

EOC SUMMARY PAPER

Subject	RECOVERY OF CLIENT MONEY & ASSETS COSTS
Date of meeting	10 August 2011
EOC sponsor	David Godfrey
Sign-off	
Author(s)	
Purpose of agenda item	For Information
Executive Summary	<p>This note is to advise EOC that we will not be proceeding to implement, from 2012/13, a separate fee-block to recover the costs of regulating Client Money and Assets (CM&A).</p> <p>Background</p> <p>In the October 2010 fees policy CP we sought in principle views from the industry on introducing a separate CM&A fee-block. This was in response to our initiative to enhance regulatory focus on CM&A and the government's call for its regulation to have sufficient independence, priority and dedicated funding. We argued that given our plans to increase significantly our resources in this area that a separate fee-block would be fairer as it would reduce cross-subsidy. This is because currently we only recover these costs from firms undertaking the activities of 'advising/dealing' who hold client money (fee-block A.12 – which includes securities firms and some retail intermediaries), whereas there are firms which can also fall within the scope of CM&A regulation but who do not contribute to the recovery of its costs. These can include firms that accept deposits (fee-block A.1), undertake fund management (fee-block A.7), operators of collective investment schemes (fee-block A.9) and general insurance intermediaries (fee-block A.19). At that time we said we planned to develop detailed proposals, in the light of the industry's initial views and consult in October 2011, with view to implementing the new fee-block from 2012/13.</p> <p>For 2011/12 we increased the allocation to the A.12 fee-block from £26.4m to £49.7m (88%) which we attributed partly to the increased resources on CM&A (February 2011 fees rates CP).</p> <p>Since the October CP the CASS Programme has been cut-back and there is no funding available to cover the operational costs of implementing a separate CM&A fee-block for 2012/13.</p> <p>Alternative sources of funding</p> <p>We have considered whether CM&A fee-block operational work could be funded from the regulatory reform transition budget. For fees generally the agreed intention is that for 2013/14 (anticipated first full year operation of PRA/FCA) the current FSA fees regime will be adapted to accommodate both and with minimal changes. There is also a specific work stream, PRA/FCA Fees Regime, which will establish whether an adapted FSA fees regime will be 'fit for purpose' longer term i.e. 2014/15 and beyond, given the separate operating models of the PRA and FCA.</p> <p>The ring fencing of CM&A regulation funding which gave rise to the proposed new fee-block is not a direct consequence of regulatory reform. However, to be practical we will seek to include providing for a separate</p>

CM&A fee-block in the PRA/FCA Fees Regime work stream. If successful the earliest year for implementation of the CM&A fee-block via this route is 2014/15. Consultation for any changes arising out of the work stream is scheduled for October 2012.

Communications with the industry

The industry's response to the initial proposals on a separate CM&A fee-block was overall mixed with objections in the main coming from sectors that would see an increase in their fees as a result of the proposals. In the May fees policy statement, when we provided feedback to the industry we left it open as to when we would proceed. The cross-subsidy reduction benefits of a separate CM&A fee-block were highlighted in the feedback to the industry on their adverse responses to the increase in allocation to the A.12 fee-block.

In the October 2011 fees policy CP we do not intend to say anything further on when a separate CM&A fee-block will be implemented. We will not at that time be in a position to know whether and when funding will be available via the PRA/FCA Fees Regime work stream. We will work with Communications to develop appropriate Q&A should we be challenged by the industry on the indeterminate deferral.