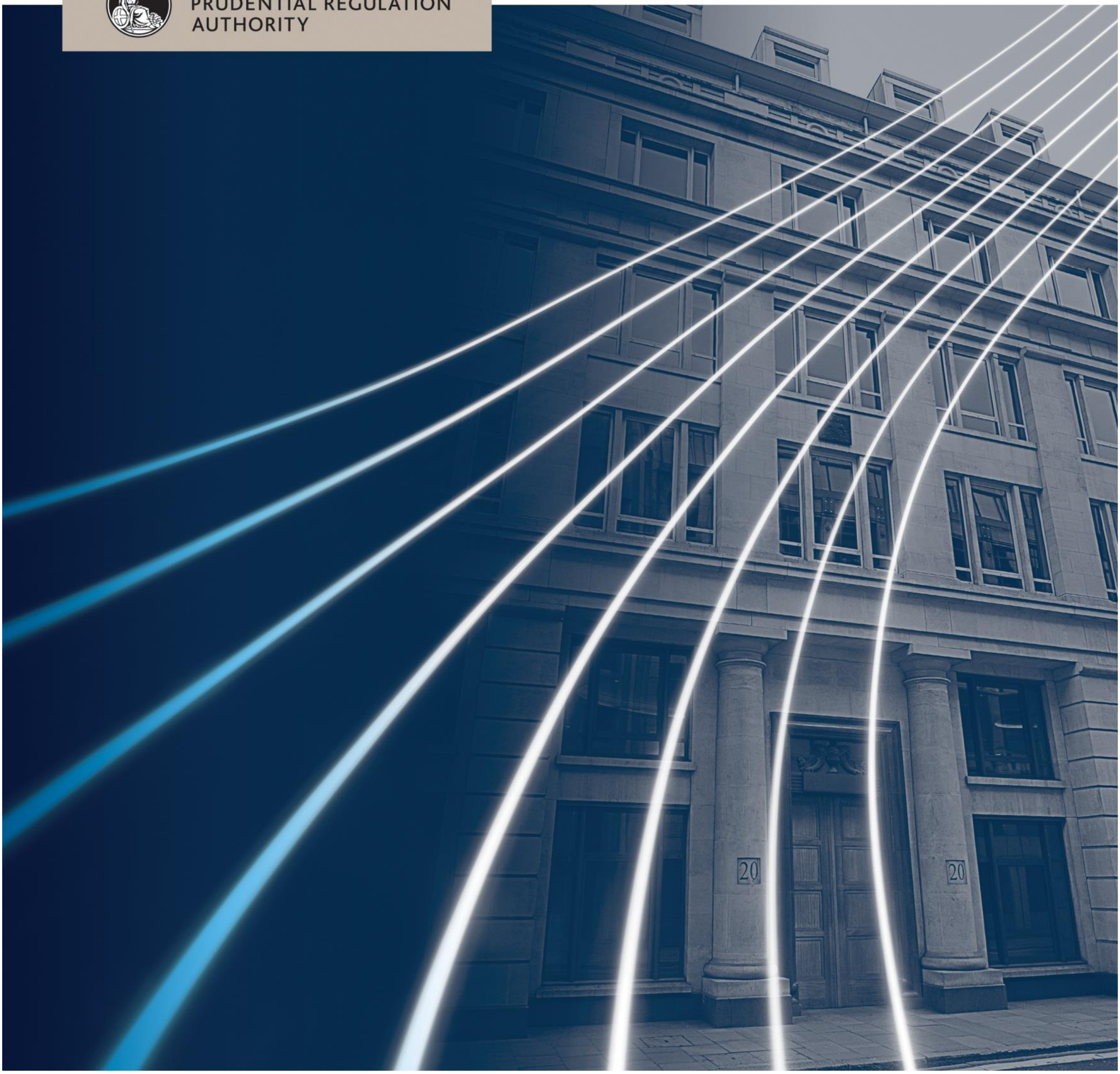
Policy Statement | PS12/19

Regulated fees and levies: Rates proposals 2019/20

June 2019

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Policy Statement | PS12/19

Regulated fees and levies: Rates proposals 2019/20

June 2019

Prudential Regulation Authority | 20 Moorgate | London EC2R 6DA

Contents

1 Overview

1.1 This Prudential Regulation Authority (PRA) Policy Statement (PS) provides feedback to responses to Consultation Paper (CP) 9/19 'Regulated fees and levies: Rates proposals 2019/20',[1] and sets out the PRA's final policy, as follows:

- the fee rates to meet the PRA's 2019/20 Annual Funding Requirement (AFR) for the financial period 1 March 2019 to 29 February 2020;
- amendments to the Fees Part of the PRA Rulebook (Appendix 1); and
- updates to Supervisory Statement (SS) 3/16 'Fees: PRA approach and application' (Appendix 2).

1.2 This PS is relevant to all firms that currently pay PRA fees or are expecting to do so within the 2019/20 fee year.[2]

Background

1.3 In CP9/19 the PRA proposed:

- the fee rates to meet the PRA's 2019/20 AFR;
- replacing the Ring-fencing Implementation Fee (RFIF) with the Ring-fencing Fee (RFF);
- changes to the PRA's fees rules in the event of the UK's withdrawal from the EU without a deal;
- how the PRA intended to recoup a shortfall from the 2018/19 AFR and distribute a surplus from the 2018/19 RFIF;
- how the PRA intended to distribute the retained penalties for 2018/19;
- other minor corrections to PRA fees rules; and
- updates to Supervisory Statement (SS) 3/16 'Fees: PRA approach and application'.

1.4 The PRA received one response to the CP which has not resulted in any changes being made to the proposals. Details on the response received can be found in Chapter 2 of this PS.

Implementation

1.5 The implementation date for the PRA PERIODIC FEES (2019/20) AND OTHER FEES INSTRUMENT 2019 and the updated SS3/16 'Fees: PRA approach and application' is Monday 1 July 2019.

1.6 The policy set out in this PS has been designed in the context of the current UK and EU regulatory framework. The PRA has assessed that the proposals will be affected in the event that the UK leaves the EU with no implementation period in place. CP9/19 included proposed rules to cover the possibility the UK leaves the EU with no implementation period during the 2019/20 fee year. These rules will not be made at this time, but should the UK leave the EU during the fee year without

1 April 2019: https://www.bankofengland.co.uk/prudential-regulation/publication/2019/regulated-fees-and-levies-rates-proposals-2019-20.

2 The 2019/20 fee year began on 1 March 2019 and will end on 29 February 2020.

an implementation period the rules will be brought into effect to ensure continuity to the PRA's fees powers.

1.7 All the changes relating to the UK's withdrawal from the EU should be read in conjunction with the near-final PRA transitional direction published in PS5/19 'The Bank of England's amendments to financial services legislation under the European Union (Withdrawal) Act 2018'.[3]

Online fees calculator

1.8 The Financial Conduct Authority (FCA) provides an online fees calculator[4] to enable firms to calculate their periodic fees for the forthcoming year using the PRA rates in Appendix 1. The updated fees calculator for 2019/20 fees and levies using the final fee rates as set out in this PS will be available for firms to use from Monday 1 July 2019.

2 Feedback to responses

2.1 The PRA received one response to the CP, which commented on three aspects of the consultation.

2.2 First, the respondent highlighted a lack of content in the CP or the accompanying business plan on how the PRA is prepared to use its resources more effectively or efficiently. Such content is out of scope of this consultation, however, the PRA will consider this feedback when publishing future business plans.

2.3 Second, the respondent suggested that the PRA should use an alternative to modified eligible liabilities (MELs) for determining periodic fees for building societies, to reflect the perceived lower risk these firms post to the PRA's objectives. The PRA does not agree that using MELs is disproportionate for building societies or credit unions. By using MELs, fees for firms in the A1 fee block are closely linked to the size of firms' deposit books, which is an important indicator of the riskiness of these entities to the PRA's objectives. In addition, by having non-linear fees for deposit takers, as well as mechanisms such as: special project fees (SPFs); model application fees; and the model maintenance fee (MMF), the PRA has taken measures to ensure larger and more complex firms pay fees proportionate to the risks they pose. The PRA will, however, continue to look closely at the impact of fees on different sectors, including mutuals, in future reviews of the periodic fee methodology for deposit takers.

2.4 Third, the respondent suggested that a different allocation method should be used for the EU Withdrawal Fee, given the perceived impact of EU withdrawal on the building society sector. The PRA notes that important aspects of its EU withdrawal activities – including changes to the regulatory framework – are directly relevant to all PRA-regulated firms, including building societies. In addition, the PRA considers there to be transparency benefits from having a relatively simple metric (based on periodic fees) to allocate the EU Withdrawal Fee that is easy to understand and to calculate. The PRA therefore continues to believe that linking the EU Withdrawal Fee to the size of a firm's periodic fee is appropriate.

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

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

3 Annual Funding Requirement for 2019/20

Change in AFR and allocation to fee blocks relative to CP9/19

3.1 At the time of writing CP9/19, the impact of external market conditions as at 15 April 2019 on the PRA's pension costs for 2019/20 had yet to be fully assessed. This assessment has now been completed with the pension costs being £1.3 million less than anticipated in CP9/19. Given the level of uncertainty over the nature of the UK's withdrawal from the EU and the potential impact this could have on the PRA's costs, the PRA has decided not to amend its budget to account for this reduction and keep the final ongoing regulated activities (ORA) for 2019/20 at £241.3 million. As part of the PRA's fee rates consultation for 2020/21, once the PRA's final costs for the 2019/20 financial year are known, the PRA may return a surplus to firms or require further payment to fund a deficit. The PRA reserves its right to retain a surplus or to fund a deficit temporarily from borrowing. Table 1A sets out: the allocation of the PRA's ORA to fee blocks; a comparison to the draft allocation set out in the CP; and the allocation for 2018/19.

Table 1A Allocation of ORA for 2019/20 to fee blocks and comparison to the draft allocation

£ million		**Final ORA**	**Draft ORA**	**Change**	**2018/19 ORA**	**Change**
A0	Minimum fees	0.5	0.5	-	0.5	-
A1	Deposit takers	153.7	153.7	-	147.8	6.0
A3	Insurers - general	32.2	32.2	-	32.4	(0.4)
A4	Insurers - life	41.8	41.8	-	41.0	0.7
A5	Managing agents at Lloyd's	1.4	1.4	-	1.4	-
A6	The Society of Lloyd's	1.8	1.8	-	1.7	0.1
A10	Firms dealing as principal	9.8	9.9	-	9.9	(0.1)
		241.3	**241.3**	**-**	**234.7**	**6.3**

3.2 Table 1B sets out an analysis of the final tariff data for 2019/20, used to allocate the PRA's AFR to firms within fee blocks compared to the draft data presented in the CP.

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

Fee block	Tariff basis	2019/20 final number of firms	2019/20 draft number of firms	Mvt to number of firms	2019/20 final tariff data	2019/20 draft tariff data	Mvt to tariff data	Mvt in fee rates from draft
A0	Minimum Fees	1,326	1,329	(0%)	n.a.	n.a.	n.a.	-
A1	Modified Eligible Liabilities	801	806	(1%)	£3,352bn	£3,255bn	(0%)	0%
A3	Gross Written Premiums	320	318	1%	£73bn	£70bn	(1%)	0%
	Best Estimate Liabilities				£125bn	£143bn	(14%)	3%
A4	Gross Written Premiums	160	165	(3%)	£121bn	£123bn	26%	(15%)
	Best Estimate Liabilities				£1,048bn	£1,310bn	(2%)	2%
A5	Active Capacity	57	57	-	£31bn	£32bn	(3%)	3%
A10	Total Trading Book Assets	8	8	-	£2,149bn	£2,082bn	3%	(3%)
	Financial & Operating Income				£16bn	£16bn	-	-
PE1	EU Withdrawal Fee	705	711	(1%)	n.a.	n.a.	n.a.	(0)%

3.3 The final fee rates for 2019/20 are largely unchanged for most fee blocks. The largest change is to the A4 fee block, where the fee rate for GWP has fallen by 15% from the draft figure. As highlighted in CP9/19, the indicative fee rates for the A3 and A4 fee blocks were completed using 2018/19 fee tariff data as the Solvency II reporting deadline was after the publication of the CP, which meant the draft rates were a less useful predictor of the final fee rates.

2019/20 Annual Funding Requirement (AFR)

3.4 The PRA proposed an AFR for 2019/20 of £255.3 million, £12.3 million higher than the AFR for 2018/19 of £243.0 million. The 5% increase in the AFR was primarily driven by EU withdrawal costs and lower than anticipated special project and application fees than those assumed in 2018/19.

EU withdrawal

3.5 The PRA proposed that it would recover £13.9 million of costs associated with work arising from the United Kingdom's withdrawal from the EU through an EU Withdrawal Fee as part of the AFR. This figure remains unchanged from the CP.

Ring-fencing fee (RFF)

3.6 The PRA proposed to replace the ring-fencing implementation fee (RFIF) with the RFF to reflect the end of the implementation period and the fact that PRA activities will now focus on ensuring the ring-fences are effective in practice, and remain so. The fee will recover PRA costs associated with supervising ring-fenced firms, estimated at £6.3 million for 2019/20. This figure remains unchanged from the CP.

4 AFR shortfall/surplus for 2018/19

Changes in shortfall for 2018/19 relative to CP9/19

4.1 CP9/19 stated that there was a shortfall of £3.0 million between the total fees collected for 2018/19 and the actual spend, based on a draft, unaudited figure. Following the finalisation of the PRA's annual accounts and a review of the allocation across fee blocks to ensure correct application of the rules, the £3.0 million figure is unchanged.[5]

4.2 Table 4A sets out the 2018/19 shortfall.

Table 4A Allocation of AFR shortfall for 2018/19 to fee blocks and comparison to the draft allocation

£ million	Final	Draft	Change
A1 Deposit takers	(1.6)	(1.6)	-
A3 Insurers - general	(1.2)	(1.2)	-
A4 Insurers - life	(1.0)	(1.0)	-
A5 Managing agents at Lloyd's	(0.0)	(0.0)	-
A6 The Society of Lloyd's	(0.0)	(0.0)	-
A10 Firms dealing as principal	(0.1)	(0.1)	-
Shortfall	**(4.3)**	**(4.3)**	**-**

Allocation of surplus from 2018/19

4.3 There will be a refund to RFIF fee payers for 2018/19 of £1.3 million. This figure has been confirmed following the finalisation of the PRA's accounts, and remains unchanged from the CP. The refund will be allocated to ring-fenced firms proportionate to the RFIF paid for the 2018/19 fee year.

4.4 For 2018/19, there are retained penalties of £358,876 which the PRA will allocate across fee blocks using firm population data for 2018/19 (the financial year to which the retained penalties relate). This amount will be refunded to firms across all fee blocks excluding those firms that incurred the fines.

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

Appendices

1	**PRA RULEBOOK: PRA PERIODIC FEES (2019/20) AND OTHER FEES INSTRUMENT 2019, available at: https://www.bankofengland.co.uk/prudential-regulation/publication/2019/regulated-fees-and-levies-rates-proposals-2019-20**
2	**SS3/16 'Fees: PRA approach and application', available at: https://www.bankofengland.co.uk/prudential-regulation/publication/2016/fees-pra-approach-and-application-ss**