoming EEA, Treaty firms and non-directive ~~insurers~~ firms

3.11 The following modifications to *periodic fees* will apply:

(1) In relation to *incoming EEA firms* and *incoming Treaty firms*:

(a) the modifications in 3.7 apply only in relation to the relevant regulated activities of the *firm* which are *EEA passported activities* or activities of a *Treaty firm* exercising rights under Schedule 4 of FSMA; ~~and~~

(b) the *tariff rates* set out in Table III of the *Periodic Fees Schedule* only apply to the regulated activities of the *firm* in the *United Kingdom* and the tariffs are modified in accordance with Table IV of the *Periodic Fees Schedule*~~.~~ and

(c) the *EU withdrawal costs* allocation in Table VI and the *IFRS 9 implementation fee* in Table VII are modified in accordance with Table IV of the *Periodic Fees Schedule*.

(2) *Periodic fees* in the A3 *general insurance fee block* and the A4 *life insurance fee block* payable by *firms* outside the scope of the *Solvency II Directive* are subject to the modifications in Table V of the *Periodic Fees Schedule*, to be applied to the final figure arrived at under 3.3 (3) once all other modifications relevant to ~~the *firm*~~ this part of the *firm's periodic fees* have been taken into account.

(3) The *EU withdrawal costs* allocation in Table VI payable by *non-directive firms* in the *A1 deposit acceptors, A3 general insurance* and *A4 life insurance fee blocks* is subject to the modifications in Table V of the *Periodic Fees Schedule*.

.....

Ring-fencing implementation fee

3.18 In the *fee year* commencing on 1 March 201~~6~~7 and subsequent *fee years*:

(1) The *PRA* will charge a *ring-fencing implementation fee* to recover the annual cost to the *PRA,* as determined by the *PRA*, of implementing *ring-fencing*.

(2) All *firms* within *ring-fencing fees groups* are subject to *ring-fencing implementation fees*. The *PRA* may require that a single *firm* pays all *ring-fencing implementation fees* due to the *PRA* by the group.

(3) In each *fee year* the *PRA* will allocate to each *ring-fencing fees group* the proportion referred to in 3.18 (4) of the cost referred to in 3.18 (1). An amount reflecting this proportion will be the total fee payable by the group.

(4) The proportion referred to in 3.18 (3) was determined by the *PRA* ~~as at 1 March 2016~~ for the 2017/18 *fee year* in accordance with the following formula (all figures rounded to the nearest whole number):

1. [(X + Y) ÷ 2] %

where

X = [*core deposits* (*ring-fencing fees group*) ÷ *core deposits* (all *ring-fencing fees groups*)] x 100

*2.* and

Y = [*assets outside expected RFB sub-group (ring-fencing fees group)* ÷ *assets outside expected RFB sub-groups* (all *ring-fencing fees groups*)] x 100

….

*IFRS 9 implementation fee*

3.21 In the *fee year* commencing on 1 March 2017 and subsequent *fee years*:

(1) The *PRA* will charge an *IFRS 9 implementation fee* to recover the annual cost to the *PRA*, as determined by the *PRA*, of implementing the IFRS 9 accounting standard for firms in the *deposit acceptors* and *designated firms dealing as principal fee blocks*.

(2) All *firms* within the *deposit acceptors* and *designated firms dealing as principal fee blocks* other than *non-EEA branches* and *firms* paying only the minimum *periodic fee* which prepared their most recent set of annual accounts for the *firm's* financial year ending on or before 31 March 2017 in accordance with *IFRS* or *FRS 101* are subject to the *IFRS 9 implementation fee*.

(3) The *IFRS 9 implementation fee* is calculated in accordance with Table VII of the *Periodic Fees Schedule.*

(4) *Fee payers* must comply with directions from the *PRA* or its *collection agent* as to payment of *IFRS 9 implementation fees* arising from any variance between the *PRA*'s budgeted costs under 3.21(1) and its actual costs once final, audited figures are available in relation to any *fee year*. A surplus of fee income against the *PRA*'s actual costs may result in a credit to *firms* making payment and a shortfall may necessitate a call for additional fees.

**PERIODIC FEES SCHEDULE – FEE RATES AND EEA/TREATY FIRM MODIFICATIONS FOR THE PERIOD FROM ~~1 MARCH 2016 TO 28 FEBRUARY 2017~~ 1 MARCH 2017 TO 28 FEBRUARY 2018**

This schedule sets out the *periodic fees* payable by *firm*s under Chapter 3.

**TABLE I~~1~~ MINIMUM PERIODIC FEES RATES**

| Fee payer | Fee payable (£) |
|---|---|
| *Credit unions* with *MELs* under £2.0 million: | |
| *With modified eligible liabilities* of 0 – 0.5 million | **80.00** |

| | |
|---|---|
| *With modified eligible liabilities* greater than 0.5 million and less than 2.0 million | **270.00** |
| *Non-directive friendly societies* which either:<br><br>(1) fall within the A3, but **not** the A4*, fee block* and have, in relation to their A3 activities, *gross premium income* of 0-£0.5million and *gross technical liabilities* of 0-£1.0million; or<br><br>(2) fall within the A4, but **not** the A3, *fee block* and have, in relation to their A4 activities, *adjusted gross premium income* of 0-£1.0 million and hold 0-£1.0 million of *mathematical reserves for fees purposes*; or<br><br>(3) fall within both the A3 and A4 *fee blocks* and meet condition (1) above in relation to their A3 activities and condition (2) above in relation to their A4 activities. | **215.00** |
| All other firms | **500.00** |

**TABLE II - TRANSITION COSTS ALLOCATION**

| Fee payer | Tariff base for allocations to *firms* |
|---|---|
| All *firms*, except those paying only the minimum fee and *insurance special purpose vehicles.* | Total *periodic fees*, excluding minimum fees, payable by the *firm* multiplied by **~~0.0627~~0.0614** |

**TABLE III – PERIODIC FEE RATES APPLICABLE TO PRA FEE BLOCKS OTHER THAN THE MINIMUM AND TRANSITION COSTS FEE BLOCKS**

| Column 1<br>*Fee block* | Column 2<br>*Tariff base* | Column 3<br>*Tariff bands* | Column 4<br>*Tariff rates* |
|---|---|---|---|
| **A1 deposit acceptors fee block** | ***modified eligible liabilities*** | Band width (£million of *MELs)* | Fee payable per million or part million of *MELs*(£) |
| | | >10 - 140 | ~~36.66~~37.14 |
| | | >140 - 630 | ~~36.66~~37.14 |
| | | >630 - 1,580 | ~~36.66~~37.14 |
| | | >1,580 - 13,400 | ~~45.83~~46.43 |
| | | >13,400 | ~~60.49~~61.28 |
| **A3 general insurers fee block** | ***gross premium income (GPI)*** | Band width (£million of *GPI*) | Fee payable per million of *GPI* (£) |

| | | | |
|---|---|---|---|
| *gross premium income + gross technical liabilities* | | >0.5 | ~~541.25~~551.76 |
| | ***gross technical liabilities (GTL)*** | Band Width (£ million of *GTL*) | Fee payable per million of *GTL* (£) |
| | | >1 | ~~30.30~~30.79 |
| | | For *UK ISPVs* the *tariff rates* are not relevant and a flat fee of £430.00 is payable in respect of each *fee year*. | |
| **A4 Life insurers fee block**<br><br>*adjusted gross annual income (AGPI) +mathematical reserves* | ***adjusted gross annual premium income (AGPI)*** | Band width (£million of AGPI) | Fee payable per million of *AGPI*(£) |
| | | >1 | ~~546.20~~562.80 |
| | ***mathematical reserves*** | Band width (£million of *mathematical reserves for fees purposes)* | Fee per million or part million of *mathematical reserves for fees purposes* (£) |
| | | >1 | ~~11.57~~11.85 |
| **A5 managing agents at Lloyd's** | ***active capacity*** | Band width (£million of active capacity) | Fee per million of *active capacity* (£) |
| | | | ~~57.15~~58.57 |
| **A6 Society of Lloyd's** | **flat fee** | **N/A** | **General periodic fee (£)**<br><br>~~1,795,750.10~~1,822,355.60 |
| **A10 Firms dealing as principal fee block** | **fee per trader** | **Fee (£ per trader)** | ~~5,537.00~~6,088.00 |

**TABLE IV – MODIFICATIONS TO PERIODIC FEES FOR INCOMING EEA FIRMS AND INCOMING TREATY FIRMS WITH BRANCHES IN THE UK**

| Fee payer | Discount applied to *periodic fees* |
|---|---|
| **A1 deposit acceptors fee block** | 50% |
| **A3 general insurers fee block** | 90% |
| **A4 life insurers fee block** | 90% |
| **PT1 transition costs fee block** | 100% |
| ***Incoming EEA firms* and *incoming Treaty firms* offering *cross border services* only** | 100% |
| ***EU withdrawal costs fee block*** | 100% |
| ***IFRS 9 implementation fee*** | 100% |

**TABLE V – MODIFICATIONS TO PERIODIC FEES FOR NON-DIRECTIVE FIRMS IN THE A1, A3 AND A4 FEE BLOCKS**

| Fee payer | Discount applied to *periodic fees* in Table III | Discount applied to *EU withdrawal costs fee block* |
|---|---|---|
| **A1 deposit acceptors fee block** | 0% | 50% |
| **A3 general insurers fee block** | 11% | 50% |
| **A4 life insurers fee block** | 11% | 50% |

**Table VI – EU WITHDRAWAL COSTS ALLOCATION**

| Fee payer | Tariff base for allocations to *firms* |
|---|---|
| All *firms*, except those paying only the minimum fee and *insurance special purpose vehicles* | Total *periodic fees*, excluding minimum fees, payable by the *firm* multiplied by **0.0224** |

**Table VII – IFRS 9 IMPLEMENTATION FEE**

| Non-trading book assets for fees purposes | Fee payable (in pence) per £1million or part million of non-trading book assets for fees purposes |
|---|---|
| Zero | 0 |
| Greater than zero and up to £199,500million | 42.5p |
| Greater than £199,500million | 98.6p |

## 4 REGULATORY TRANSACTION FEES

.....

4.12 ~~4.12 - 4.15 apply only to CRR firms~~ 4.12 to 4.16 apply to *CRR firms and UK Solvency II firms*.

4.13 *Regulatory transaction fees* are payable:

(1) ~~as follows~~ as set out in 4.14 where a *CRR firm* seeks permission from the *PRA* in its capacity as *United Kingdom* regulator or *consolidating supervisor* ~~for permission~~ to use one of the ~~internal approaches~~ model types referred to in ~~4.15~~ 4.14 which require consent under Part Three of the *CRR*;

(2) as set out in 4.15 where any of the following applications are made which require consent under Title I or Title III of the *Solvency II directive*:

(a) a *UK Solvency II firm* seeks permission from the PRA in its capacity as *United Kingdom* regulator for permission to use a *solo internal model*;

(b) a *UK Solvency II firm* seeks permission from the PRA in its capacity as Solvency II group supervisor for permission to use a *group internal model*; or

(c) a *Solvency II undertaking* seeks permission from its group supervisor to use a *group internal model* which includes within the model's scope one or more *UK Solvency II firms*.

4.1~~5~~4 (1) Where a *CRR firm* seeks permission to apply ~~the~~ any ~~internal model~~ model type ~~for counterparty credit risk~~, the fee payable is ~~£54,000.00 and for other model approaches~~ as set out in Table D below~~:~~.

(2) The fees set out in Table D are also payable by a *CRR firm* which seeks to modify that model type once permission is granted ~~or~~ and for guidance as to the availability of such a model type or modified model type.

**Table D: Model ~~approaches~~ types under CRR ~~other than the internal model method for counterparty credit risk~~**

| **Applicant**<br>(groupings based on *tariff data* submitted by firms as at 31 December in the *fee year* prior to the *fee year* in which the fee is payable). | **Column 1**<br>**Fee payable (3) except where Column 2 applies** | | **Column 2**<br>**Fee payable (£) with (firm with permission for foundation approach moving to an advanced approach.)** |
|---|---|---|---|
| Where the application relates to *CRD credit institutions* or *designated investment firms* with five or more significant overseas entities within the same group | **model ~~approach~~ type** | **£** | 67,000.00 |
| | *advanced IRB, IMM or IMA* | 268,000.00 | |
| | *foundation IRB* | 232,000.00 | |
| | *advanced measurement approaches* | 181,000.00 | |
| Where, at 31 December prior to the *fee year* in which the fee is payable, the applicant has<br>(1) *modified eligible liabilities* in excess of £40,000,000.00; or<br>(2) more than 200 traders | **model ~~approach~~ type** | **£** | 58,000.00 |
| | *advanced IRB, IMM or IMA* | 232,000.00 | |
| | *foundation IRB* | 198,000.00 | |
| | *advanced measurement* | 146,000.00 | |

| | | | |
|---|---|---|---|
| | *approaches* | | |
| Where, as at 31 December prior to the *fee year* in which the fee is payable, the applicant has<br>(1) *modified eligible liabilities* greater than £5,000,000.00 and less than £40,000,000.00; or<br>(2) between 26 and 200 traders | **model ~~approach~~ type** | **£** | 23,500.00 |
| | *advanced IRB, IMM or IMA* | 94,000.00 | |
| | *foundation IRB* | 72,000.00 | |
| | *advanced measurement approaches* | 51,000.00 | |
| Where, as at 31 December prior to the *fee year* in which the fee is payable, the applicant has<br>(1) *modified eligible liabilities* of £5,000,000.00 or less; or<br>(2) between 0 and 25 traders. | **model ~~approach~~ type** | **£** | 10,500.00 |
| | *advanced IRB, IMM or IMA* | 42,000.00 | |
| | *foundation IRB* | 30,000.00 | |
| | *advanced measurement approaches* | 24,000.00 | |

4.15 (1) Where a *UK Solvency II firm* or a *Solvency II undertaking* seeks permission for an *internal model*, the fee payable is as set out in Table E below, subject to 4.15(2) and 4.15(3).

(2) Where a *firm* or a *group* falls within both the *general insurance* and the *life insurance* fee blocks, the fee payable is the greater of the fees due under each fee block.

(3) Where a *Solvency II undertaking* seeks permission for a *group internal model* which includes one or more *UK Solvency II firms* within its scope, the fee is calculated using aggregated tariff data for all in-scope *UK Solvency II firms*, and is payable by such of those firms and in such proportions as the PRA directs .

**Table E –*Internal model* application fees**

| **Applicant**<br>(groupings based on *tariff data* submitted by *firms* as at 31 December 2015, and subject to any adjustments made under Fees 3.20) | **Fee payable (£)** |
|---|---|
| ***Group Internal Model* (Full and Partial)** | |
| Sum of *gross technical liabilities* for groups in the *general insurance fee block* of £200million or more | 268,000.00 |
| Sum of *gross technical liabilities* for groups in the *general insurance fee block* less than £200million | 100,000.00 |
| Sum of *mathematical reserves for fees purposes* for groups in the *life insurance fee block* of £5,000million or more | 268,000.00 |
| Sum of *mathematical reserves for fees purposes* for groups in the *life insurance fee block* less than £5,000million | 100,000.00 |
| | |

| ***Solo Internal Model* (Full and Partial)** | |
|---|---|
| *Gross technical liabilities* for firms in the *general insurance fee block* of £200million or more | 232,000.00 |
| *Gross technical liabilities* for firms in the *general insurance fee block* less than £200million | 80,000.00 |
| *Mathematical reserves for fees purposes* for firms in the *life insurance fee block* of £5,000million or more | 232,000.00 |
| *Mathematical reserves for fees purposes* for firms in the *life insurance fee block* less than £5,000million | 80,000.00 |

4.14~~6~~6 The due date for payment under 4.12 ~~–~~ to 4.15 is as follows:

(1) where the application is made directly to the PRA, on or before the application is made;

(2) ~~otherwise~~ within 30 days after the PRA notifies ~~the~~ a CRR *firm* that its *EEA* parent's consolidating supervisor has requested assistance~~.~~; or

(3) within 30 days after the PRA notifies a *UK Solvency II firm* that it has received a copy of a *group internal model* application from the *Solvency II* group supervisor which includes the *UK Solvency II firm* within its scope.

Skilled persons

~~4.16~~ 4.17 ……

~~4.17~~ 4.18

**5 SPECIAL PROJECT FEE FOR RESTRUCTURING**

……

5.2 An *SPF* for restructuring becomes payable by a *firm* if it engages, or prepares to engage, in activity which involves it undertaking or making arrangements with a view to any of the following:

(1) raising additional capital; or

(2) a significant restructuring of the *firm* or the group to which it belongs, including without limitation:

(a) *mergers* or *acquisitions*;

(b) reorganising the *firm's group* structure; ~~and~~

(c) *reattribution*~~.~~;

(d) a significant change to the *firm's* business model; and

(e) a significant internal change programme.

…..

Payment calculation

5.7 The *SPF* for restructuring is calculated as follows:

(1) Determine the number of hours, or part of an hour, taken by the *PRA* in relation to regulatory work conducted as a consequence of the activities referred to in 5.2 or 5.4. The number of hours or part hours is as recorded on the *PRA's* systems in relation to the work.

(2) Next, multiply the applicable rate in the table of *SPF* hourly rates below by the number of hours or part hours arrived at under 5.7(1):

**SPF hourly rates**

| Pay grade of persons employed by the PRA | Hourly rate |
|---|---|
| Administrator | £~~30.00~~50.00 |
| Associate | £~~60.00~~105.00 |
| Technical specialist | £~~90.00~~155.00 |
| Manager | £~~115.00~~195.00 |
| Any other persons employed by the PRA | £~~170.00~~290.00 |

(3) Then add any fees and disbursements invoiced to the *PRA* by any third party provider in respect of services performed for the *PRA* in relation to assisting the *PRA* in performing the regulatory work referred to in 5.2 and 5.4.

(4) The resulting figure is the fee.

(5) Where an *SPF* for restructuring is charged and the restructuring directly affects more than one *firm*, the *PRA* may combine the total *fees* calculated under 5.7(4) in relation to that restructuring and reapportion those *fees* among all *firms* directly affected by the restructuring, using metrics which, in the opinion of the PRA, reflect the *firms*' relative nature, scale and complexity.

….

# Appendix 2: Revised draft SS3/16 'Fees: PRA approach and application'

In this appendix, new text is underlined and deleted text is struck through.

## 1 Introduction

1.1 This supervisory statement (SS) is addressed to all Prudential Regulation Authority (PRA) authorised firms and ~~anyone~~ any firm seeking to become PRA-authorised. It should be read alongside the Fees Part of the PRA Rulebook ~~(the 'Fees Part' or 'Fees')~~.

## 2 Fee year and consultation timetable

2.1 The PRA consults annually on fee rates with the publication of a consultation paper (CP). Feedback on the proposals in the CP is then published in a policy statement (PS), together with the final rule-making instrument and any agreed policy.

2.2 The PRA's fee year is twelve months from 1 March to the end of February in the following year. New fee rates take effect from 1 March in each year.

2.3 Where significant policy changes are envisaged, the PRA may consult on these separately. This normally happens in the autumn preceding the start of the fee year in which they are intended to take effect.

## 3 Periodic fees ~~– Fees Chapter 3~~ (Fees 3)

3.1 Periodic fees are set by the PRA and collected each year in order to recover the PRA's annual funding requirement ('AFR'). The AFR reflects:[1]

- costs relating to Ongoing Regulatory Activities ('ORA'), being the costs which the PRA incurs in performing its functions as regulator; and
- any exceptional costs (eg to reflect recent changes in the scope of regulation) not incorporated into ORA costs.

3.2 An example of the latter are the costs of establishing the PRA in 2013, referred to in the rules as 'transition costs', which are being recovered from PRA-regulated firms in five equal tranches between 2013/14 and 2017/18. In each of those fee years, periodic fees payable by firms will include a contribution towards transition costs.

3.3 The AFR is allocated across 'fee blocks',[2] which are groupings of firms conducting broadly similar regulated activities. Firms pay a fee for each fee block into which they fall, the amount of fee being linked to the volume of activity undertaken by each firm within the fee block. These fees are known as 'periodic fees' and are the main source of fee income for the PRA.

1 Note: the AFR does not include any special project fee (SPF) costs, where these are budgeted.
2 PRA fee blocks are currently: A0 - the minimum fee block, A1 – the deposit acceptors fee block, A3 – the general insurance fee block, A4 – the life insurance fee block, A5 – the Lloyd's managing agents fee block, A6 - the Society of Lloyd's fee block, A10 – designated firms dealing as principal fee block, PT1 – the transition costs fee block.

3.3A As well as the AFR, the PRA may introduce implementation fees, subject to consultation. Implementation fees are used to cover the costs of pieces of work that apply to a specific group of firms that fall into more than one of the existing fee blocks or a subset of firms within a fee block. Where the PRA proposes to introduce a new implementation fee or change an existing implementation fee it will consult. An example of an implementation fee is the ring-fencing implementation fee.[1]

3.3B Together, the AFR and implementation fees are known as 'periodic fees' and are the main source of fee income for the PRA.

3.4 Rules relating to periodic fees can be found in Fees ~~Chapter~~ 3 and the Periodic Fees Schedule annexed to ~~Chapter 3~~ that chapter. The Periodic Fees Schedule is updated each year to reflect the PRA's budgeted AFR and the fee rates consultation.

3.5 In most cases the firm's compliance with normal regulatory reporting will provide the necessary data for the periodic fees calculation. Where this is not the case, the PRA may invoke its own-initiative information gathering powers under statute or the Rulebook to require other information to be provided, either direct to the PRA or to its collection agent.

## 4 Regulatory transaction fees ~~– Fees Chapter 4~~ (Fees 4)

4.1 The PRA may charge fees relating to certain applications and transactions in some circumstances. Fees ~~Chapter~~ 4 uses the term 'regulatory transaction fee' to describe such payments.

### Authorisation fees

4.2 ~~Chapter~~ Fees 4 includes information on the fees that firms pay when applying to become PRA-authorised (~~called~~ defined as 'new authorisations' in Chapter 4).

4.3 All PRA firms are dual regulated, ie they are authorised initially and thereafter regulated by both the PRA and the Financial Conduct Authority (FCA) for different aspects of their business. Dual regulated firms have a single Part 4A permission which describes the PRA and FCA regulated activities which they may carry on.

4.4 The level of authorisation fee is dependent on the complexity of the application, based on the regulated activities to which the application relates. Where a firm is applying to undertake multiple regulated activities, only one authorisation fee is payable, which is the highest of the authorisation fees payable under Fees ~~Chapter~~ 4.

4.4A When a firm carries out a restructuring that involves a new authorisation (for example, if a branch applies to become a subsidiary), the PRA may choose to levy a Special Project Fee (SPF) for restructuring (see Chapter 5 of this SS) to cover the entire cost of all related regulatory work conducted by the PRA, including the new authorisation.

### Variations of Permission

4.5 If a firm, once authorised, decides to undertake a new regulated activity or expand into new areas of business, this may necessitate a change to its permission.

4.6 Wherever a PRA-regulated activity is involved, the firm should submit a Variation of Part

1 Fees 3.18.

4A Permission (or VoP) application to the PRA. As with new authorisations, firms seeking to vary their permissions should make a single application to both regulators, on which the PRA will lead.

4.7 If the firm's application means that it moves into a new fee block for the purposes of periodic fees, the relevant fee for the fee block should be paid on submission of the application.

4.8 Firms applying for authorisation by both the PRA and the FCA, or to vary their Part 4A permission, pay a single application fee. This will be the sum of amounts due to the PRA as shown in the Fees Part of the PRA Rulebook and any amounts payable to the FCA under the FCA's fees rules.

### Other regulatory transaction fees

4.9 At the time of publication, the other regulatory transaction fees in Chapter 4 are:

- fees for EEA firms seeking permissions in relation to PRA regulated activities for which they do not have automatic passporting rights;
- fees payable by a transferor seeking consent for an insurance business transfer scheme under Part VII of Financial Services & Markets Act 2000 (FSMA);
- fees payable by a ceding insurer in relation to treatment of assets of an insurance special purpose vehicle;
- fees for CRR firms (banks, building societies and certain investment firms) seeking permission to use specified internal approaches to assessing risk; ~~and~~
- fees for Solvency II firms (firms subject to the Solvency II Directive) seeking permission to use internal models; and
- fees payable in some circumstances where the PRA has commissioned a skilled person's investigation or report.

## 5 Special Project Fee for restructuring ~~–~~Fees ~~Chapter~~ 5

5.1 Chapter 5 of Fees sets out the rules for Special Project Fees, or 'SPFs', which PRA-authorised firms may have to pay in addition to any other fees.

5.2 At the time of publication, there is only one SPF mechanism available under the rules. This is the SPF for restructuring, charged to firms involved in mergers and acquisitions, corporate fund-raising, business model changes, major internal change programmes or other significant restructuring requiring additional oversight by the PRA.

5.3 The PRA will not ordinarily charge an SPF for restructuring if the amount calculated under Fees ~~Chapter~~ 5 is less than ~~£50,000~~£25,000. Where this threshold is reached and an SPF is charged, the full amount calculated under ~~Chapter~~ Fees 5 is payable and not just the excess over ~~£50,000~~ £25,000.

5.3A Where the PRA charges an SPF for restructuring, it will seek to recover all costs directly associated with the project, including relevant contributions to general overheads.

5.3 B If a regulated firm carries out a restructuring that attracts an SPF and one or more regulatory transaction fees (including a new authorisation), the PRA may choose to levy an SPF for restructuring to cover the entire cost of all related regulatory work conducted by the PRA, including the regulatory transactions. In these circumstances, the PRA would expect to waive the regulatory transaction fees associated with the activity.

5.3C Prospective SPFs are considered on a case-by-case basis, to ensure that their application is fair, consistent and in line with general legal principles. This includes consideration of the impact, if any, of an SPF on competition in the relevant market. When considering if an SPF for a new authorisation will be charged, the PRA will take into account the nature, scale and complexity of the applicant firm.

5.4 The PRA has indicated that it may in future introduce other types of special project fee, subject to appropriate consultation.[1]

## 6 Invoicing and collection of fees

6.1 The PRA appoints a collection agent for all its fees. Currently this is the FCA.

6.2 PRA fees may be paid by firms individually or on a group basis or through an agent. Where payment is made by a group or through an agent, it is the responsibility of the firm to ensure that the PRA's collection agent is notified in writing of the firm or firms on whose behalf fees are being paid.

6.3 Notwithstanding group and agent arrangements, liability for payment remains with the firm. Should the PRA's collection agent receive an amount from a group which is insufficient to meet the total fees liability of all firms notified as being part of the group, the sums received will be allocated across firms in proportion to the fees they owe, but each firm's debt to the PRA will be discharged only upon payment in full of its own fees.

6.4 It is expected that firms will settle their fees liability to both regulators in a single payment to the FCA, which the FCA receives on its own behalf in respect of FCA fees and as collection agent for the PRA in respect of PRA fees.

1 A non-exhaustive list of factors which the PRA will take into account when approving a new SPF are set out in PRA Policy Statement 5/13 'Special project fees', October 2013: www.bankofengland.co.uk/pra/Pages/publications/specprofees.aspx.