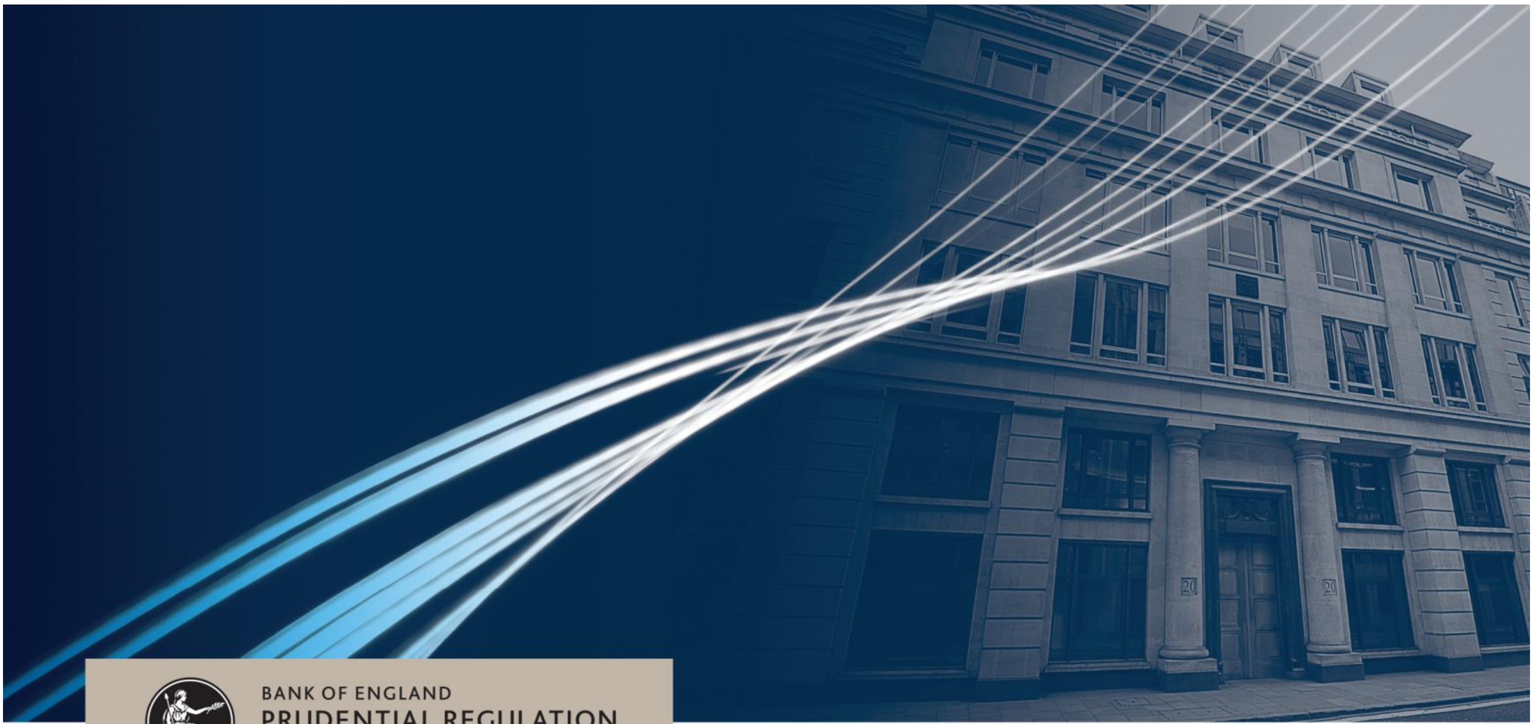

BANK OF ENGLAND
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Consultation Paper | CP4/20

# Regulated fees and levies: Rates proposals 2020/21

April 2020

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PRUDENTIAL REGULATION AUTHORITY

Consultation Paper | CP4/20

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The response will be assessed to inform our work as a regulator and central bank, both in the public interest and in the exercise of our official authority. We may use your details to contact you to clarify any aspects of your response.

The consultation paper will explain if responses will be shared with other organisations (for example, the Financial Conduct Authority). If this is the case, the other organisation will also review the responses and may also contact you to clarify aspects of your response. We will retain all responses for the period that is relevant to supporting ongoing regulatory policy developments and reviews. However, all personal data will be redacted from the responses within five years of receipt. To find out more about how we deal with your personal data, your rights or to get in touch please visit bankofengland.co.uk/legal/privacy.

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Responses are requested by Friday 15 May 2020.

**In light of current measures to help prevent the spread of COVID-19, please address any comments or enquiries by email to: CP04_20@bankofengland.co.uk.**

Alternatively, please send responses to:
Alexander Zaremba
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

# Contents

# 1 Overview

1.1 This consultation paper (CP) sets out proposals for the Prudential Regulation Authority's (PRA) fees for 2020/21. The proposals would make amendments to the Fees Part of the PRA Rulebook (Appendix 1), and Supervisory Statement (SS) 3/16 'Fees: PRA approach and application' (Appendix 2). The proposals include:

- the fee rates to meet the PRA's 2020/21 Annual Funding Requirement (AFR);
- updating the hourly rates for special project fees for restructuring to reflect current PRA costs;
- simplifying the variation of permission regulatory transaction fees;
- setting out how the PRA intends to distribute a surplus from the 2019/20 AFR (Chapter 3); and
- how the PRA intends to distribute the retained penalties for 2019/20 (Chapter 4).

1.2 This consultation is relevant to all firms that currently pay PRA fees or are expecting to do so within the 2020/21 fee year.[1]

## Summary of proposals

1.3 The PRA's AFR for 2020/21 is made up of the budgeted cost of Ongoing Regulatory Activities (ORA) and costs associated with the UK's withdrawal from the EU. Further information on these can be found in Chapter 2. The proposed ORA for 2020/21 is £263.8 million, an increase of £23.7 million (10%) on 2019/20. This figure is provisional and may need to be revised when final estimates for the PRA's pension costs are available (please see paragraph 2.4 for further detail).

## Implementation

1.4 The proposed implementation date for the proposals contained in this consultation is Tuesday 7 July 2020.

## Responses and next steps

1.5 This consultation closes on Friday 15 May 2020. The PRA invites feedback on the proposals set out in this consultation. Please address any comments or enquiries to CP04_20@bankofengland.co.uk.

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

1.7 The PRA has assessed that the proposals would not need to be amended under the EU (Withdrawal) Act 2018 (EUWA). Please see Policy Statement (PS) 5/19 'The Bank of England's

[1] The 2019/20 fee year began on Friday 1 March 2019 and ended on Saturday 29 February 2020.

amendments to financial services legislation under the European Union (Withdrawal) Act 2018'[2] for further details.

## 2 Proposals

2.1 This chapter sets out proposals on fee rates to meet the PRA's Total Funding Requirement (TFR) for 2020/21. Information on the PRA's strategy and workplan for the coming year, which will be funded by the TFR, is set out in the 'PRA Business Plan 2020/21', published alongside this CP.[3]

### Total Funding Requirement (TFR)

2.2 The PRA's TFR covers the total fees it proposes to raise from firms and comprises the AFR and 'other fees' (see Table 2.A). The PRA's TFR for 2020/21 is £283.9 million, up £14.0 million from 2019/20 (£269.9 million).

**Table 2.A: Estimated Total Funding Requirement for 2020/21 and movement from 2019/20**

| £ million | 2020/21 | 2019/20 | Change | Percentage change |
|---|---|---|---|---|
| Ongoing Regulatory Activities | 263.8 | 240.1 | 23.7 | 10% |
| EU Withdrawal Fee | 11.6 | 13.9 | (2.3) | (17%) |
| Annual Funding Requirement | 275.4 | 254.0 | 21.4 | 8% |
| Ring-fencing fee | - | 6.2 | (6.2) | (100%) |
| Model Maintenance Fee | 6.2 | 6.3 | (0.0) | (0.0%) |
| Other fees | 2.3 | 3.5 | (1.2) | (34%) |
| Other fees to industry | 8.5 | 15.9 | (7.4) | (46%) |
| Total fees to industry (TFR) | 283.9 | 269.9 | 14.0 | 5% |

### 2020/21 Annual Funding Requirement (AFR) and comparison with 2019/20

2.3 The AFR is the budget required by the PRA to advance its statutory objectives. The PRA's proposed AFR for 2020/21 is £275.4 million and is made up of the:

- budget for the ORA, amounting to £263.8 million; and
- recovery of some of the PRA's costs associated with the UK's withdrawal from the EU, amounting to £11.6 million.

2.4 The AFR for 2020/21 is £21.4 million higher than the AFR for 2019/20 of £254.0 million, an increase of 8%. The increase is driven primarily by increases in investment activities; work on operational resilience and climate change; developments in technology; and the estimated increase

2 April 2019: https://www.bankofengland.co.uk/paper/2019/the-boes-amendments-to-financial-services-legislation-under-the-eu-withdrawal-act-2018.
3 Available at: https://www.bankofengland.co.uk/prudential-regulation/publication/2020/pra-business-plan-2020-21.

in PRA pension costs. The AFR also includes lower than anticipated special project and application fees than those assumed in 2019/20.

2.5 The impact of external market conditions as at Friday 28 February 2020 on the PRA's pension costs for 2020/21 has yet to be fully assessed. The figure for the ORA is therefore provisional and may need to be revised when final estimates are available (due in April 2020). The anticipated variation is likely to be less than £5.0 million, an increase or decrease on the AFR of less than 2%. If the final variation of the pension costs exceeds £5.0 million, an updated CP will be issued. If any responses have been received prior to the issuance of an updated CP, these will be followed up individually to check whether respondents wish to revise their response.

### Smaller insurers

2.6 Since 2016/17, non-Directive general insurers have received an 11% discount on periodic fees to insulate them, and a number of mutual societies, from the full impact of the growth in costs allocated to the A3 and A4 fee blocks. The PRA proposes to continue to apply a discount of 11% to the periodic fees payable by general insurance firms outside the scope of Solvency II, reallocating this cost across the other firms in the A3 fee block that are within scope of Solvency II. The total amount required to fund the discount in 2020/21 is just under £30,000. When spread across the A3 fee block, the impact on individual firms is not significant.

2.7 All non-Directive life insurers are exempt from PRA periodic fees except for the minimum fee. For the 2020/21 fee year the PRA proposes to simplify the minimum fee rules so they no longer differentiate between the size of a non-Directive life insurer, with the result that all non-Directive life insurers will pay the lower minimum fee of £215. The PRA will review the appropriateness of this policy as part of the ongoing minimum fee structure review.

### 2019/20 Ongoing Regulatory Activities (ORA)

2.8 The PRA's 2020/21 proposed budget for ORA is £263.8 million, compared with £240.1 million for 2019/20. Key factors impacting the year-on-year increase of £23.7 million (10%) are:

- estimated increase in the PRA pension costs;
- increases in investment costs;
- work on operational resilience and climate change; and
- developments in technology.

### EU Withdrawal Fee

2.9 Against total EU withdrawal related work in 2020/21, the PRA anticipates receiving £0.4 million in application fees and £0.7 million in Special Project Fees (SPFs) for restructuring due to EU Withdrawal.

2.10 Consistent with the approach taken in 2017/18, 2018/19 and 2019/20 the PRA proposes to recover other costs incurred in relation to EU withdrawal through the EU Withdrawal Fee – within the AFR but outside of the ORA. This includes costs associated with:

- ensuring the new EU legislation and provisions coming into force in 2020 can operate effectively following the end of the transition period;

- supervisory work associated with European Economic Area (EEA) passporting firms and other UK firms planning or undertaking restructurings and/or authorisation processes as a result of EU withdrawal; and

- maintaining and developing the UK regulatory framework to meet the PRA objectives and the needs of UK financial markets.

2.11 The total amount the PRA proposes to recover through the EU Withdrawal Fee is £11.6 million.

2.12 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. All PRA-regulated firms, including EEA branches but excluding minimum fee payers and insurance special purpose vehicles, would continue to be in the scope of the EU Withdrawal Fee. Non-Directive firms in the A1 and A3 fee blocks would continue to receive a 50% discount.

## Impact of EU withdrawal on PRA fee rules

2.13 For the 2020/21 fee year, the PRA proposes to maintain the discount for incoming EEA firms and incoming treaty firms with branches in the UK. The PRA expects to consult, in due course, on further changes to the fees rules, which would be required to reflect the impact of EU withdrawal on the PRA’s supervisory approach in future fee years. These include removing the discount on periodic fees received by EEA passporting firms, while retaining the discounts for inward passporting firms from Gibraltar.

## Allocation of 2020/21 ORA to fee blocks

2.14 The proposed allocation of the 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. The proposed allocation to fee blocks is based on the anticipated work to be performed within each area and reflects the PRA’s risk based approach.

2.15 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 that 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 is weighted further towards higher-impact firms.

2.16 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 and its subsidiaries only and is invoiced on an individual basis. The PRA is proposing to leave the A0 minimum fee unchanged for 2020/21, even though it has not changed since the PRA’s inception in 2013. This will shield firms that only pay the minimum fee from previous increases in the PRA’s costs funded by other fee payers. The PRA will continue to keep the level of the minimum fee under review and will consider ways to simplify the suite of minimum fees in future fee years.

2.17 Alongside the allocation of the ORA, Table 2.B shows the impact of the model maintenance fee (MMF). The MMF is paid by firms with Capital Requirements Regulation (575/2013) (CRR) or Solvency II models to cover the PRA’s costs associated with reviewing and assessing these models. The MMF is determined by the size of a firm and the models for which it has been given approval.

**Table 2.B: Proposed 2020/21 allocation of Ongoing Regulatory Activities, movement from 2019/20 and impact of the model maintenance fee**

| | | 2020/21 | | | 2019/20 | | | Change | |
|---|---|---|---|---|---|---|---|---|---|
| **£ million** | | **ORA** | **MMF** | **Total** | **ORA** | **MMF** | **Total** | **£m** | **%** |
| A0 | Minimum Fees | 0.5 | - | 0.5 | 0.5 | - | 0.5 | 0.0 | 0.0% |
| A1 | Deposit takers | 168.1 | 1.7 | 169.8 | 153.7 | 1.8 | 155.5 | 14.4 | 9.2% |
| A3 | Insurers - general | 35.2 | 1.9 | 37.1 | 32.2 | 1.9 | 34.1 | 3.0 | 8.8% |
| A4 | Insurers - life | 45.7 | 1.8 | 47.5 | 41.8 | 1.8 | 43.6 | 3.9 | 9.0% |
| A5 | Managing agents at Lloyd's | 1.6 | - | 1.6 | 1.4 | - | 1.4 | 0.1 | 9.3% |
| A6 | The Society of Lloyd's | 2.0 | - | 2.0 | 1.8 | - | 1.8 | 0.2 | 9.3% |
| A10 | Firms dealing as principal | 10.8 | 0.8 | 11.6 | 9.8 | 0.8 | 10.7 | 0.9 | 8.6% |
| **Ongoing Regulatory Activities** | | **263.8** | **6.2** | **270.1** | **241.3** | **6.3** | **247.6** | **22.5** | **9.3%** |

## Online fees calculator

2.18 The Financial Conduct Authority (FCA) provides 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 2020/21 fees is expected to be available to firms from Thursday 9 April 2020.[4]

## Changes to tariff data used in AFR allocations to fee blocks relative to 2019/20

2.19 Table 2.C sets out the analysis of tariff data used for allocating the PRA’s proposed AFR to firms within fee blocks for 2020/21 and a comparison to 2019/20. The impact of the increase to the ORA 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, in the A3 fee block, there are fewer general insurers leading to a fall in the total reported Gross Written Premiums (GWP) and Best Estimate Liabilities (BEL), increasing the rate charged to each firm per £ million of GWP and BEL.

2.20 On Friday 20 March the European Insurance and Occupational Pension Authority recommended an eight-week extension to the deadline for Solvency II reporting, which was subsequently adopted by the PRA. This means those annual Solvency II returns for the 2019 financial year used for Fees purposes are due to be submitted by Tuesday 2 June 2020. The PRA is considering the impact of this extension on the determination of the final fee rates for the A3 and A4 fee blocks and the issuance of fees invoices. Options under consideration include moving the invoicing date back or using the discretion provided by Fees 3.9 to use the annual Solvency II returns for the 2018 financial year for the periodic fees calculation. The indicative fee rates for both A3 and A4 fee block payers in the draft rules in Appendix 1 are based on year-end data for 2018.

**Table 2.C Analysis of tariff data for allocation of fees within fee blocks compared to 2019/20**

| Fee block | Tariff basis | 2020/21 draft number of firms | 2019/20 number of firms | Mvt (%) | 2020/21 draft tariff data[1] (billion) | 2019/20 tariff data (billion) | Mvt (%) | **Mvt in fee rates from 2019/20 (%)** |
|---|---|---|---|---|---|---|---|---|
| A0 | Minimum Fees | 1,315 | 1,326 | (0.8%) | n/a | n/a | n/a | n/a |
| A1 | Modified Eligible Liabilities | 793 | 801 | (0.9%) | £3,450 | £3,352 | 2.9% | 5.9% |

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

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| A3 | Gross Written Premiums | 312 | 320 | (1.0%) | £72 | £73 | (1.3%) | 9.1% |
| | Best Estimate Liabilities | | | | £140 | £144 | (3.0%) | 6.5% |
| A4[2] | Gross Written Premiums | 169 | 160 | 5.6% | £114 | £121 | (5.3%) | 7.2% |
| | Best Estimate Liabilities | | | | £1,046 | £1,048 | (0.2%) | 9.2% |
| A5 | Active Capacity | 57 | 57 | 0.0% | £32 | £31 | 0.3% | 8.7% |
| A10[3] | Total Assets | 8 | 8 | 0.0% | £2,107 | £2,149 | (2.0%) | 11.3% |
| | Total Operating Income | | | | £13 | £16 | (16.3%) | 30.5% |
| PE1 | EU Withdrawal Fee | 721 | 706 | 2.1% | n/a | n/a | n/a | (24.0%) |

## Other fees

2.21 'Other fees' include implementation fees, the MMF, SPFs, and regulatory transaction fees. These fees vary from one year to another and can lead to greater volatility in periodic fees. Additional context on the PRA's approach to other fees can be found in SS3/16.[5]

2.22 For 2020/21, the PRA expects to raise £8.5 million in other fees, a reduction of £7.5 million on 2019/20. This reflects the completion of the structural reform programme and cessation of the 'ring-fencing fee' (RFF), which the PRA is proposing to delete from the Rules. This contributes to the increase in the periodic fee.

## Other changes to fee rules

### Regulatory transaction fees for Variation of Permission applications

2.23 The PRA proposes to simplify the fees payable by firms submitting variation of permission (VoP) applications, so a fee is only payable for the most complex and resource-intensive applications. Complex VoPs are considered to be those where a firm (including FCA-authorised firms) applies to add a new PRA-regulated activity or specifically where an existing wholesale deposit taker applies to add 'retail customers' as a new customer type. Applications for other VoPs will not be subject to a fee, and applications to remove an activity will continue not to be subject to a charge. The fees will be set at the same level as the new authorisation fees, to reflect that the same level of resource is applied to reviewing these applications as for new authorisations.

2.24 The PRA also proposes to simplify the fees rules concerning VoP applications by removing the cross reference to the new authorisation fees and having clear and specific tables setting out both VoP fees and new authorisation fees. The PRA proposes to delete Table C to reflect the fact the PRA will no longer charge a fee for those firms applying for consumer credit related activities.

5 June 2019: www.bankofengland.co.uk/prudential-regulation/publication/2016/fees-pra-approach-and-application-ss.

### Definitions for the A3 and A4 fee blocks

2.25 The PRA proposes to update the definitions for the A3 and A4 fee blocks to correct some circular and redundant references that have built up over the years. The updated definitions will not mean that individual firms will move between the fee blocks or be liable for additional fees.

### Special Project Fees for restructuring

2.26 The SPF hourly rates represent the approximate cost to the PRA of the resources and time spent on the SPF and so are a combination of the cost of the resource used and the share of the overhead or corporate service costs (eg technology, premises) incurred.

2.27 The SPF hourly rates have remained unchanged for the past couple of years but given the increase in overall PRA costs this year, the PRA proposes to increase the rates in line with the overall ORA for 2020/21, as shown in Table 3.A.

**Table 3.A Proposed PRA SPF hourly rates for restructuring**

| £/hour | Current rate | Proposed rate | Change |
|---|---|---|---|
| Administrator | 50 | 55 | 5 |
| Associate | 105 | 115 | 10 |
| Technical Specialist | 155 | 170 | 15 |
| Manager | 195 | 215 | 20 |
| Any other persons employed by the PRA[a] | 290 | 320 | 30 |

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

### Updates to SS3/16

2.28 The PRA proposes to update SS3/16 to reflect the proposals detailed above in respect of the fees for VoPs.

### Extension of payment terms

2.29 The PRA proposes to extend the payment terms from 30 days to 90 days for fee payers who pay consolidated regulatory fees under £10,000 in 2020/21. The FCA acts as the collections agent for the PRA. For further details on this proposal please refer to Chapter 3 of the FCA annual fees consultation.[6]

## 3 Surplus / shortfall for 2019/20 TFR

3.1 In the PRA's 2019/20 fee year, there was a surplus of £6.2 million. This is a draft, unaudited figure and therefore will be subject to change, with the final figure to be confirmed when the final policy is published. This surplus consists of:

- £0.7 million surplus on the ORA;
- £3.1 million of retained penalties;

[6] https://www.fca.org.uk/publications/consultation-papers/cp20-6-regulated-fees-and-levies-rates-proposals-2020-21

- £2.5 million surplus on the EU withdrawal costs allocation; and
- £0.1 million shortfall on the RFF.

### Surplus on AFR

3.2 The surplus on the ORA principally reflects lower than assumed expensed project costs and will be allocated to firms in two stages:

- stage 1 – Allocation to fee blocks. The PRA proposes to allocate the AFR surplus across all fee blocks, with the exception of the A0 minimum fee block, in proportion to the AFR for the 2019/20 fee year; and
- stage 2 – Allocation to individual firms. Within each fee block the AFR surplus is allocated with reference to fee block population and tariff data for the 2019/20 fee year, excluding firms that are no longer PRA fee payers.

3.3 The surplus in the EU Withdrawal Fee reflects lower than budgeted costs resulting from the change in timelines and requirements in EU withdrawal. This surplus will be allocated to firms proportionate to the EU Withdrawal Fee paid for the 2019/20 fee year.

3.4 Table 4.A includes the proposed allocation of the AFR surplus, split by the ORA and the EU Withdrawal Fee, for 2019/20 presented by firm type.

**Table 4.A Proposed allocation of the 2019/20 Annual Funding Requirement surplus (inc. retained financial penalties)**

| £ million | ORA | EU W | Total |
|---|---|---|---|
| A1 Deposit takers | 2.4 | 1.6 | 3.9 |
| A3 Insurers – general | 0.5 | 0.3 | 0.9 |
| A4 Insurers – life | 0.7 | 0.4 | 1.1 |
| A5 Managing agents at Lloyd's | 0.0 | 0.0 | 0.0 |
| A6 The Society of Lloyd's | 0.0 | 0.0 | 0.0 |
| A10 Firms dealing as principal | 0.2 | 0.1 | 0.3 |
| **Total estimated surplus** | **3.8** | **2.5** | **6.2** |

## 4 Financial penalty scheme and application of retained penalties for 2019/20

4.1 The legislative framework for financial penalties is set out in the Financial Services and Markets Act 2000 (FSMA).[7] 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');

7 Section 1ZB of FSMA.

- publish and operate a 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.

4.2 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. 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 2019/20

4.3 In 2019/20, enforcement activity by the PRA resulted in fines and penalties of £45.0 million, of which £3.1 million is being retained by the PRA, therefore this amount (£3.1 million) will be refunded to firms across all the fee blocks excluding those firms that incurred the fines. The remainder is remitted to HM Treasury.

## 5 The PRA's statutory obligations

5.1 In carrying out its policy making functions, the PRA is required to comply with several legal obligations.

5.2 Before making any rules, FSMA[8] requires the PRA to publish a draft of the proposed rules accompanied by:

- a cost benefit analysis;
- 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,[9] insurance objective[10] (if applicable), and secondary competition objective;[11]
- 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;[12] and
- a statement as to whether the impact of the proposed rules will be significantly different to mutuals than to other persons.[13]

5.3 The Prudential Regulation Committee (PRC) should have regard to aspects of the Government's economic policy as recommended by HM Treasury.[14]

8 Section 138J of FSMA.
9 Section 2B of FSMA.
10 Section 2C of FSMA.
11 Section 2H(1) of FSMA.
12 Sections 2H(2) and 3B of FSMA.
13 Section 138K of FSMA.
14 Section 30B of the Bank of England Act 1998.

5.4 The PRA is also required by the Equality Act 2010 to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out its policies, services and functions.[15]

## Cost benefit analysis

5.5 The PRA is exempt from having to carry out a cost benefit analysis on its draft fee rates.[16]

## Compatibility with the PRA's objectives

5.6 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.

5.7 The PRA considers that the proposed PRA Periodic Fees (2020/2021) and Other Fees Instrument 2020 set out in Appendix 1 will enable the PRA to fund the regulatory activities required to advance its statutory objectives during 2020/21.

5.8 The proposed fees levels are expected to advance the PRA's secondary competition objective because fees for ongoing regulatory activities are allocated in a proportionate manner across all PRA-regulated firms, while fees for specific projects and transactions are targeted only on those, predominantly larger, firms which generate these specific regulatory activities. 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.[17]

## Regulatory principles

5.9 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,[18] in particular:

- a burden or restriction which is imposed on a person should be proportionate to the benefits which are expected to result from the imposition of that burden – 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

15 Section 149.
16 Section 138J(6)(d) FSMA.
17 Section 138J(2) FSMA.
18 www.gov.uk/government/uploads/system/uploads/attachment_data/file/300126/14-705-regulators-code.pdf.

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.

## Impact on mutuals

5.10 Within each fee block, the proposed costs to be recovered from individual firms are based on the size of their business. The minimum fee has been held as unchanged and should benefit many mutuals. In addition to this, the PRA applies a discount of 11% to the periodic fees payable by non-Directive general insurance firms, many of which are mutuals. All life insurance non-Directive firms are excluded from periodic fees. 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.[19]

## HM Treasury recommendation letter

5.11 HM Treasury has made recommendations to the Prudential Regulation Committee about aspects of the Government's economic policy to which the Committee should have regard when considering how to advance the objectives of the PRA and apply the regulatory principles as set out in FSMA.[20]

5.12 The aspects of the Government's economic policy most relevant to the proposals in this CP are:

(i) Competition

(ii) Growth

(iii) Competitiveness

(iv) Innovation

5.13 Competition, growth and innovation are discussed in general terms above.

### Competition

5.14 The PRA allocates fees in a proportionate way through the use of fee blocks and thresholds that take into account the size and nature of its regulated community. Through the use of model application and maintenance/change fees, the PRA also seeks to ensure a balance, with its fees being appropriately targeted while not representing a barrier to the adoption and use of models by smaller firms.

### Growth

5.15 The PRA acknowledges the importance of the financial services sector contributing to sustainable economic growth. By ensuring the proposals take into account the size and nature of firms, the PRA fees will not act as a barrier to the growth of the financial services sector.

### Competitiveness

19 See s.138K FSMA.
20 Information about the PRC and the recommendations from HM Treasury are available on the Bank's website at https://www.bankofengland.co.uk/about/people/prudential-regulation-committee

5.16 The PRA is mindful of the international nature of some financial services. A transparent and proportionate fee regime helps to support the stability and competitiveness of the UK's financial markets.

### Innovation

5.17 The proposals contained within this consultation ensure burdens are proportionate, taking into account the differences in nature of the different business models employed by firms.

## Equality and diversity

5.18 The PRA considers that the proposals do not give rise to equality and diversity implications.

## Appendices

# 1 Draft PRA fees amendment instrument 2020

**PRA RULEBOOK: PRA FEES AMENDMENT INSTRUMENT 2020**

**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); and
(3) paragraph 31 (Fees) of Part 3 (Penalties and Fees) of Schedule 1ZB (The Prudential Regulation Authority) of the Act.

B. The rule-making powers 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 Fees Amendment Instrument 2020**

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

**Commencement**

E. This instrument comes into force on [X]

**Citation**

F. This instrument may be cited as the PRA Rulebook: PRA Fees Amendment Instrument 2020.

**By order of the Prudential Regulation Committee**

## Annex A

### Amendments to the Glossary

In this Annex, underlining indicates new text and striking through indicates deleted text.

### 1 APPLICATION AND DEFINITIONS

| | |
|---|---|
| ~~*life policy*~~ | ~~has the meaning given in the *PRA Handbook* as at 31 July 2015.~~ |

## Annex B

## Amendments to the Fees Part

In this Annex, underlining indicates new text and striking through indicates deleted text.

### 1 APPLICATION AND DEFINITIONS

1.2 In this part, the following definitions shall apply:

…

*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~~ *life policies* or *firms* whose *Part 4A permission* is insurance risk transformation.

…

*life policy*

means:

(1) a *contract of long-term insurance* other than a *pure protection contract*;

(2) a *long-term care insurance contract* which is a *pure protection contract*; and

(3) a *pension term assurance policy*

…

*pension term assurance policy*

means a *personal pension policy* which is a *pure protection contract* and in connection with which tax relief is available under Chapter 4 of Part 4 of the Finance Act 2004.

…

*personal pension policy*

means a *pension policy* under which contributions (single or regular) are paid to a *personal pension scheme*.

*pure protection contracts*

means:

(1) a *contract of long-term insurance* in respect of which the following conditions are met:

(a) the benefits under the contract are payable only on death or in respect of incapacity due to injury, sickness or infirmity;

(b) the contract has no surrender value, or the consideration consists of a single premium and the surrender value does not exceed that premium; and

(c) the contract makes no provision for its conversion or extension in a manner which would result in it ceasing to comply with (a) or (b); or

(2) a *reinsurance contract* covering all or part of a risk to which a *person* is exposed under a *contract of long-term insurance* that meets the conditions in (1).

…

~~Ring-fencing fee(s)~~

~~means the fee or fees in *3.18A*~~

…

**3 PERIODIC FEES**

…

~~*Ring-fencing fee*~~

3.18A (1) ~~The *PRA* will charge a *ring-fencing fee* to recover the annual cost to the *PRA*, as determined by the *PRA*, of fulfilling its functions in relation to *ring-fencing*.~~ [Deleted.]

(2) ~~All *firms* within *ring-fencing fees groups* are subject to *ring-fencing fees*, based on the total *modified eligible liabilities* of the *ring-fenced bodies* within the *group*, and payable in accordance with Table IX of the *Periodic Fees Schedule*. The *PRA* may require that a single *firm* pays all *ring-fencing fees* due to the *PRA* by the *group*.~~ [Deleted.]

(3) ~~*Fee payers* must comply with directions from the *PRA* or its *collection agent* as to payment of *ring-fencing fees* arising from any variance between the *PRA's* budgeted costs under 3.18A (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 the *firms* making payment and a shortfall may necessitate a call for additional fees.~~ [Deleted.]

**PERIODIC FEES SCHEDULE – FEE RATES AND EEA/TREATY FIRM MODIFICATIONS FOR THE PERIOD FROM ~~1 MARCH 2019 TO 29 FEBRUARY 2020~~ 1 MARCH 2020 TO 28 FEBRUARY 2021**

**APPLICATION PROVISION**

TABLE IA MINIMUM PERIODIC FEE 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>(1) fall within the A3, but not the A4, *fee block* and have, in relation to their A3 activities *gross written premium for fees purposes* of 0 - £0.5million and *best estimate liabilities for fees purposes* of 0-£1.0 million; or<br>(2) fall within the A4, but not the A3, fee block ~~and have, in relation to their A4 activities, *gross written premium for fees purposes* of 0-£1.0 million and *best estimate liabilities for fees purposes* of 0-£1.0 million~~; or<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 IIIA – PERIODIC FEE RATES APPLICABLE TO PRA FEE BLOCKS OTHER THAN THE MINIMUM FEE BLOCK FOR THE FEE YEAR ~~2019-20~~ 2020-21

| 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 of part million of *MELs* (£) |
| | | >10 -140 | ~~31.50~~ 33.39 |
| | | >140 - 630 | ~~31.50~~ 33.39 |
| | | >630 -1,580 | ~~31.50~~ 33.39 |
| | | >1,580 – 13,400 | ~~39.38~~ 41.74 |
| | | >13,400 | ~~51.98~~ 55.10 |
| A3 general insurers fee block *gross written premium for fees purposes, best estimate liabilities for fees purposes* | *gross written premium for fees purposes* | Band width (£million of *gross written premium for fees purposes*) | Fee payable per million of *gross written premium for fees purposes* (£) |
| | | >0.5 | ~~546.05~~ 596.47 |
| | *best estimate liabilities for fees purposes* | Band Width (£million of *best estimate liabilities for fees purposes)* | Fee payable per million of *best estimate liabilities for fees purposes* (£) |
| | | >1 | ~~34.26~~ 36.53 |
| | | 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 *gross written premium for fees purposes, best estimate liabilities for fees purposes* | *gross written premium for fees purposes* | Band width (£million of *gross written premium for fees purposes*) | Fee payable per million of *gross written premium for fees purposes* (£) |
| | | >1 | ~~229.96~~ 246.81 |
| | *best estimate liabilities for fees purposes* | Band Width (£ million of *best estimate liabilities for fees purposes)* | Fee payable per million of *best estimate liabilities for fees purposes* (£) |
| | | >1 | ~~16.11~~ 17.61 |

| | | | |
|---|---|---|---|
| A5 managing agents at Lloyd's | *active capacity* | Band Width (£million of active capacity) | Fee payable per million of *active capacity* (£) |
| | | >50 | ~~49.57~~ 53.93 |
| A6 Society of Lloyd's | Flat fee | **N/A** | **General periodic fee (£)** ~~1,802,787.50~~ 1,971,259 |
| A10 Firms dealing as principal fee block<br><br>*total assets for fees purposes, total operating income for fees purposes* | *total assets for fees purposes* | Band width (£million of *total assets for fees purposes)* | Fee payable per million or part million of *total assets for fees purposes* (£) |
| | | **N/A** | ~~2.30~~ 2.56 |
| | *total operating income for fees purposes* | Band width (£million of *total operating income for fees purposes)* | Fee payable per million or part million of *total operating income for fees purposes (£)* |
| | | N/A | ~~307.05~~ 401.16 |

…

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* under *3.3*(3) payable by the *firm* multiplied by 0.043939 ~~0.057857~~ |

…

TABLE IX – RING-FENCING FEE

[DELETED]

| ~~Fee Payer~~ | ~~Tariff base for allocations to firms~~ |
|---|---|
| ~~All *firms* within *ring-fencing fees groups*~~ | ~~Total *periodic fees* under *3.3*(3) payable by the *ring-fenced bodies* within the *ring-fencing fees group* multiplied by 0.093379~~ |

## 4 REGULATORY TRANSACTION FEES

…

4.5 Regulatory transaction fees for *applications* for *new authorisations* are payable in accordance with Table B.~~ as follows:~~

(1) [Deleted.] ~~All *applications* for *new authorisations* other than from *credit unions* are first assigned to the complexity groupings in Tables B and C to assist the *PRA* in determining the appropriate fee. Fees are then payable in accordance with:~~

~~(a)~~ ~~Table B if the permission sought does not include *consumer credit activities;* and~~

~~(b)~~ ~~Table C if the permission sought involves *consumer credit related activities.*~~

| **Table B – New authorisations ~~not involving consumer credit related activities~~** | |
|---|---|
| **Application Type** | **£** |
| Straightforward<br>A3 or A4 *fee payer* which is a *friendly society* or a *fee payer* which is an A1 *credit union* | 750.00 |
| Moderately complex<br>A3 *fee payer* seeking permission as a UK *insurance special purpose vehicle*<br>A5 *fee payer* seeking permission as a *managing agent* at Lloyd's | 2,500.00 |
| Complex<br>A1 *fee payer* (other than a *credit union*) seeking permission to accept deposits or operate dormant accounts<br>A3 *fee payer* (other than a *friendly society* or *UK insurance special purpose vehicle*)<br>A4 *fee payer* other than a *friendly society* | 12,500.00 |

| **Table C – New authorisations involving consumer credit related activities [Deleted.]** | | |
|---|---|---|
| ~~**Application Type**~~ | ~~**£**~~ | |
| ~~Straightforward:~~<br>~~*Fee payer* seeking permission for credit broking or providing information services.~~ | ~~Annual consumer credit income £~~ | ~~**Fee £**~~ |
| | ~~50,000.00 or less~~ | ~~**300.00**~~ |
| | ~~Greater than 50,000.00 and less than 100,000.00~~ | ~~**375.00**~~ |
| | ~~Greater than 100,000.00 and less than 250,000.00~~ | ~~**500.00**~~ |
| | ~~Greater than 250,000.00 and less than 1,000,000.00~~ | ~~**750.00**~~ |
| | ~~**Greater than 1,000,000.00**~~ | ~~**2,500.00**~~ |

| | | |
|---|---|---|
| ~~Moderately complex:~~<br>~~*Fee payer* seeking permission for:~~<br>~~(1) debt administration/debt collecting;~~<br>~~(2) entering into regulated consumer hire agreement as lender (other than in relation to high-cost short term credit, bill of sale loan agreements and home credit loan agreements);~~<br>~~(3) exercising or having the right to exercise the owners' rights under a regulated consumer hire agreement;~~<br>~~(4) exercising or having the right to exercise the lender's rights and duties under a regulated consumer hire agreement (other than in relation to high-cost short term credit, bill of sale loan agreements and home credit loan agreements); or~~<br>~~(5) operating an electronic system in relation to lending.~~ | ~~Annual consumer credit income £~~ | ~~Fee £~~ |
| | ~~50,000 or less~~ | **~~400.00~~** |
| | ~~Greater than 50,000.00 and less than 100,000.00~~ | **~~500.00~~** |
| | ~~Greater than 100,000.00 and less than 250,000.00~~ | **~~750.00~~** |
| | ~~Greater than 250,000.00 and less than 1,000,000.00~~ | **~~2,500.00~~** |
| ~~Complex:~~<br>~~*Fee payer* seeking permission for:~~<br>~~(1) debt adjusting/debt counselling~~<br>~~(2) entering into a regulated credit agreement as lender in relation to high-cost short term credit, bill of sale loan agreements and home credit loan agreements;~~<br>~~(3) exercising, or having the right to exercise, the lender's rights and duties under a credit agreement as lender in relation to high-cost short term credit, bill of sale loan agreements and home credit loan agreements; or~~<br>~~(4) providing credit references.~~ | **~~Annual consumer credit income £~~** | **~~Fee £~~** |
| | **~~50,000 or less~~** | **~~500.00~~** |
| | **~~Greater than 50,000.00 and less than 100,000.00~~** | **~~625.00~~** |
| | **~~Greater than 100,000.00 and less than 250,000.00~~** | **~~1,000.00~~** |
| | **~~Greater than 250,000.00 and less than 1,000,000.00~~** | **~~3,500.00~~** |
| | **~~Greater than 1,000,000.00~~** | **~~7,500.00~~** |

(2) [Deleted.] ~~*Credit unions* applying for *new authorisations* pay *fees* as follows:~~

~~(a)~~ ~~any *credit union* applying for a Part 4A permission for *consumer credit related activities* £100.00;~~

~~(b)~~ ~~a *credit union* which, prior to 3rd February 2016, would have been categorised as a *Version 1 credit union* applying for Part 4A permission not limited to *consumer credit related activities* £150.00;~~

~~(c)~~ ~~a *credit union* which, prior to 3rd February 2016, would have been categorised as a *Version 2 credit union* applying for a *Part 4A permission* not limited to *consumer credit related activities* £900.00~~

…

(5) [Deleted.] ~~Where an applicant for a *new authorisation* is *FCA* authorised, the applicant will be treated as a variation of permission and fees will be payable in accordance with *4.7*.~~

…

4.7

(1) [Deleted.] ~~if the *firm* is extending the scope of its *Part 4A permission* to include additional regulated activities, the fee will be 50% of the highest fee which would have been payable by that *firm* had it been applying for a *new authorisation* under *4.5*; and~~

(2) [Deleted.] ~~no fee is payable if the variation involves a reduction in scope of a *Part 4A permission* with no increases in permission.~~

(3) Subject to paragraph (4), ~~Where~~ where a *fee payer* or *FCA authorised firm* seeks to vary its existing *Part 4A permission* ~~or is an *FCA*-authorised firm seeking to obtain or vary a *Part 4A permission* in relation to *PRA regulated activity, regulatory transaction fees* are applicable as follows:~~ to:

(a) include a *PRA regulated activity*, or

(b) include, in relation to a *PRA regulated activity*, the activity of providing services to retail clients,

the fee payable shall be £12,500.

(4) In a case where the *fee payer* or *FCA authorised firm* seeks to vary its existing *Part 4A permission* to include a *PRA regulated activity* described in:

(a) *fee block* A1 in respect of a *credit union* or *fee block* A3 in respect of a *friendly society*, it shall be £750;

(b) *fee block* A3 in respect of an *ISPV* or *friendly society* or *fee block* A5 in respect of a *Lloyd's managing agent*, it shall be £2,500.

…

## 5 SPECIAL PROJECT FEE FOR RESTRUCTURING

…

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

…

(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 | ~~£50.00~~ £55.00 |
| Associate | ~~£105.00~~ £115.00 |
| Technical specialist | ~~£155.00~~ £170.00 |
| Manager | ~~£195.00~~ £215.00 |
| Any other persons employed by the *PRA* | ~~£290.00~~ £320.00 |

…

## 2 Draft amendments to SS3/16 'Fees: PRA approach and application'

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

…

4.8 Where a firm's application extends its Part 4A permission to include additional regulatory activities, the applicable fee is ~~50% of the highest fee which would have been payable by that firm had it been applying for a new firm authorisation~~ detailed in Fees 4.7 and should be paid on submission of the application. The firm will also be expected to pay periodic fees for this additional regulatory activity based on its projected business, with the amount of the fee calculated under the methodology outlined in Fees 3.7. This additional periodic fee will be requested by invoice and is usually raised the month after the firm becomes authorised with payment requested within 30 days of the date of the invoice.