Consultation Paper

CP11/2**

Financial Services Authority

Regulatory fees and levies:

Rates proposals 2011/12

February 2011

Financial Services Authority

Contents

The Financial Services Authority invites comments on the proposals made in this Consultation Paper.

Some of the proposals require comments by **28 February, 11 March** and others by **1 April 2011**. We indicate clearly in the paper which deadlines apply to which proposals.

Ideally, we would appreciate responses by email to CP11_02@fsa.gov.uk.

Alternatively, please send comments on **Section I, II** and **VI** in writing to:

Peter Cardinali (Ref: CP11/2)
Finance – Fees Policy
Financial Services Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

Or fax comments to: 020 7066 5597

Comments on **Sections III, IV and V** should be sent in writing to:

Joanna Heard (Ref: CP11/2)
Conduct Risk Policy
Financial Services Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

Or fax comments to: 020 7066 6399

It is the FSA's policy to make all responses to formal consultation available for public inspection unless the respondent requests otherwise. A standard confidentiality statement in an email message will not be regarded as a request for non-disclosure.

A confidential response may be requested from us under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Tribunal.

Copies of this Consultation Paper are available to download from our website – www.fsa.gov.uk. Alternatively, paper copies can be obtained by calling the FSA order line: 0845 608 2372.

List of acronyms used in this Consultation Paper

AFR	Annual funding requirement
BP	Business Plan
BU	Business unit
COB	Conduct of business
CFEB	Consumer Financial Education Body
CMBU	Consumer & Market Business Unit
CP	Consultation Paper
CPMA	Consumer Protection & Markets Authority
CRO	Conduct Risk Outlook
CRAs	Credit Rating Agencies
EMIs	Electronic money institutions
EMRs	Electronic Money Regulations 2011
ESMA	European Securities and Markets Authority
ESAs	European Supervisory Authorities
EU	European Union
FEES	Fees sourcebook
FSCS	Financial Services Compensation Scheme
IMAP	Internal model approval process
MARD	Making a Real Difference

MELL	Management expenses levy limit
MLAR	Mortgage Lending and Administration Return
MMR	Mortgage Market Reviews
MPR	Mutuals Public Register
ORA	Ongoing Regulatory Activities
PIs	Payment institutions
PPI	Payment Protection Insurance
PS	Policy Statement
PBU	Prudential Business Unit
PRA	Prudential Regulatory Authority
PRO	Prudential Risk Outlook
RDR	Retail Distribution Review
RMAR	Retail Mediation Activities Return
2EMD	Second Electronic Money Directive
SII	Solvency II
SPF	Special Project Fees
SDD	Specified deposit-taking default
the ombudsman service	Financial Ombudsman Service

1 Overview

1.1 Each year we consult on:

1) proposed policy changes to the fee and levy regimes;
2) the allocation of our Annual Funding Requirement (AFR) between fee blocks;
3) our fee rates for the forthcoming financial year;
4) the Financial Services Compensation Scheme (FSCS) management expenses levy limit;
5) the Financial Ombudsman Service (the ombudsman service) general levy for the forthcoming financial year and its allocation to industry blocks; and
6) the Consumer Education Financial Body (CFEB) levy for the forthcoming financial year.

1.2 This Consultation Paper (CP) is relevant to all authorised firms and other bodies that pay fees to us and levies to the FSCS, the ombudsman service and CFEB, as well as to potential applicants for Financial Services Authority (FSA) authorisation and listing by the UK Listing Authority.

1.3 We split the annual consultation into two phases. In October we consult on any proposed changes to the underlying policy for FSA, the FSCS, the ombudsman service and CFEB fees and levies – (1) above. In the following February we consult on the proposed changes to (2), (3), (4), (5) (6) and any additional policy proposals under (1).

1.4 This CP coincides with the publication of the FSCS and ombudsman service budgets for 2011/12. This CP includes a summary Business Plan for the FSA, which will enable firms to see the annual funding requirement and the related fees in the context of our key priorities for the coming year. The FSA Business Plan 2011/12 will be published in March following the publication of the new Prudential Risk Outlook (PRO) and the Conduct Risk Outlook (CRO), which together will set out our current view of the risks we face and replace the Financial Risk Outlook.

1.5 This CP primarily sets out consultation proposals on the fees and levy rates we intend to raise for the FSA, the FSCS, the ombudsmen service and CFEB in 2011/12. We make a fees calculator available for firms on our website so fee-payers can assess the impact of the fee and levy proposals, and see what these mean for their 2011/12[1] regulatory charges before receiving our single invoice for regulatory fees and levies. Potential applicants for authorisation can also see the amounts they would be liable to pay in 2011/12. This will make the implications for firms of proposed and final fees and levies clearer, and help firms in planning their budgets for the year ahead.

Structure of this paper

1.6 In this chapter we set out a summary of key proposals in this CP, a timetable for consultation and next steps.

1.7 There are six sections in this the CP:

- **Section I** – Chapter 2 sets out a summary of our Business Plan for 2011/12. Chapter 3 details the timetable of administrative arrangements for paying fees in 2011/12. Chapters 4-8 describe how we have determined our AFR for 2011/12 and our proposals to recover this from fee-payers. There are also details of how financial penalties are returned to the industry.
- **Section II** – Chapters 9 and 10 explain further FSA fees policy proposals.
- **Section III –** Chapter 11 consults on the proposed 2011/12 FSCS management expenses levy limit (MELL) and contains indicative compensation cost levy amounts for each sub-class in 2011/12.
- **Section IV** – Chapter 12 consults on the proposed 2011/12 tariff rates for the general levy of the ombudsman service.
- **Section V** – Chapter 13 consults on the proposed 2011/12 levies for CFEB.
- **Section VI** – Chapter 14 provides feedback on the policy proposals on the Second Electronic Money Directive (2EMD) – new regulatory regime consulted on in Chapter 2 of CP10/24.

1.8 Our Handbook rules and guidance on fees can be found in the Fees manual (FEES) and its structure can be found in Annex 3 of this CP for ease of reference. Additional background material to proposals in this CP – in particular on fee-raising arrangements and regulatory fees and levies – are included in our Consolidated Policy Statement (PS010/7[2]).

1 The amounts shown will include any applicable discounts and deductions made for financial penalties collected up to January 2011. Penalty deductions will be finalised in May 2011, once all penalties in 2010/11 have been received.

2 *Consolidated Policy Statement on our fee-raising arrangements and regulatory fees and levies 2010/11 – Including feedback on CP10/5 and 'made rules*' (May 2010).

1.9 The appendices set out the draft rules we intend to implement in 2011/12 to give effect to the proposals in this CP.

Summary of key proposals

Regulatory fees and levies rates: overall change from last year

1.10 We expect that the proposals we are making for fees and levies – considered together with the compensation costs that the FSCS is likely to include as part of its levy – mean that the industry, as a whole, will pay broadly 17.7% less than 2010/11.

1.11 Table 1.1 below shows how we expect anticipated changes in the FSA, FSCS, the ombudsman service and CFEB fees and levies to affect the total amount of money those organisations will need to raise from fee-payers next year. At individual fee-payers level, however, there will be wide variations around the average decrease. More detailed information can be found in the chapters indicated in the table and we summarise below the position for each organisation.

Table 1.1 – Comparing 2011/12 FSA, FSCS, ombudsman service and CFEB fees and levies against 2010/11

Cash impact on firms of fees and levies	2011/12 (£m)	2010/11 (£m)	Increase/ (Decrease) (£m)	Increase/ (Decrease) (%)	Refer to:
FSA – Annual Funding Requirement (AFR)	500.5	454.7	45.8	10.1%	Chapter 4 and 5
Financial penalty discounts	(79.1)	(33.2)	(45.9)	138.3%	Chapter 7
FSA fees	421.4	421.5	(0.1)	0.0%	Chapter 6 and 8
FSCS – total	576.7	851.4	(274.7)	(32.3)%	Chapter 11
Ombudsman service general levy	47.7 *(indicative maximum)*	17.7	30.0	169.5%	Chapter 12
CFEB	43.7	32.9	10.8	32.8%	Chapter 13
Net cash cost to firms	**1,089.50**	**1,323.5**	**(234.0)**	**(17.7)%**	

Note: This table is intended show how much firms have actually paid out in a financial year in respect of each organisation's fees and levies and the overall combined impact of all four. A comparison is made between the total amounts firms pay (as invoiced) in 2010/11 compared to the total amounts that, on current estimates, they will pay in 2011/12.

However, the FSCS figures includes the interest payable by deposit takers in respect of any loans advanced by the Bank of England and HM Treasury (HMT) to fund defaults by deposit takers in 2008. The interest costs are invoiced in July following the financial year to which they relate, for payment by 1 September, and thus are reflected in the cash impact on firms for that year (i.e. the year they are invoiced). For example, interest costs for the period 1 April 2009 to 31 March 2010 were actually invoiced in July 2010 but apply to the previous financial year.

Summary comments are given below for each organisation and further detail is provided in the chapters as indicated in this table.

FSA

1.12 The FSA's planned work programme for 2011/12 is mainly driven by our statutory objectives and the risks being faced by the firms and markets we regulate and the consumers who use them. In addition, much of our work is driven by European Union (EU) requirements. We are also preparing for the restructuring of financial services regulation set out by the Treasury in July 2010. Our plan continues much of the work we started last year and, importantly, contains no significant discretionary initiatives and will be accomplished without increasing our headcount. The key areas for the coming year are set out in Chapter 2 as a summary of our annual Business Plan, which will be published in March.

1.13 The main driver of our AFR is therefore the budget to carry out this work. Our total budget for our Ongoing Regulatory Activities (ORA) is £492m for 2011/12 (£458m in 2010/11). The AFR is £500.5m for 2011/12 (£454.7m in 2010/11), which is an increase of 10.1%. The full breakdown of the AFR is in Chapter 4.

1.14 Taking into account the overall impact of the anticipated financial penalties discount[3], this equates to no change in chargeable fees (8.8% increase in 2010/11). The main periodic minimum fee for 2011/12 is proposed to remain unchanged from the 2010/11 level of £1,000. Taking into account the financial penalties discount for 2011/12, the amount firms will actually pay in terms of the minimum fee in 2011/12 will be £844 (2010/11 £925) a year on year decrease of 9%. The minimum fee is paid by most authorised firms in the 'A' fee-blocks and 43% of these firms only pay the minimum fee.

1.15 In Chapter 5 we set out the allocation of our AFR across the fee-blocks and the year on year movements that will be reflected in the variable periodic fees for firms that have permission to carry out the regulated activities covered by the fee-blocks. We comment on the fee-blocks where the year on year increase is substantially above the overall 10% increase in the AFR. Overall, the 2011/12 allocations take account of an improved methodology for the allocation of enforcement costs, which is largely based on activity data. This is in line with our established commitment to transparency in the fees calculation and continuing evolution of our activity-based costing. This also means that year-on-year changes in allocations across fee-blocks for enforcement activity will potentially be more volatile in future. The above average year-on-year increases in the relevant fee-blocks also reflect our focus on regulating the activity of holding client money and assets.

1.16 For the 'A' fee-blocks (which account for 94% of the total AFR), costs allocated to those fee-blocks are recovered on a 'straight line' basis (i.e. in direct proportion to the size of permitted business firms undertake in these fee-blocks). Therefore the fees firms pay should change broadly in line with the year-on-year changes in the allocations set out in Chapter 5.

1.17 However, when calculating the estimated draft 2011/12 fee rates, we used the latest data on firm populations and tariff data (measures of size of permitted business undertaken by firms in fee-blocks), which are necessarily different from those used to calculate the final 2010/11

3 Financial penalties are received by us as a result of Enforcement action. These must be applied to the benefit of firms, which we do through applying discounts to firms' periodic fees in the year following receipt of the financial penalty.

fee rates. Therefore a year-on-year comparison of 2010/11 actual fee rates with the 2011/12 draft fee rates will reflect these differences as well as the year-on-year movements in the fee-block allocations. These firm-driven variations are set out in Chapter 6 and the impact of financial penalty discounts on individual fee-blocks is covered in Chapter 7.

1.18 The periodic fees for the remaining fee-blocks are discussed in Chapter 8.

FSCS

1.19 The FSCS costs for 2010/11 includes the interim levy announced by FSCS in January regarding the costs allocated to the Investment Intermediation sub-class, for claims arising from, among others, the defaults of Keydata Investment Services Limited and Wills & Co Stockbrokers Limited. The interim levy totalled approximately £326m: £93m against the Investment Intermediation sub-class (£86m in compensation costs and £7m in specific costs); and a levy of £233m against the Investment Fund Management sub-class, as the Investment Intermediation sub-class has reached the compensation costs levy limit (£100m) it can be asked to contribute annually.

1.20 The FSCS management expenses levy limit is to remain at £1bn for 2011/12. Further details are set out in Chapter 11.

Ombudsman service

1.21 The ombudsman service's 2011/12 budget is based on a general levy between £17.7m and £47.7m. This includes a possible contingency reserve of up to £30m to deal with fluctuations in caseloads to be raised by the FSA through the general levy.[4] If the FSA and ombudsman service decide that there is no need for a contingency reserve, the general levy will be held at £17.7m. There is a freeze on case fees at £500 and three free cases per firm will be retained. The ombudsman service is currently consulting separately on its draft budget and corporate plan including its reserve policy.[5] Further details are set out in Chapter 12.

CFEB

1.22 CFEB's annual funding requirement for 2011/12 is £43.7m. This is an increase on the £32.9m allocated for 2010/11, which reflects its first full year as an independent body and a shift from providing information to taking actions and delivering their strategic priorities. Further details are set out in Chapter 13.

4 S234 Financial Services and Markets Act 2000
5 www.financial-ombudsman.org.uk/publications/pb11/index.html

Fee-payers should be aware that the final FSA fee rates for 2011/12 – which will be finalised by our Board at its May 2011 meeting – could vary materially from those in this paper (Chapters 6 and 8). This is because we will not have complete data until the end of March 2011 on actual costs for 2010/11 and actual fee-block populations, fee income and fee tariff data. CFEB levy rates are calculated on the same basis as the FSA's fee rates and therefore the levy rates finalised in May could also vary from those in this paper (Chapter 13).

Fee-payers should also note that estimates referred to in Chapter 11 are budgeted and reforecast costs for the FSCS, which are expected to be incurred in the respective financial year. The estimates are based on assumptions of claims volumes and amounts. While these are forecast according to the best available information at the time, actual numbers of claims can be volatile and unforeseeable. The actual amount raised by the overall FSCS levy also depends on any amounts carried forward from the previous financial year and the value of recoveries made by the FSCS. The FSCS levy figures in this paper are indicative only and may change significantly when they are finalised in early April 2011.

In addition, the FSCS levy is recovered from firms partly using a tariff base measure of size, or it is linked to their individual FSA periodic fees. Similar to the FSA, the data that is used to calculate these levy rates could change before the levy rates are finalised in March and therefore the final levy rates could vary materially from that set out in this paper.

The ombudsman service general levy is calculated using 'industry blocks', which are similar (but not identical) to the FSA 'fee-blocks'. Each industry block has a minimum levy and, in most cases, the levy then increases in proportion to the amount of 'relevant business' (i.e. business done with private individuals) each firm does. The proportion is called 'tariff rate'. Similar to the FSA, the data that is used to calculate these levy rates could change before the levy rates are finalised in May and therefore the final levy rates could vary materially from that set out in this paper (Chapter 12).

Solvency II Special Project Fees (SII SPF)

1.23 The total SII SPF budget for 2011/12 is currently estimated to be £46.4m (£29m in 2010/11). Taking into account anticipated under-spend (principally due to delays at EU level) in 2010/11, this is reduced to £34.3m. There are two SII SPFs and the amount of the 2011/12 SII SPF budget for each is as follows:

- **IMAP SPF** – to recover the costs of developing and implementing the framework relating to our internal model approval process (IMAP). The IMAP budget for 2011/12 is currently estimated to be £20.2m (£13m in 2010/11). Taking into account the anticipated under-spend in 2010/11 of £6.5m, this is reduced £13.7m.

- **Non-IMAP SPF** – to recover other SII implementation costs. The non-IMAP budget for 2011/12 is currently estimated to be £26.2m (£16m 2010/11). Taking into account the anticipated under-spend in 2010/11 of £5.6m, this is reduced to £20.6m.

1.24 Further to our commitment last year we are proposing a revised method for recovering the IMAP SPF. We propose to target the recovery of the 2011/12 IMAP SPF to firms within groups that have declared their intention to use the internal model approach and have been notified by us that they have been accepted into pre-IMAP status.

1.25 We believe this revised method is a fairer way of recovery compared to 2010/11, which was based on levying the fee on the 200 largest general and life insurers only. Not all these firms are intending to use the internal model approach and there are medium and small firms that are intending to use the internal model approach, but were not subject to the fee. Further details are set out in Chapter 9.

Mutuals Public Register (MPR) – charges under new enhanced service

1.26 As the Mutuals registrar, we provide public access to the records accepted from industrial and provident societies; friendly societies; building societies and credit unions. We provide 'search' and 'copy' services, so anyone can obtain information in person, or by requesting photocopies of specific documents.

1.27 We have enhanced the MPR to allow the online purchase of documents either immediately (when available) or after being scanned. Anyone purchasing documents through the enhanced MPR will benefit from a faster service and will also receive the documents in an electronic format.

1.28 In Chapter 10 we consult on revised charges.

Consultation periods

1.29 We indicate the relevant closing date for responses alongside each proposal in all chapters. To help fee-payers identify the proposals most relevant to them, Table 1.2 below sets out which fee-payers are likely to be affected by the proposals in this CP and the deadline for submitting responses.

1.30 A fees calculator will be available on our website to help firms calculate the impact of the proposals given in this CP on their fees. The fees calculator also takes into account FSCS, the ombudsman service and CFEB, where they apply.

Next steps

1.31 In light of consultation responses and subject to FSA Board approval, we set out when the proposals in this CP will be finalised through made rules in Table 1.2.

1.32 We plan to publish Policy Statements, including feedback on the responses to the consultation, in the same month the final rules are approved by the FSA Board or shortly thereafter.

1.33 Fee-payers will be invoiced from March 2011 for 'on-account' payments (see Chapter 3) and other firms will be invoiced from June onwards, on the basis of the new fees, levies and policy changes.

1.34 In Table 1.3 below, we set out when the fees policy proposals in CP10/24 (published in October 2010) have already been finalised and feedback provided. We also set out when this will be done for the remaining proposals.

Consumers

This CP contains no material of direct relevance to retail financial services consumers or consumers groups, although, indirectly, part of our fees are met by financial services consumers.

Table 1.2: Summary of deadlines for responses to this CP and when proposals and rules will be finalised

Issue	Fee-payers likely to be affected	Reference	Deadline for responses	Rules finalised
FSA				
Periodic fee rates	Authorised firms.	Chapter 6	**1 April 2011**	May 2011
	All fee-payers except authorised firms.	Chapter 8	**28 February 2011 and 1 April 2011**	March 2011 and May 2011
Special project fees for Solvency II – revised recovery method	Firms in fee-blocks A.3 (General insurers) and A.4 (Life insurers) affected by Solvency II Directive and in addition fee-block A.6 (The Society of Lloyd's).	Chapter 9	**1 April 2011**	May 2011
Mutuals Public Register – charges under new enhanced service	This proposal will affect users of the public register services and may also affect those in the F – Unauthorised Mutuals[6] fee-block.	Chapter 10	**28 February 2011**	March 2011
FSCS				
Management expenses levy limit	Firms subject to the FSCS.	Chapter 11	**28 February 2011**	March 2011
Ombudsman service				
General levy	Firms subject to the ombudsman service.	Chapter 12	**11 March 2011**	May 2011
CFEB				
Levies	Firms subject to CFEB.	Chapter 13	**1 April 2011**	May 2011

6 An *industrial and provident society*; or a society registered under the Friendly Societies Acts; subject to the registration functions transferred to the FSA in Part XXI of FSMA; BUT NOT otherwise authorised under Part IV of FSMA.

Table 1.3: For CP10/24 – summary of when proposals and rules have been/will be finalised

Issue	Fee-payers likely to be affected	CP10/24	Rules finalised
Second Electronic Money Directive (2EMD) new regulatory regime:	All electronic money issuers	Chapter 2	
• Application fees			February 2011(i)
• Periodic fees basis			May 2011(ii)
Transaction reporting fees – new payment condition	All firms that have opted to use our transaction reporting system under SUP 17	Chapter 3	December 2010(iii)
Consumer Financial Education Body (CFEB) – extension of levy to payment institutions	Firms subject to current CFEB levies and payment institutions in fee-blocks G.3 – G5	Chapter 4	May 2011(iv)
FSA fees policy clarification – exclusion of firms' own funds from calculation of funds under management	Fund managers in fee-block A.7	Chapter 5	December 2010(iii)
Minor rule changes:			
• Definition of International Securities Identification Number	Firms and market operators in respect of certain securitised derivatives covered by fee-block A.20 (FEES 4 Annex 9)	Chapter 6	December 2010(iii)
• Separating ombudsman service and FSA fees in FEES 5	All firms subject to the ombudsman service levy	Chapter 6	December 2010(iii)
For discussion – new fee-block for funding client money and assets regulation	All firms with authority to hold and control client money or permission to safeguard and administer (or arrange to safeguard and administer) client assets, or may do so in the future	Chapter 7	Discussion period closes 1 March 2011(v)

Notes:

(i) When we consulted in CP10/24, we expected the 2EMD regulations to have been in place in time to finalise the application rules in January. The 2EMD regulations are expected to be in place in February and therefore the finalisation of the 2EMD application fees has been deferred to February 2011.

(ii) Feedback is provided in Chapter 14 of this CP and relevant fee rates are consulted on in Chapter 8 of this CP. These rules will be finalised in May 2011.

(iii) Feedback and final rules published in Handbook Notice 105 published December 2010.

(iv) Feedback is provided and relevant fee rates are consulted on in this CP in Chapter 14 and these rules will be finalised in May 2011.

(v) Responses will inform further consultation (with draft rules) during 2011/12 for implementation in 2012/13.

Section I

Fees timetable and proposed FSA periodic fees 2011/12

2

FSA summary business plan 2011/12

Introduction

2.1 In this section, we summarise the main elements of our planned work programme for 2011/12. This is mainly driven by our statutory objectives and the risks being faced by the firms and markets we regulate and the consumers who use them. These will be set out more fully in February and March, when we intend, in place of our annual Financial Risk Outlook, to publish two new documents: the Prudential Risk Outlook (PRO) and the Conduct Risk Outlook (CRO).

2.2 In addition, much of our work is driven by European Union (EU) requirements. We are also beginning to prepare for the restructuring of financial services regulation set out by the Treasury in July 2010.

2.3 Our plans are not funded by the taxpayer, but by the fees we raise from FSA-regulated firms. Our plan for 2011/12 will be set out in more detail in our annual Business Plan (BP), which will be published in March. It continues much of the work we started last year and, importantly, it does not contain any significant discretionary initiatives and we will accomplish it without increasing our headcount. The key areas for the coming year are:

- Delivering effective, on-the-ground supervision of firms.
- Completing the organisational and technological change that underpins our move to an intensive supervisory regime.
- Continuing to deliver a tough and determined enforcement approach that achieves results.
- Developing our policy agenda, which is driven largely, domestically and internationally by the agenda set out in the Turner Review and other key reform initiatives that we began in response to the financial crisis.

- Ensuring we continue to deliver our wider policy agenda, which is primarily mandated by the European Union (EU).
- Preparing for the implementation of the Retail Distribution Review (RDR) and continuing to consult on the Mortgage Market Review (MMR) – two major elements of our new Consumer Protection Strategy, announced in 2010.
- Restructuring ourselves into a 'twin peaks' model in preparation for anticipated legislation that will create two new bodies: the Prudential Regulatory Authority (PRA) and the Consumer Protection & Markets Authority (CPMA).

2.4 Our approach to ensuring that we are ready for cut-off involves a progressive change in our regulatory approach. We have already announced the first stage – in April 2011 we will replace our current risk and supervisory units with a Prudential Business Unit (PBU) and a Consumer and Markets Business Unit (CMBU). This will enable us to begin the transition – we expect the full cut-over to occur at the end of 2012, though this is dependent on the legislative timetable.

2.5 However, we will only separate our current integrated supervisory approach once the risk and operating models for the new business units (BUs) are complete. We are conscious of the need to minimise any impact on the firms and markets we regulate and will write to firms setting out the changes they will see over the coming year. We have also made sure that activities and projects we undertake this year will continue to be effective once the anticipated regulatory reforms have been made.

Impact of plans on our budget for 2011/12 and on fee levels

2.6 We are conscious that firms are still recovering from the financial crisis and associated recession. We are very aware of the current economic times and of the cost to firms of increasing fees.

2.7 The improvements to the fairness and transparency of the fees regime implemented last year are now embedded and should enable us to target more effectively the recovery of our costs from firms within fee blocks requiring the greater regulatory resources.

- The Annual Funding Requirement (AFR) for 2011/12 will be £500.5m, an increase of £45.8m (10.1%) on the £454.7m in the previous year. This is made up of a direct cost of £10.9m (2.4 %) relating to the delivery of the regulatory reform programme – and the rest is largely a result of the increase in resources that we have already put in place.
- The enforcement fines we impose in a given financial year are returned to the industry by way of discounts to their fees in the following year. In the first nine months of 2010/11, the fines collected totalled £79.1m compared to £33m in 2009/10. **This means the net AFR for firms will be no greater than last year.**

- Due to the changes in our fee methodology implemented last year, fees will remain the same for 43% of firms affected by the new methodology, who only pay the minimum fee. Larger firms will continue to pay a greater proportion of our costs, reflecting the resources we apply to the intensive supervision of high-impact firms. All firms affected by the new methodology fund 94% of our costs.
- There is no plan to increase the overall FSA headcount in 2011/12.

2.8 The total cost of implementing regulatory reform is unclear at the moment. The Treasury consultation document issued in July 2010 made an initial estimate of £50m and work is under way to quantify this more precisely. As stated above, in 2011/12, we believe the direct costs to the FSA will be £10.9m. We also estimate there will be substantial indirect costs as staff reschedule other work to create the capacity needed to implement the changes. This will involve a temporary increase in our risk appetite in some areas and these will be set out in more detail in next month's Business Plan.

2.9 Outside of the AFR, expenditure on the implementation of Solvency II, collected via a special project fee applied to insurance firms, is due to increase significantly from £29m to £46.4m, as we approach implementation. Taking into account anticipated underspend in 2010/11 due to time delays at EU level, this is reduced to £34.3m.

Identifying risks – providing the context for our work

2.10 In February and March we plan to publish, for the first time, a PRO and CRO, which will examine the major prudential and conduct risks to our statutory objectives. These provide the background and context for our work, inform the way we prioritise our work and, in some cases, trigger specific strands of activity.

2.11 On the prudential side, there remains considerable uncertainty over the speed and path of economic recovery and this will continue to influence delivery of the Business Plan, though less so than during the recession. The financial crisis has left a considerable legacy of problems, from the need for strengthened international capital and liquidity regimes, to continuing challenges to bank funding and the increased sovereign risk within the eurozone.

2.12 Turning to conduct, the main risks also arise from the continuing economic uncertainty as firms seek to adapt their business models and products to the emerging economic environment. This manifests itself in different ways across sectors, where it is not clear that the new strategies being developed, or new (often more complex) products, are all in consumers' interests.

Financial stability

2.13 The great majority of the prudential regulatory regime is now international, with globally agreed standards being implemented through EU directives. So we are working to use the agenda set out in the Turner Review to influence the negotiation of these and to ensure they are implemented smoothly and efficiently.

2.14 In 2011/12 our focus will be on the implementation of our new, enhanced liquidity regime and completing the negotiation of Solvency II and CRD4, while also preparing for their implementation from the end of 2012. Also, the new European Supervisory Authorities (ESAs) came into being at the start of 2011 and assumed a set of formal responsibilities for banking, insurance and securities and markets respectively. The new bodies will fundamentally change the way in which the FSA operates, both as a rule-maker and as a supervisor of cross-border firms.

2.15 Our intensive approach to supervision will complete its implementation with increased resources, including prudential risk specialists now assigned to our largest firms. Supervisors' core role is to assess the risks they identify in firms and make judgements about the priority of these risks and the action firms should take to control and mitigate them. Analysing firms' business models, enhanced stress testing and supervising Significant Influence Functions (our regime for scrutinising people who exert significant influence on regulated firms), will continue to be major components of this work.

Market confidence

2.16 Much of the framework for market regulation is set at an EU level and 2011/12 will see the implementation of the new EU oversight regime for Credit Rating Agencies (CRAs) through the European Securities and Markets Authority (ESMA), alongside a range of other changes on short selling and oversight of the OTC derivatives and commodities markets. Supervising market infrastructure and exchanges will also remain a priority.

2.17 Market monitoring to detect and enforce against market abuse remains a key objective. In 2011/12 we will complete our programme to redevelop our SABRE system – our primary surveillance tool, which includes a database of market transactions undertaken by authorised firms. This will further improve our market intelligence and detection capability. We will continue to develop our education agenda in this area, but will also sustain our enforcement caseload of market abuse and transaction reporting cases.

2.18 The UK Listing Authority needs to update its IT systems to replace the current ELMS and ELS systems and will review its strategy and operating model in line with this. It will also implement the changes stemming from the review of the Prospectus Directive.

Consumer protection

2.19 In March 2010, we announced our new Consumer Protection Strategy and many of its main strands will begin to become visible in 2011/12. Most obviously these include the first stages of implementation of the Retail Distribution and Mortgage Market Reviews and strengthening our intensive and intrusive approach to conduct supervision. In addition, we are starting to look at how we can intervene earlier in the product cycle, before risks crystallise and on 25 January 2011 we published a Discussion Paper on possible product interventions. Our conduct risk specialists will continue to provide support to supervisors across the full range of sectors and products.

2.20 We will also continue to take enforcement action on a range of consumer protection issues. These include financial promotions, mis-selling and unauthorised business. As part of this, we will continue to seek redress and compensation for consumers who have suffered detriment as a result of these actions. There is also a continuing judicial review, which we are contesting, of the action we have taken on Payment Protection Insurance (PPI).

The reduction of financial crime

2.21 We will seek to reduce the extent to which regulated (or unregulated) financial services businesses are used for purposes connected with financial crime. Part of this will involve influencing EU and other international agendas and we will also continue to develop our intelligence-sharing arrangements with other agencies. To be able to do this, we need to form strong alliances with our international counterparts, and we need to work determinedly towards a common goal, sharing information and ideas.

2.22 Financial crime forms an important part of our credible deterrence agenda and we will continue to work with supervisors to identify areas of weakness or vulnerability – where controls do not exist or do not work effectively – and take enforcement action where necessary.

Delivering the FSA's operational platform

2.23 To meet our statutory objectives, we need an effective operational platform. This includes retaining and developing the right staff, our infrastructure, operational policies, keeping our buildings and systems running and good financial management to deliver value to our stakeholders.

2.24 In particular, as a result of significant changes to our role and structure – e.g. European-led regulatory change and the UK regulatory change programme – our work has become increasingly data and IT dependent. During 2011/12, we plan to deliver a large number of 'non-negotiable' policies and business initiatives, requiring further investment in the operational platform.

3

Fees timetable and invoicing arrangements

3.1 This chapter explains our timetable for invoicing and payment collection during the year. It also highlights the key dates firms should be aware of regarding our funding arrangements, to help them meet their responsibilities for regulatory fees and levies.

3.2 We are responsible for the administrative arrangements for invoicing, data collection and payment regarding FSA fees, as well as the FSCS, the ombudsman service levies (but not case fees) and CFEB levies.

Fees timetable

3.3 Table 3.1 shows the indicative timetable for 2011/12 FSA periodic fees and the FSCS, ombudsman service and CFEB levies payable to us.

Tariff data collection

3.4 Each fee-payer's invoice is calculated using the fee tariff data for all the fee-blocks to which the fee-payer belongs, and also according to its permission to conduct regulated activities. Some firms submit their tariff data in Section J of the Retail Mediation Activities Return (RMAR) and the Mortgage Lending and Administration Return (MLAR).

3.5 Where we do not have the information we need to charge FSA fees and levies for the ombudsman service and the FSCS, we write to firms to request it. The data we collect for FSA periodic fees is used for CFEB levies. Tariff data requests are sent to firms in January and, for 2011/12 fees and levies, must be completed and returned by 28 February 2011. Where firms do not return their tariff data, we bill them for fees and levies using an estimated figure and we charge a £250 administrative fee.

Variation/cancellation of Part IV permission

3.6 Firms are allocated to FSA fee-blocks based on the regulated activities they have in their permission. A periodic fee is payable for each fee-block that a firm falls into, whether or not it actually carries on the activities concerned.

We do not refund periodic fees if a firm applies to reduce the scope of its Part IV permission[7], or cancel it altogether, once a new fee period has started (in this case, 1 April 2011 to 31 March 2012). So any firm that wishes to vary its permission to narrow its scope, or cancel it altogether, must submit its written application to us so that we receive it before 1 April 2011 – otherwise the firm will be liable for 2011/12 periodic fees on the basis of its previous scope of permission.

Table 3.1: Fees timetable for 2011/12 FSA periodic fees and FSCS, ombudsman service and CFEB levies

Date (2010)	Event	Description	Action needed by firms	Reference in this paper
Throughout the year	Tariff data collection exercise	Firms that submit the Retail Mediation Activities Return (RMAR) and/or the Mortgage Lending and Administration Return (MLAR) must report their fee tariff data once yearly in Section J of those returns.	• Check the relevant help texts[8] for the date when Section J data must be submitted in the RMAR/MLAR. The exact date for submission depends on the date when the firm's accounting year ends. • When required, complete Section J on the RMAR/MLAR with the tariff data and submit by the due date. • For ombudsman service and FSCS levies, mortgage firms and insurance mediation firms can submit tailored income figures on Section J or (if applicable) exemption forms.[9] Exemption forms must be received before 31 March 2011 to be valid for 2011/12 fees.	Paragraph 3.4
January	Tariff data collection exercise	We contact all relevant fee-payers with a written request for their tariff data on which FSA, FSCS, ombudsman service and CFEB fees/levies are based.	• Complete and return tariff data sheets by 28 February 2011. • Late returns of tariff data attract an administrative fee.	Paragraph 3.5

7 Part IV Permission to carry on regulated activities, FSMA 2000.
8 The RMAR and MLAR help texts on Section J (fees) are available at: www.fsa.gov.uk/Pages/Doing/Regulated/Returns/IRR/packs
9 The forms for reporting ombudsman service and FSCS exemptions are available on our website at: www.fsa.gov.uk/Pages/Doing/Regulated/Fees/Tariff/Notes/

Date (2010)	Event	Description	Action needed by firms	Reference in this paper
January to March	Applications to vary or cancel Part IV permissions	Firms that want to vary or cancel their permission must apply now if they do not wish to be liable for the full 2011/12 periodic fees. **Firms that apply to cancel after 31 March 2011 will be liable for fees and levies for the full 2011/12 financial year.**	• Written applications to vary or cancel permissions must be received before 1 April 2011.	Paragraph 3.6
April	'On account' fee due from higher fee-payers	Firms that paid us periodic fees of more than £50,000 in 2010/11 must pay us 50% of that amount 'on account', towards their 2011/12 fees and levies. On the same basis, firms must pay 50% of their CFEB levies and 100% of the ombudsman service levies.	• Pay 'on account' invoices no later than 30 April 2011. • Late or non-payment attracts an administrative fee and interest. • Firms that apply from 1 April 2011 to increase the scope of their permission may be liable for an additional periodic fee in 2011/12.	Paragraph 3.8
June onwards	Invoicing for all other firms	We issue invoices to all firms who do not make' on account' payments.	• Pay invoices within 30 days of receiving them. • Late or non-payment attracts an administrative fee and interest.	Paragraph 3.9
August	Balance due from 'on account' fee-payers	We will invoice 'on account' firms for the remainder of their 2011/12 periodic fees.	• Pay invoices by 1 September 2011. • Late or non-payment attracts an administrative fee and interest.	Paragraph 3.8

New joiners

3.7 A firm applying for FSA authorisation during the financial year is liable to pay regulatory fees and levies for the full year, pro-rated according to the quarter in which authorisation begins. A firm seeking to increase the scope of its Part IV permission generally pays fees for any additional fee-blocks it falls within as a result of the variation of permission. No periodic fees are payable where the variation of permission means the firm does not enter any new fee-blocks.

'On account' fee-payers

3.8 Firms that paid us £50,000 or more in FSA fees in 2010/11 must, by 30 April 2011, pay 50% of their total 2010/11 FSA/CFEB fees/levies and 100% of their 2010/11 ombudsman service levies. This payment is treated as an 'on account' payment against their 2011/12 fees, which are finalised in May 2011. By 1 September 2011 they must pay the balance of their 2011/12 FSA/CFEB fees/levies and ombudsman service levies[10], and 100% of their FSCS levy.

Other fee-payers

3.9 We start invoicing firms who paid FSA fees of less than £50,000 in 2010/11 for the full amount of their 2011/12 fees in June 2011. Firms have 30 days from the date of the invoice in which to pay.

Late payment

3.10 If a firm does not pay its FSA periodic fee and FSCS/ombudsman service/CFEB levies by the due date, we will levy a £250 surcharge and, from the due date, start to charge interest on any unpaid fee amount at 5% per annum above the Bank of England's repo rate. Where we do not receive payment, we are able to take civil and/or regulatory action against the firm to recover the debt. We also take action to cancel the permissions of firms who do not pay their fees and levies and, as a result, they are no longer entitled to conduct regulated activities.

Paying regulatory fees and levies by instalments

3.11 In response to industry feedback, we facilitated a market solution for firms so that they could pay regulatory fees and levies in instalments. We explained that an instalment payment system would be uneconomical for us to administer, as any systems costs and bad debts would, directly or indirectly, have to be met by firms through regulatory fees. In addition, administering credit arrangements is not part of our statutory function, and we considered that providing credit to fee payers was likely to be cheaper when done by an organisation whose core activity is financing.

3.12 Following discussion with several potential credit providers, Premium Credit Limited was chosen by the industry as the company that offered a competitive product and one that would be made available to all authorised firms. The industry also chose to negotiate a three-year deal with Premium Credit Limited as this provided the opportunity to secure enhanced payment terms. We are independent of this arrangement and have no contract in place with Premium Credit Limited.

10 This is the balance if the final ombudsman levy rates are different from the draft rates that on-account invoices will be based on. If the final levy rates are less, then a credit will be given.

4

FSA Annual Funding Requirement (AFR) for 2011/12

Our 2011/12 Business Plan

4.1 In this chapter, we explain the factors determining how our AFR for 2011/12 has been calculated. The AFR is the amount of money that we need to raise from fees to fund our regulatory activities.

4.2 Our planned work programme for 2011/12 is mainly driven by our statutory objectives and the risks being faced by the firms and markets we regulate and the consumers who use them. In addition, much of our work is driven by European Union (EU) requirements. We are also beginning to prepare for the restructuring of financial services regulation set out by the Treasury in July 2010.

4.3 Our plan continues much of the work we started last year and, importantly, contains no significant discretionary initiatives and will be accomplished without increasing our headcount. The key areas for the coming year are set out in Chapter 2 as a summary of our annual Business Plan, which will be published in March.

4.4 The main driver of our AFR is therefore the budget to carry out this work programme.

2011/12 AFR

4.5 Table 4.1 below shows the calculation of our AFR based on the budget for our Ongoing Regulatory Activities (ORA) for 2011/12 of £492m. The key variances are:

- an increase of £34m in the budget for our regulatory activities in 2011/12 (7.4%); and
- an additional £10.9m to prepare for the restructuring of financial services regulation set out by the Treasury in July 2010.

4.6 We completed the 'funding the transition to more outcomes-focused regulation' (MARD) change programme, which we announced in 2007/08, as planned at the end of March 2010 and to the budgeted £50m. We will continue to recover this cost in fees over a period of up to ten years and, consistent with our approach of the last four years, we have included £5m in the AFR.

4.7 Our AFR for 2011/12 is £500.5m – an increase of 10.1% over 2010/11 (£454.7m). Taking into account the overall impact of the anticipated financial penalties discount, this equates to no change in chargeable fees (8.8% increase in 2010/11).

Table 4.1: Comparison of the budgeted AFR for 2011/12 with the final AFR for 2010/11

AFR Calculation	2011/12 (£m)	2010/11 (£m)	Variance (£m)
Budget: Ongoing Regulatory Activity (ORA)	492.0	458.0	34.0
Regulatory reform programme	10.9	0.0	10.9
Recovery of scope change costs	1.6	2.7	-1.1
Making a Real Difference (MARD)	5.0	5.0	0.0
Under spend in previous year	-9.0	-11.0	2.0
AFR Total	**500.5**	**454.7**	**45.8**
% year-on-year change in AFR	10.1%	9.9%	
% year-on-year change in chargeable fees taking account of financial penalties discount	0.0%	8.8%	

5

Allocation of 2011/12 AFR to fee-blocks

5.1 In this chapter we:

- set out the allocation of the 2011/12 AFR across the various fee-blocks that fee-payers are placed in depending on the regulatory permitted business they have permission to undertake and compare the year-on-year movement against the 2010/11 allocation for each fee-block;
- highlight where the year-on-year increases in fee-blocks are substantially above the average overall increase in the AFR, providing a high level basis for those increases;
- we set out a breakdown of gross costs by FSA Business Unit for each fee-block; and
- define the two ways we allocate costs to fee-blocks – direct and indirect.

Comparison with 2011/12 AFR allocation

5.2 As stated in Chapter 4, we propose to raise an AFR of £500.5m in 2011/12, which is 10.1% higher than that published for 2010/11. Table 5.1 sets out the allocation of our 2011/12 AFR by fee block and compares it to that of 2010/11. The basis for the year-on-year increases in the allocations that are substantially more than the overall 10.1% increase are:

- **A.2 Home finance providers and administrators – increase £3.4m (36%):** Mainly reflects enforcement work on the treatment of customers with mortgages in arrears.
- **A.9 Operators/trustees of Collective Investment Schemes – increase £4.5m (75%):** Mainly reflects enforcement work in this sector and our focus on regulating client money and assets.
- **A.10 Firms dealing as principal – increase £5.6m (19%):** Mainly reflects enforcement work on market abuse. Also, increased work on prudential risk and supervision of this regulated activity.

- **A.12 Advising/arranging, holding client money/assets – increase £23.3m (88%):** Mainly reflects enforcement work on market abuse and work on pressure selling and mis-selling of structured products. The allocation to this fee-block further reflects our regulatory focus on client money and assets.
- **A.14 Corporate finance advisors – increase £10.9m (136%):** Mainly reflects enforcement work on market abuse and increased supervision of this regulated activity.
- **E Issuers and sponsors of securities – increase £2m (17%):** Reflects increased work for Markets – UK Listing Authority and market monitoring.
- **G Payment Services Regulations and e-money issuers – increase £1.2m (78%):** Recovery of associated implementation costs for the Payment Services Directive and Second Electronic Money Directive (2EMD).

5.3 These allocations take account of an improved methodology, which enables much more accurate allocation of enforcement costs as it is largely based on activity data. This is in line with our established commitment to transparency in calculating fees and the continuing evolution of our activity-based costing. This also means that year-on-year movements in allocations across fee-blocks relating to enforcement activity will potentially be more volatile in future.

Table 5.1: Proposed 2011/12 AFR alloction compared to the actual AFR allocation for 2010/11

Fee-blocks	Proposed AFR 2011/12 (£m)	Actual AFR 2010/11 (£m)	% year on year change
A.0 Minium fee*	18.4	19.7	-7%
A.1 Deposit acceptors	141.3	130.7	8%
A.2 Home finance providers and administrators	13.0	9.6	36%
A.3 Insurers – General	29.4	30.7	-4%
A.4 Insurers – Life	44.5	48.6	-8%
A.5 Managing Agents at Lloyds	1.1	1.1	7%
A.6 The Society of Lloyd's	1.4	1.5	-5%
A.7 Fund managers	28.2	31.0	-9%
A.9 Operators, Trustees and Depositaries of collective investment schemes	10.4	5.9	75%
A.10 Firms dealing as principal in investments	34.6	29.0	19%
A.12 Advisory arrangers, dealers or brokers (holding client money)	49.7	26.4	88%
A.13 Advisory only firms and advisory, arrangers, dealers, or brokers (not holding client money)	39.7	40.6	-2%

Fee-blocks	Proposed AFR 2011/12 (£m)	Actual AFR 2010/11 (£m)	% year on year change
A.14 Corporate finance advisors	18.8	7.9	136%
A.18 Home finance providers, advisers and arrangers	15.1	14.4	5%
A.19 General insurance mediation	24.9	30.8	-19%
A.20 Markets in Financial Instruments Directive (MiFID) transaction reporting – targeted recovery of additional IS costs	2.2	2.2	0%
B. Recognised Exchanges, Clearing Houses and Operators of prescribed markets and service providers	7.4	7.6	-3%
C. Collective Investment Schemes	1.9	1.7	14%
D. Designated Professional Bodies	0.2	0.2	-7%
E. Issuers and sponsors of securities	14.1	12.1	17%
F. Unauthorised mutuals	1.4	1.4	1%
G. Firms registered under the Money Laundering Regulations 2007, Firms covered by the Payment Services Regulations 2009 and Firms subject to the 2nd Electronic Money Directive	2.7	1.5	78%
TOTAL	**500.5**	**454.7**	**10%**

* Costs that all firms in the 'A' fee-blocks (except A.6 and A.20) contribute to the recovery of through the minimum fee – see Chapter 6.

Break down of gross costs by FSA Business Unit for each fee-block

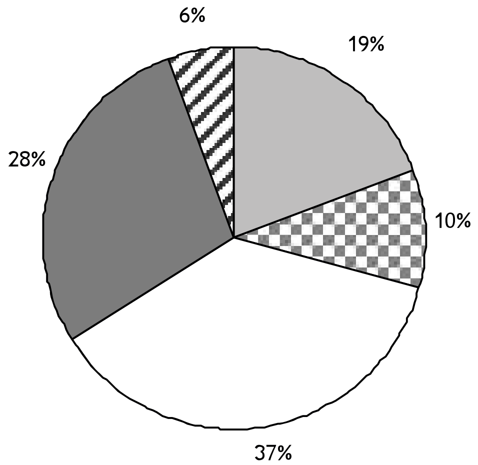
5.4 To help firms understand better where their fees are spent we have produced the following charts.

5.5 Charts A.1 to A.19 show for each of these authorised firm fee-blocks the breakdown of gross costs by FSA business unit, with Direct Reports split into enforcement and executive office.

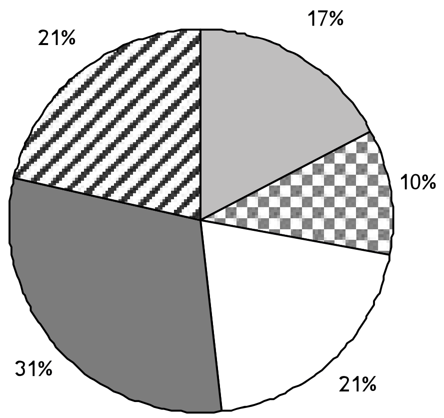
5.6 The chart for the A.0 fee-block shows the breakdown of the costs by the four key functions detailed in Chapter 6.

Key to charts A.1 to A.19

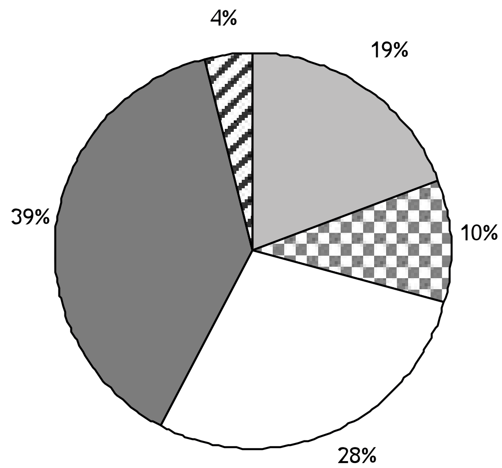
A.1 – Deposit acceptors



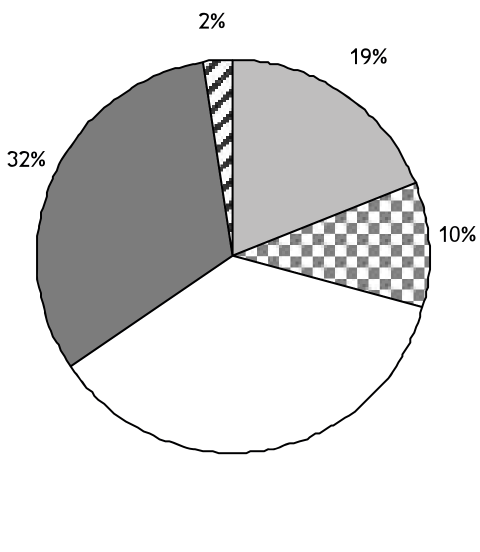
A.2 – Home finance providers



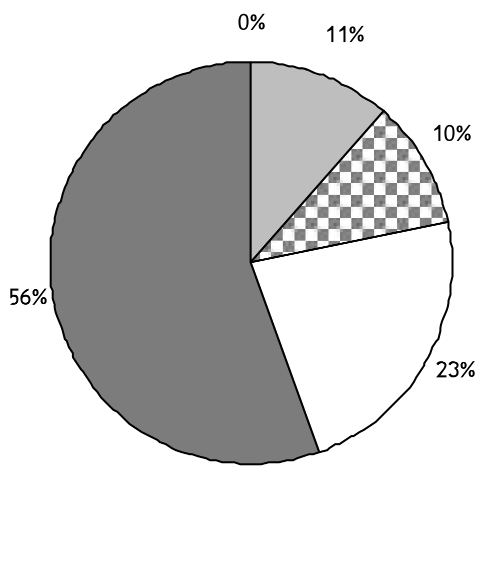
A.3 – Insurers – General



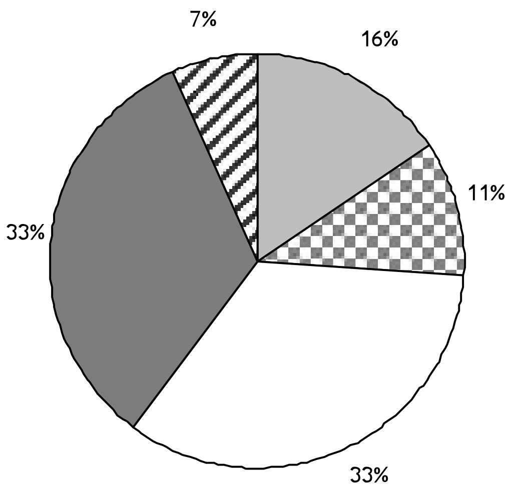
A.4 – Insurers – Life



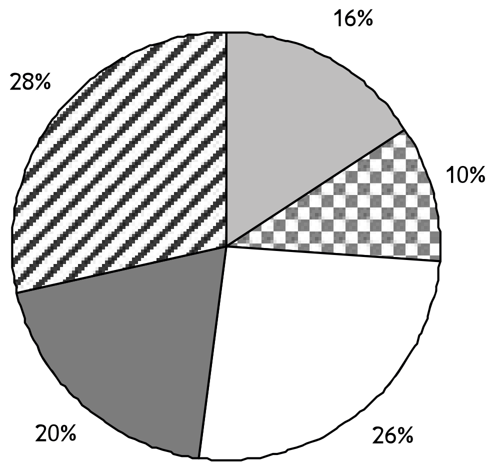
A.5 – Managing agents at Lloyd's



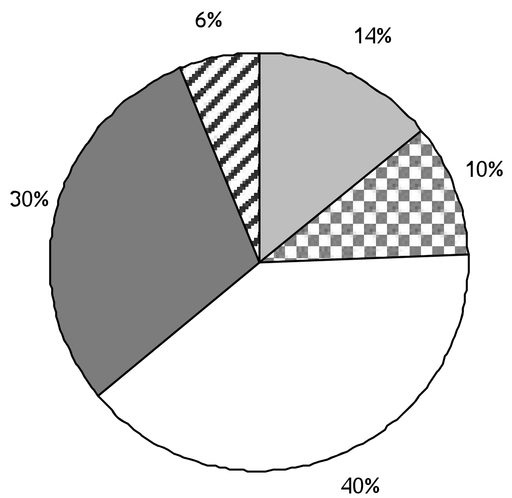
A.7 – Fund managers



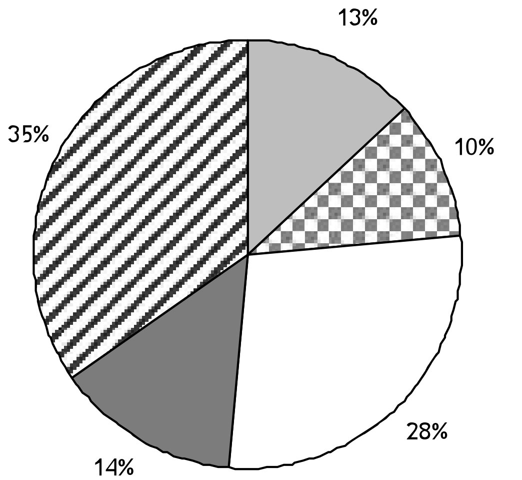
A.9 – Operators/Trustees CIS



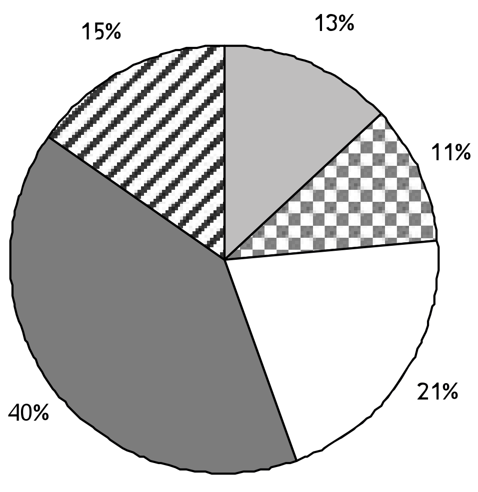
A.10 – Firms dealing as principal



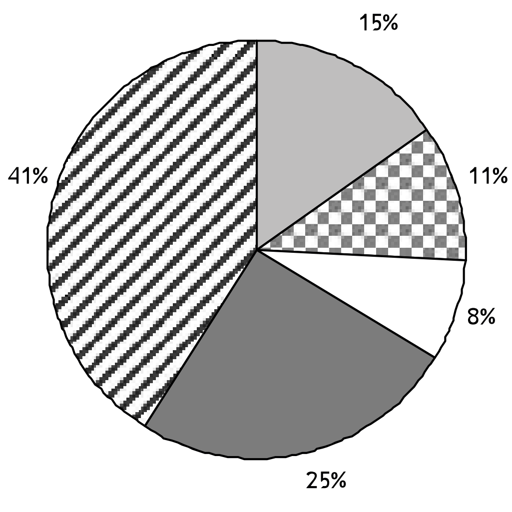
A.12 – Advising/Arranging (holding client money)



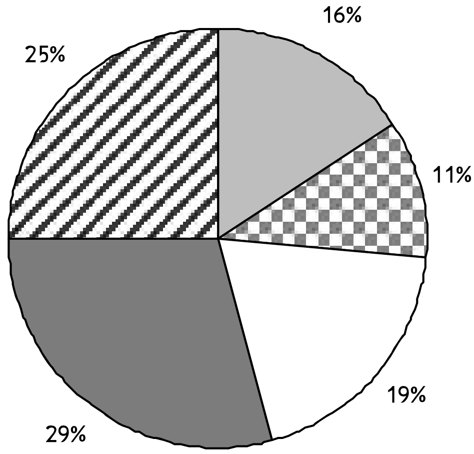
A.13 – Advising/Arranging (not holding client money)



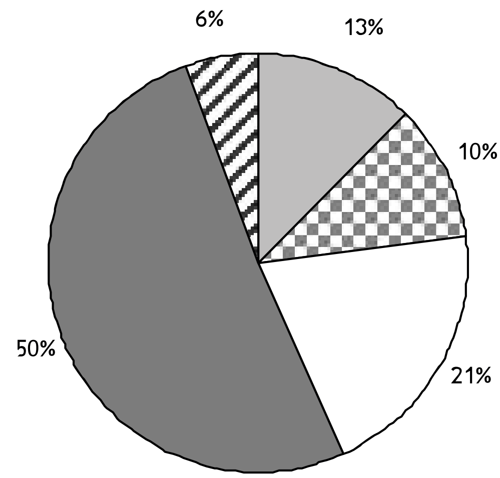
A.14 – Corporate finance advisers



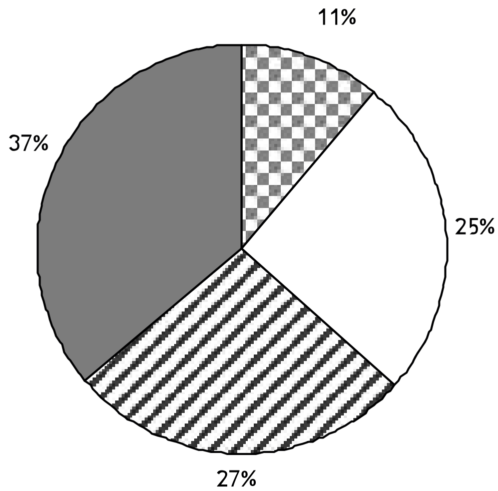
A.18 – Home finance mediation



A.19 – General insurance mediation



A.0 – Minimum fee



Key to chart A.0

- Regulatory reporting
- Policing the perimeter
- Unrecovered authorisation costs
- Customer contact centre

How costs are allocated

Costs are allocated across fee-blocks in two ways:

- **Direct costs:** These are costs that we are able to allocate to individual fee-blocks, e.g. individual firm supervision and sector-specific policy development. These direct costs include the people costs, to which we add their overhead costs, e.g. accommodation, IT and other operational costs needed to support the people in doing their work.
- **Indirect costs:** These are costs that we can not directly allocate to individual fee-blocks, e.g. thematic supervision, non-sector specific policy development, the costs of a director's office in an area. These indirect costs also represent the people costs, to which we add the overhead costs. We allocate indirect costs to fee-blocks in proportion to the direct costs allocated.

Although the cost allocation is inherently imprecise (as it involves assumptions about future events), we are confident that the results of the allocation are an accurate reflection of how we intend to use our resources over the fee-blocks in the forthcoming year. However, our objectives require us to respond to circumstances as they develop and it is possible that the actual use of resources will differ from that assumed in the cost allocation. Where this proves to be the case, we will take any difference into account in setting fees for the following year.

6

Periodic fees for authorised firms

(FEES 4 Annex 2R – draft rules in Appendix 2)

6.1 This chapter sets out our proposals for the 2011/12 periodic fees of authorised firms (the 'A' fee-blocks) who form the majority of our fee-payers (94% of our total AFR is recovered from these firms).

6.2 Proposals for the fees payable by other bodies (such as listed issuers of securities and designated professional bodies) are in Chapter 8 of this paper.

Proposed minimum periodic fees 2011/12

6.3 Any firm that is authorised to carry out any of the regulated activities covered by the 'A' fee-blocks is subject to the A.0 minimum fee.[11] The minimum fee is aimed at ensuring that all authorised firms (including small firms) contribute to the cost of regulation. It also aims to ensure that the minimum fee level is not too high (which would unnecessarily impede competition) and not too low (which would prejudice existing fee-payers). The costs of the following functions are allocated to the A.0 minimum fee-block:

- regulatory reporting (the administrative charge we receive for late returns is deducted from these costs);
- Customer Contact Centre (firms and consumers);
- unrecovered authorisation costs (authorisation costs of firms and approved persons not covered by application fees); and
- policing the perimeter (ensuring financial services business is not undertaken by unauthorised persons).

11 Except A.6 which has one fee-payer (The Society of Lloyd's) which is invoiced on an individual basis and A.20 which relates to specific system development costs which are recovered from firms already paying the minimum fee in the other A fee-blocks.

6.4 The net costs relating to these functions are allocated to the A.0 fee-block and are apportioned equally across all firms in that fee-block according to the number of firms on 1 April, the start of the financial year that the minimum fee will be levied. For 2010/11 the minimum fee was set at £1,000.

6.5 As set out in Table 5.1 in Chapter 5, the proposed allocation to the A.0 fee-block is £18.4m for 2011/12 compared to £19.7m for 2010/11 – a year-on-year decrease of 7%. This decrease in costs is due to the fall in the number of firms over the year so far, which also means that the 2011/12 allocation is apportioned over less firms. Overall, however, we are able to maintain the minimum fee for 2011/12 at £1,000. Taking into account the financial penalties discount for 2011/12, the amount firms will actually pay in terms of the minimum fee in 2011/12 will be £844 (£925 in 2010/11) a year-on-year decrease of 9%. The minimum fee is paid by almost all authorised firms in the 'A' fee-blocks and 43% of these firms only pay the minimum fee.

Exceptions to standard minimum fee

6.6 Exceptions from paying the standard minimum fee are allowed where this can be justified (which we consult on) and the current exceptions are smaller credit unions (reduced minimum fee of £160 or £540, depending on size) and smaller non-directive friendly societies (reduced minimum fee of £430). The minimum fees for these firms are at the level they were before the current full minimum fee structure was introduced for 2010/11. The rationale for justifying these firms as exceptions is that they support people with limited financial resources to improve their economic status. As these firms contribute less to recovering the costs allocated to A.0 fee-block, the short fall is recovered from the A.1 (Deposit takers) and A.4 (Life – insurers) – the firms in these fee-blocks are subsidising the firms benefitting from the exception and this was made clear in consultation. We are also proposing to maintain these exceptions to the standard minimum fee at 2010/11 levels for 2011/12.

Proposed variable periodic fees

6.7 Costs allocated to the 'A' fee-blocks are recovered on a 'straight line' basis (i.e. in direct proportion to the size of permitted business firms undertake in these fee-blocks). Therefore the fees firms pay should change broadly in line with the year-on-year percentage movement in the allocations set out in Table 5.1 in Chapter 5.

6.8 However, when calculating the estimated proposed 2011/12 periodic fee rates in this paper, we used the latest data on firm populations and tariff data (measures of size of permitted business undertaken by firms in the fee-blocks), which are necessarily different from that used to calculate the final 2010/11 fee rates. This latest data is detailed in Table 6.1 below and is set out against the final data used to calculate the actual periodic fee rates for 2010/11.

Table 6.1: Data used to estimate 2011/12 periodic fee rates for consultation

Fee-block	Tariff base	2011/12 (Estimates of 2011/12 fee-payers and tariff data)			2010/11 (Actual 2010/11 data)		
		AFR (£m)	No. of fee-payers	Tariff base	AFR (£m)	No. of fee-payers	Tariff base
A.0	Minimum fee	18.4	19,181	NA bn	19.7	19,503	NA bn
A.1	Modified eligible liabilities	141.3	840	£3,049.2bn	130.7	849	£3,196.7bn
A.2	Number of mortgages or other home finance transactions	13.0	346	£7.3m	9.6	365	£7.6m
A.3	Gross premium income Gross technical liabilities	29.4	447	£54.3bn £119.8bn	30.7	452	£54.5bn £120.4bn
A.4	Adjusted gross premium income Mathematical reserves	44.5	259	£48.7bn £795.7bn	48.6	267	£52.0bn £799.2bn
A.5	Active capacity	1.1	65	£22.9bn	1.1	67	£22.9bn
A.7	Funds under management	28.2	2,463	£4,248.9bn	31.0	2,479	£3,912.0bn
A.9	Gross income	10.4	752	£6.7bn	5.9	752	£6.1bn
A.10	Traders	34.6	478	9,516	29.0	489	9,566
A.12	Relevant approved persons	49.7	1,864	65,134	26.4	1,881	65,487
A.13	Relevant approved persons	39.7	6,985	38,483	40.6	7,052	38,955
A.14	Relevant approved persons	18.8	856	7,055	7.9	863	7,139
A.18	Annual income	15.1	5,952	£1.2bn	14.4	6,086	£1.3bn
A.19	Annual income	24.9	13,756	£13.3bn	30.8	13,979	£13.4bn
A.20*	Volume of contracts	2.2	75	1,915.7m	2.2	80	1,894.4m

* Applicable firms are included in FEES 4 Annex 9

6.9 The differences arise from firms leaving regulation and new entrants joining, resulting in changes in the total tariff data, as well as where firms have reported their tariff data after the 2010/11 periodic fee rates were finalised. Therefore, a year-on-year comparison of 2010/11 actual fee rates with the 2011/12 draft fee rates will reflect these movements, as well as the year-on-year movements in the fee-block allocations. These firm-driven variations are set out in Table 6.2 below together with an explanation of the main reasons for these differences.

Table 6.2: Impact of firm-driven variations on estimated draft 2011/2 periodic fee rates

Fee-blocks	2011/12 year on year change in allocations	2011/12 year on year change in periodic fees	Periodic fees change greater or less than allocation change
A.1 Deposit acceptors	8%	10%	Greater
A.2 Home finance providers and administrators	36%	42%	Greater
A.3 Insurers – General	-4%	-2%	Less
A.4 Insurers – Life	-8%	-3%	Less
A.5 Managing Agents at Lloyds	7%	3%	Less
A.7 Fund managers	-9%	-11%	Greater
A.9 Operators, Trustees and Depositaries of collective investment schemes	75%	68%	Less
A.10 Firms dealing as principal in investments	19%	19%	Same
A.12 Advisory arrangers, dealers or brokers (holding client money)	88%	85%	Less
A.13 Advisory only firms and advisory, arrangers, dealers, or brokers (not holding client money)	-2%	-4%	Greater
A.14 Corporate finance advisors	136%	119%	Less
A.18 Home finance providers, advisers and arrangers	5%	-17%	Greater
A.19 General insurance mediation	-19%	-17%	Same

Differences generally arise for two reasons:

- Where there has been a material actual year on year fall in the number of firms in a fee-block then the fee-block allocation will be recovered from a smaller amount of tariff data (unit measure size) which results in the fee rates increasing by a higher amount than the year on year increase in the allocation. The opposite applies where there is a material increase in the number of firms; and
- Where firms did not report their tariff data for 2010/11 in time for finalising fee rates in May 2010.

Moderation framework

6.10 We can apply our moderation framework, which allows our straight-line recovery policy to accommodate a targeted recovery of costs within a fee-block, on an exceptions basis, if it can be justified. This moderation can be either side of the straight-line recovery and is achieved by applying a premium or discount to the tariff data that measures the amount of permitted business firms undertake within a moderated fee-block. We consult before applying the moderation framework.

6.11 The A.1 fee-block (Deposit acceptors) is the only current exception from straight-line recovery. Within this fee-block, the firms who fall within the medium-high and high bands of our moderation framework pay a premium fee-rate. This reflects the particular targeting of our overall supervision to the high-impact, systemically important firms in this sector.

6.12 We are proposing to continue to apply a premium of 25% and 65% to the fee rates for medium-high and high-impact firms respectively in the A.1 fee-block, as set out in Table 6.3 at the end of this chapter.

Calculating the actual periodic fees for 2011/12

6.13 In setting the actual periodic fee rates for 2011/12, we first have to conclude the 2010/11 financial year (which runs from 1 April to 31 March) and establish the extent of any differences between our actual costs and fee income for 2010/11, compared to what we expected when we set the 2010/11 periodic fee rates at the start of that financial year. Any difference will not be fully quantified until after our year-end accounts have been audited. Any material differences will affect the proposed AFR (detailed in Chapter 4) as the final underspend may be less, which would increase the AFR for 2011/12 and increase the amount allocated to the fee-blocks.

6.14 To calculate the actual periodic fee rates to recover the final AFR allocations from the fee-blocks, we need to update Table 6.1 above to analyse the:

- number of fee-payers in each fee-block as at 1 April 2011; and
- tariff data (unit of measure of size) from each fee-payer – generally based on the fee-payer's activity in (or reported in) 2010 or as at 31 December 2010. The collection of this tariff data is completed while the consultation on estimated draft periodic fee rates is carried out.

The updated data is used to calculate the revised periodic fee rates, which are finalised in light of responses to this consultation and subject to FSA Board approval and then published in our consolidated Policy Statement for fees in May 2011.

6.15 Fee-payers should be aware that this means the final periodic fee rates for 2011/12 – which will be made by our board at its May 2011 meeting – could vary materially from the estimated periodic fee rates in this paper.

Q1: Do you have any comments on the proposed FSA 2011/12 minimum fees and periodic fee rates for authorised firms?

We must receive any responses to Q1 by 1 April 2011

Online Fee Calculator

Firms can calculate their periodic FSA fees online at:
www.fsa.gov.uk/Pages/Doing/Regulated/Fees/calculator/index.shtml

The Fee Calculator enables firms to work out their fees and levies for different financial periods and scenarios, based on previous, current and draft estimated fee rates for the forthcoming year. So, existing firms and potential applicants for authorisation can calculate the amounts they are likely to be invoiced for the financial year (including any applicable discounts) and compare these to previous years. However, firms will be liable for the fees and levies shown on their invoices rather than the amounts indicated by the Fee Calculator.

The Fee Calculator aims at making the likely implications of the estimated draft fee rates for 2011/12 and the actual fee rates and levies consulted on in this paper clearer to firms and help them with planning their budget for the year ahead.

The Fee Calculator also enables firms to calculate FSCS, ombudsman service and CFEB levies where applicable.

Table 6.3: Moderation framework

Fee-block		Tariff base		Moderation: Discount (-) and Premium (+) levels				
				Low Impact		Medium Low Impact	Medium High Impact	High Impact
				Band 1	Band 2	Band 3	Band 4	Band 5
A.1	**Deposit acceptors**	MELs [essentially UK deposits held] £ms	**Moderation**	0%	0%	0%	plus 25%	plus 65%
			Band width	>10 – 140	>140 – 630	>630 – 1,580	>1,580 – 13,400	> 13,400
A.2	**Home finance providers and administrators**	Number of new home finance contracts etc	**Moderation**	0%	0%	0%	0%	0%
			Band width	> 50 – 130	>130 – 320	>320 – 4,570	>4,570 – 37,500	>37,500
A.3	**Insurers – general**	Gross premium income £m	**Moderation**	0%	0%	0%	0%	0%
			Band width	>0.5 – 10.5	>10.5 – 30	>30 – 245	>245 – 1,900	>1,900
		Gross technical liabilities £m	**Moderation**	0%	0%	0%	0%	0%
			Band width	>1 – 12.5	>12.5 – 70	>70 – 384	> 384 – 3,750	>3,750
A.4	**Insurers – life**	Adjusted gross premium income £m	**Moderation**	0%	0%	0%	0%	0%
			Band width	>1 – 5	>5 – 40	> 40 – 260	>260 – 4,000	>4,000
		Mathematical reserves £m	**Moderation**	0%	0%	0%	0%	0%
			Band width	>1 – 20	>20 – 270	>270 – 7,000	> 7,000 – 45,000	>45,000
A.5	**Managing agents at Lloyd's**	Active capacity £m	**Moderation**	0%	0%	0%	0%	0%
			Band width	>50 – 150	>150 – 250	>250 – 500	>500 – 1,000	>1,000
A.7	**Fund managers**	Funds under management £m	**Moderation**	0%	0%	0%	0%	0%
			Band width	>10 – 150	>150 – 2,800	>2,800 – 17,500	>17,500 – 100,000	>100,000
A.9	**Operators, Trustees and Depositaries of CISs etc**	Gross income £m	**Moderation**	0%	0%	0%	0%	0%
			Band width	>1 – 4.5	>4.5 – 17	>17 – 145	>145 – 750	>750
A.10	**Firms dealing as principal**	Number of traders	**Moderation**	0%	0%	0%	0%	0%
			Band width	2 – 3	4 – 5	6 – 30	31 – 180	>180

Fee-block		Tariff base		Moderation: Discount (-) and Premium (+) levels				
				Low Impact		Medium Low Impact	Medium High Impact	High Impact
				Band 1	Band 2	Band 3	Band 4	Band 5
A.12	**Advisory arrangers, dealers or brokers (holding client money/ assets)**	Number of approved persons	**Moderation**	0%	0%	0%	0%	0%
			Band width	2 – 5	6 – 35	36 – 175	176 – 1,600	>1,600
A.13	**Advisory arrangers, dealers or brokers (not holding client money/ assets)**	Number of approved persons	**Moderation**	0%	0%	0%	0%	0%
			Band width	2 – 3	4 – 30	31 – 300	301 – 2,000	>2,000
A.14	**Corporate finance advisers**	Number of approved persons	**Moderation**	0%	0%	0%	0%	0%
			Band width	2 – 4	5 – 25	26 – 80	81 – 199	>199
A.18	**Home finance providers, advisers and arrangers**	Annual income £000's	**Moderation**	0%	0%	0%	0%	0%
			Band width	>100 – 180	>180 – 1,000	>1,000 – 12,500	>12,500 – 50,000	>50,000
A.19	**General insurance mediation**	Annual income £000's	**Moderation**	0%	0%	0%	0%	0%
			Band width	>100 – 325	>325 – 10,000	>10,000 – 50,750	>50,750 – 250,000	>250,000

7

Applying financial penalties 2011/12

7.1 This chapter sets out our proposed 2011/12 allocation of financial penalties received in 2010/11 to:

- A fee-block – authorised firms;
- E fee-block – UK Listing Authority (UKLA) fee-payers; and
- G fee-block – fee-payers subject to the Money Laundering Regulations 2007 (MLRs), Payment Services Regulations 2009 (PSRs) and the Electronic Money Regulations 2011 (EMRs – expected to come fully into force April 2011).

7.2 In some cases, enforcement action can result in a financial penalty being imposed on a person under the Financial Services and Markets Act 2000 (FSMA). We are required to use those penalties to benefit authorised persons – except the penalties collected from firms in breach of the listing rules, which must be used to benefit issuers of securities. Our policy for applying penalties to the benefit of fee-payers is published in Annex 4 of our Consolidated Policy Statement on fees and levies (PS10/7, published May 2010). We summarise this policy at the end of this chapter.

7.3 We are required to apply the financial penalties that are paid to us under the MLRs, PSRs and EMRs towards the costs of carrying out our functions under those regulations. We are meeting this requirement through the following approach:

- firstly, as under FSMA, the financial penalty discount is applied to the fee-block(s) paying the enforcement costs of a case; and
- we then apply any financial penalties in excess of the case costs against our costs of supervision under the regulations. In respect of penalties imposed under the MLRs, which apply to all firms supervised by us, this amounts to a reduction of 1.1% across all fee-blocks in 2011/12. We have not imposed any penalties under the PSRs, and the EMRs have not yet come into force.

Financial penalty discounts to 2011/12 periodic fees

7.4 The total financial penalties received so far during 2010/11 (January) amount to £79.1m compared to £33m in 2009/10. Table 7.1 shows the allocation of these financial penalties as financial penalty discounts to periodic fees. We will confirm the final 2011/12 penalty discounts to fees in our Policy Statement published in May 2011.

Table 7.1: Penalties to be applied for the benefit of authorised persons and issuers of securities in 2011/12 – comparison with 2010/11

	2011/12			2010/11	
Fee-block	AFR (£m)	Penalties to be applied for the benefit of fee-payers (£'000)	Reduction in fee amount payable (%) – see note ***	Penalties to be applied for the benefit of fee-payers (£'000)	Reduction in fee amount payable (%) – see note ***
A.0	18.4	2,867	15.6	1,494	7.5
A.1	141.3	22,275	15.7	9,910	7.5
A.2	13.0	2,434	18.6	726	7.5
A.3	29.4	4,621	15.7	2,328	7.5
A.4	44.5	6,954	15.6	3,682	7.5
A.5	1.1	180	15.6	81	7.5
A.6	1.4	222	15.6	114	7.5
A.7	28.2	4,647	16.5	2,352	7.5
A.9	10.4	1,621	15.6	449	7.5
A.10	34.6	6,008	17.3	2,199	7.5
A.12	49.7	10,029	20.1	2,479	9.3
A.13	39.7	6,357	15.9	3,171	7.8
A.14	18.8	3,410	18.1	602	7.5
A.18	15.1	2,565	17.0	1,094	7.5
A.19	24.9	4,016	16.1	2,338	7.5
A.20*	2.2	315	14.4	165	7.5
B (MTFs Only)	0.5	78	14.4	41	7.5
E	14.1	500	3.5	0	0.0
G	2.7	32	1.1	0	0.0
Total	**490.1********	**79,130****		**33,227**	

* Applicable firms are included in FEES 4 Annex 9.
** Year to date as at 6 January 2011.
*** The percentage reduction in fee amount payable has been rounded down.
**** The difference between £500.5 and the stated figure is the absence of fee blocks C, D, F and partially B.

Financial penalty schemes under FSMA (summary)

Under FSMA we are required to ensure that financial penalties are applied for the benefit of authorised persons or, in the case of breaches of listing rules, issuers of listed securities. The benefit is applied through discounts to the fees paid by fee-payers under each fee-block.

Firstly, the financial penalty discount (FPD) is applied to the fee-block(s) paying the enforcement costs of a case. Secondly, any financial penalties in excess of the cost of a case are then applied as a FPD as follows.

1) Across fee block A in the case of:
   - breaches by authorised persons;
   - market abuse by neither authorised nor approved persons; and
   - market abuse by an authorised or approved person.
2) To the benefit of securities issuers only (in fee block E), in cases of breaches under the listing rules.

8

Periodic fees for other bodies

8.1 This chapter sets out the proposed periodic fees for fee-payers in:

- B. fee-block, Market Infrastructure Providers;
- C. fee-block, Collective Investment Schemes;
- D. fee-block, Designated Professional Bodies;
- E. Issuers and sponsors of securities (UK Listing Authority – UKLA);
- F. Unauthorised mutuals; and
- G. Firms registered under the Money Laundering Regulations 2007, firms covered by the Payment Services Regulations 2009 and firms subject to the Second Electronic Money Directive.

8.2 The periodic fees for the fee-payers in the 'A' fee-blocks are discussed in Chapter 6.

8.3 The proportion of our annual funding requirement (AFR) allocated to fee-blocks B to G and the year-on-year movement is detailed in Table 5.1 of Chapter 5. This chapter sets out how the amounts allocated to these fee-blocks will be recovered, comparing 2011/12 proposed fees with actual fees for 2010/11. We also comment where the year-on-year increase is substantially more than the overall 10.1% increase in our AFR.

Fee-payers should note that we do not yet have all the data needed to set periodic fees, where applicable in this chapter. This means that the final periodic fee rates for 2011/12 – which will be made by our Board at its May 2011 meeting – could vary materially from the estimated periodic fee rates in this paper.

B. fee-block: Market Infrastructure Providers

Recognised Investment Exchanges and Recognised Clearing Houses

(FEES 4 Annex 6R Part 1 – draft rules in Appendices 1 and 2)

8.4 The periodic fees for the Recognised Investment Exchanges and Recognised Clearing Houses (collectively 'UK recognised bodies') are set on an individual basis for each body and are based on the amount of regulatory resources required. They are payable in two instalments during the year – on 30 April and 1 September.

Table 8.1: Proposed periodic fees for UK recognised bodies

Name of UK recognised body	Proposed 2011/12 fee (£)	Actual 2010/11 fee (£)	Variance (%)
Euroclear UK & Ireland Limited	600,000	650,000	-7.7
ICE Futures Limited	500,000	510,000	-2.0
LIFFE Administration and Management	750,000	800,000	-6.3
LCH.Clearnet Limited	700,000	750,000	-6.7
The London Metal Exchange Limited	450,000	475,000	-5.3
London Stock Exchange plc	615,000	670,000	-8.2
EDX London Limited	90,000	120,000	-25.0
Plus Markets plc	190,000	220,000	-13.6
European Central Counterparty Limited	355,000	375,000	-5.3
ICE Clear Europe Limited	540,000	550,000	-1.8
Chicago Mercantile Exchange Clearing Europe	400,000	400,000	0.0

8.5 If you have any questions regarding these fees then please contact your relationship manager.

Overseas Recognised Investment Exchanges or Overseas Recognised Clearing Houses

(FEES 4 Annex 6R Part 2 – draft rules in Appendix 2)

8.6 We do not propose to increase the minimum periodic fees for Overseas Recognised Investment Exchanges or Overseas Recognised Clearing Houses this year. As a result, these will remain at £40,000 for the Investment Exchanges, and £70,000 for the Clearing Houses.

Multilateral Trading Facilities

(FEES 4 Annex 10R – draft rules in Appendix 1)

8.7 The periodic fees for Multilateral Trading Facilities (MTFs) are set on an individual basis and are based on the amount of regulatory resources required. This applies for the fee-payers listed in table 8.2 below.

Table 8.2: Proposed periodic fees for MTFs

Organisation	Proposed 2011/12 fee (£)	Actual 2010/11 fee (£)	Variance
Chi-X Europe Limited	130,000	125,000	4.0%
BATS Trading Limited	80,000	80,000	0.0%
Turquoise Services Limited	80,000	80,000	0.0%
Liquidnet Europe Limited	70,000	70,000	0.0%
EuroMTS Limited	30,000	30,000	0.0%
SmartPool Trading Limited	22,500	20,000	12.5%
Tradeweb Europe Limited	13,000	12,500	4.0%
Cantor Index Limited	8,000	7,750	3.2%
ICAP Electronic Broking Limited	6,250	6,000	4.2%
UBS Limited	4,000	0	NA
Barclays Bank Plc	4,000	3,600	11.1%
BGC Brokers LP	4,000	3,600	11.1%
GFI Brokers Limited	4,000	3,600	11.1%
GFI Securities Limited	4,000	3,600	11.1%
ICAP Energy Limited	4,000	3,600	11.1%
ICAP Europe Limited	4,000	3,600	11.1%
ICAP Securities Limited	4,000	3,600	11.1%
ICAP Shipping Tanker Derivatives	4,000	3,600	11.1%
ICAP-WCLK Limited	4,000	3,600	11.1%
My Treasury Limited	4,000	3,600	11.1%
TFS-ICAP Limited	4,000	3,600	11.1%
Tradition (UK) Limited	4,000	3,600	11.1%
Tradition Financial Services Limited	4,000	3,600	11.1%
Tullet Prebon (Europe) Limited	4,000	3,600	11.1%
Tullet Prebon (Securities) Limited	4,000	3,600	11.1%

Organisation	Proposed 2011/12 fee (£)	Actual 2010/11 fee (£)	Variance
MF Global Limited	4,000	3,300	21.2%
J.P.Morgan Cazenove Limited	4,000	3,000	33.3%
Nomura	4,000	3,000	33.3%

8.8 These fees propose a small increase in overall terms and, specifically for those MTFs that are part of wider investment firm groups, an increase in line with the overall 10.1% increase in our AFR. These increases are intended to reflect the work we anticipate undertaking thematically across the MTF constituency over the coming financial period, and specifically, the work that will be carried out in relation to the Markets in Financial Instruments Directive (MiFID) review.

8.9 For all other MTFs, we propose to increase the 2011/12 fees from £3,000 to £3,500, again as a reflection of the anticipated thematic work, required as a result of the MiFID review.

Service companies

(FEES 4 Annex 2R Part 1 – draft rules in Appendix 2)

8.10 We propose to maintain periodic fees for service companies in 2011/12 at the same level as they were for 2010/11.

Table 8.3: Proposed periodic fees for service companies

Organisation	Proposed 2011/12 fee (£)	Actual 2010/11 fee (£)	Variance (%)
Service companies			
– Bloomberg LP	45,000	45,000	0.0
– EMX Co Limited	35,000	35,000	0.0
– LIFFE Services Limited	35,000	35,000	0.0
– OMGEO Limited	35,000	35,000	0.0
– Reuters Limited	45,000	45,000	0.0
– Swapswire Limited	35,000	35,000	0.0

C. fee-block: Collective Investment Schemes

(FEES 4 Annex 4R – draft rules in Appendix 2)

8.11 Proposed periodic fees are set out in Table 8.4.

Table 8.4: Proposed periodic fees for collective investment schemes

Scheme type	Total aggregate number of funds/ sub-funds (£)	2011/12 Proposed fee (£)	2010/11 Fee (£)	Variance (%)
ICVC, AUT, Section 264 of FSMA or Section 270 of FSMA	0-2	600	560	7.1
	3-6	1,500	1,400	7.1
	7-15	3,000	2,800	7.1
	16-50	6,600	6,160	7.1
	>50	13,200	12,320	7.1
Section 272 of FSMA	0-2	2,440	2,280	7.0
	3-6	6,100	5,700	7.0
	7-15	12,200	11,400	7.0
	16-50	26,840	25,080	7.0
	>50	53,680	50,160	7.0

D. fee-block: Designated Professional Bodies (DPBs)

(FEES 4 Annex 5R – draft rules in Appendices 1 and 2)

8.12 We set individual periodic fees for each DPB, based on an estimated number of exempt professional firms in each body. Every DPB pays £10,000 in respect of its first exempt professional firm. The balance allocation is then distributed proportionately across the remaining exempt professional firms reported by each DPB.

8.13 Proposed periodic fees are set out in Table 8.5.

Table 8.5: Proposed periodic fees for DPBs

Name of DPB	Proposed 2011/12 fee (£)	Actual 2010/11 fee (£)	Variance (%)
The Law Society of England and Wales	72,740	83,060	(12.4)
The Law Society of Scotland	14,010	14,610	(4.1)
The Law Society of Northern Ireland	12,940	13,380	(3.3)
The Institute of Actuaries	10,110	10,130	(0.2)
The Institute of Chartered Accountants in England and Wales	25,050	27,310	(8.3)

Name of DPB	Proposed 2011/12 fee (£)	Actual 2010/11 fee (£)	Variance (%)
The Institute of Chartered Accountants of Scotland	11,210	11,390	(1.6)
The Institute of Chartered Accountants in Ireland	10,640	10,740	(0.9)
The Association of Chartered Certified Accountants	16,990	18,040	(5.8)
Council for Licensed Conveyancers	11,230	11,420	(1.7)
Royal Institute of Chartered Surveyors	13,810	14,390	(4.0)

E. Issuers and sponsors of securities (UKLA)

(FEES 4 4.2.11R Table of periodic fees and FEES 4 Annex 7R and 8R – draft rules in Appendix 2)

Issuers

8.14 Tables 8.6 (listed) and 8.7 (non-listed) summarise the proposed annual fee rates for issuers of securities. The fee rates are based on estimates of issuers' market capitalisation as of 30 November 2010. We propose to maintain these periodic fees in 2011/12 at the same level as they were for 2010/11.

Table 8.6: Proposed UKLA periodic fees for issuers (listed)

Fee payable *	Proposed 2011/12		Actual 2010/11		
£m of market capitalisation	Rate	Fee at maximum (£)	Rate	Fee at maximum (£)	Variance (%)
Minimum fee	n.a.	3,700	n.a.	3,700	0
>100–250	23.593356	7,239	23.593356	7,239	0
>250–1,000	9.436716	14,317	9.436716	14,317	0
>1,000–5,000	5.808686	37,551	5.808686	37,551	0
>5,000–25,000	0.141692	40,385	0.141692	40,385	0
>25,000	0.045777	–	0.045777	–	–
* Issuers solely with a listing of equity securities of an overseas company which is not a primary listing pay 80% of the fee otherwise payable					

Table 8.7: Proposed UKLA periodic fees for issuers (non-listed)

Fee payable *	Proposed 2011/12		Actual 2010/11		
£m of market capitalisation	Rate	Fee at maximum (£)	Rate	Fee at maximum (£)	Variance (%)
Minimum fee	n.a.	2,960	n.a.	2,960	0
>100–250	18.8747	5,791	18.8747	5,791	0
>250–1,000	7.5494	11,453	7.5494	11,453	0
>1,000–5,000	4.6469	30,041	4.6469	30,041	0
>5,000–25,000	0.1134	32,308	0.1134	32,308	0
>25,000	0.0366	–	0.0366	–	–

Sponsors

8.15 We are proposing to increase the annual periodic fee paid by Sponsors for 2011/12 to £20,000 (£12,500 2010/11). Following our review of UKLA costs, the proposed fee will be more in line with the cost of the Sponsor function.

F. fee-block: Unauthorised mutuals

(Draft rules in Appendix 3)

8.16 We propose to maintain periodic fees for unauthorised mutuals in 2011/12 at the same level as they were for 2010/11.

Table 8.8: Proposed periodic fees for unauthorised mutuals

Total assets (£000)	Proposed 2011/12 fee (£)	Actual 2010/11 fee (£)	Variance (%)
0–50	55	55	0.0
> 50–100	110	110	0.0
> 100–250	180	180	0.0
> 250–1,000	235	235	0.0
> 1,000	425	425	0.0

G. Firms registered under the Money Laundering Regulations 2007

8.17 We are proposing that the annual fee for firms registered with the FSA under the money laundering regulations should be maintained at £400 for 2011/12. [G.1 fee-block]

G. Firms covered by the Payment Services Regulations (PSRs) 2009

(FEES 4 Annex 11R – draft rules in Appendix 2)

8.18 Proposed periodic fees are set out below.

Table 8.9: Certain deposit acceptors (includes banks and building societies) [G.2 fee-block]

Minimum fee (£)	400		
£m or part £m of Modified Eligible Liabilities (MELS)	Fee (£/£m or part £m of MELS)		
	Proposed 2011/12	**Actual 2010/11**	**Variance %**
> 100,000	0.47133	0.42292	11.4
> 250,000	0.47133	0.42292	11.4
> 1,000,000	0.47133	0.42292	11.4
> 10,000,000	0.47133	0.42292	11.4
> 50,000,000	0.47133	0.42292	11.4
> 500,000,000	0.47133	0.42292	11.4

Table 8.10: Large payment institutions and other institutions [G.3 and G.5 fee-blocks]

Minimum fee (£)	400		
£ thousand or part £ thousand of Relevant Income	Fee (£/£thousand or part £ thousand of Relevant Income)		
	Proposed 2011/12	**Actual 2010/11**	**Variance %**
> 100,000	0.52500	0.48508	8.2
> 250,000	0.52500	0.48508	8.2
> 1,000,000	0.52500	0.48508	8.2
> 10,000,000	0.52500	0.48508	8.2
> 50,000,000	0.52500	0.48508	8.2
> 500,000,000	0.52500	0.48508	8.2

8.19 We are proposing that the annual fee for small payment institutions should be maintained at £400 for 2011/12. [G.4 fee-block]

G. Firms subject to the Second Electronic Money Directive (SMD)

(FEES 4 Annex 11R – draft rules in Appendix 2)

8.20 In CP10/24 (Chapter 2) we consulted on the basis for levying periodic fees under the SMD and we provided feedback on that consultation in Chapter 14 of this CP. Table 8.11 sets out the proposed periodic fees for large electronic money institutions. [G.10 fee-block]

8.21 **Table 8.11: Large electronic money institutions**

Proposed 2011/12	
Minimum fee (£)	1,500.00
£m or part £m of average outstanding electronic money (AOEM)	Fee (£/£m or part £m of AOEM)
>5	150.00

8.22 We are proposing that the annual fee for small electronic institutions will be £1,000. [G.11 fee-block]

Q2: Do you have any comments on the proposed FSA 2011/12 minimum fees and periodic fee rates for fee-payers other than authorised firms?

We must receive any responses to Q2 by 1 April 2011 – except in the case of certain bodies in fee-blocks B and D, as set out in the draft instrument in Appendix 1, where we must receive responses to Q2 by 28 February 2011.

Section II

Further FSA fees policy proposals 2011/12

9

Special project fees for Solvency II – revised recovery method

(FEES 4, Annex 2R – draft rules are in Appendix 2)

9.1 This chapter relates to the existing policy established to recover the project development and implementation costs of the Solvency II EU Directive (SII) through a special project fee (SPF). Firms affected by this chapter will be in fee-blocks:

- A.3 (Insurers – general);
- A.4 (Insurers – life); and
- A.6 (The Society of Lloyd's).

The SII SPF is outside our annual funding requirement (AFR), the recovery of which is discussed in Chapters 4 to 6.

9.2 The total SII SPF budget for 2011/12 is currently estimated to be £46.4m (£29m 2010/11). Taking into account anticipated underspend in 2010/11 (principally due to delays at EU level) this is reduced to £34.3m. There are two SII SPFs:

- **IMAP SPF** – This is to recover the costs of developing and implementing the framework relating to our internal model approval process (IMAP). The IMAP budget for 2011/12 is currently estimated to be £20.2m (£13m in 2010/11). Taking into account the anticipated underspend in 2010/11 of £6.5m, this would reduce to £13.7m. However, we are reimbursing this underspend to firms who paid a IMAP SPF in 2010/11 via a credit against their 2011/12 periodic fees (see paragraph 9.15 below).

- **Non-IMAP SPF** – This is to recover other SII implementation costs. The non-IMAP budget for 2011/12 is currently estimated to be £26.2m (£16m in 2010/11). Taking into account the anticipated underspend in 2010/11 of £5.6m, this is reduced to £20.6m. We will therefore only recover £20.6m in 2011/12.

9.3 The net amount we are raising for SII SPF in 2011/12 is within our previous estimate that our costs would be in the range of £100m to £150m[12] over the life of the SII implementation programme.

Background

9.4 The overall rationale for SPFs is to target the recovery of our exceptional regulatory costs from the individual firm or a group of firms that receive the benefit.[13] In the case of EU directives, we use an SPF to ensure that firms pay for the regulatory work arising from the particular directive that concerns them, as a sub-class of a fee-block. This is in place of the costs being recovered from all fee-payers in a fee-block, including those who are not affected by the directive. We only propose to use a directive SPF where:

- it applies to enough firms in a certain sub-set to warrant targeting the recovery of the implementation costs to those firms only; and
- the estimated implementation costs of the directive would result in a significant increase in periodic fees for firms in the fee-blocks who are not affected by the directive.

9.5 We consult before using SPFs to recover the implementation costs of a particular directive. We consulted on using an SPF to recover SII IMAP development costs in CP07/19[14] and other SII implementation costs in CP09/7.[15]

IMAP SPF for 2011/12

9.6 SII applies to the sub-set of the insurers in fee-blocks A.3 and A.4 (52%[16]) and The Society of Lloyd's (Lloyd's). These firms pay the non-IMAP SPF. The main rationale behind the IMAP SPF is to further target SII cost recovery by only recovering the IMAP implementation costs from a sub-set of SII firms that have already indicated they will, or are likely to, apply for internal model approval. These are generally larger insurers, but not exclusively so.

12 CP10/5 *Regulatory fees and levies – Rates proposals 2010/11 and Feedback Statement on Part 1 of CP09/26* (published February 2010) – Chapter 14.

13 Full details of the various types of SPFs and how they are applied is set out in Chapter 7 of our latest fees Consolidated Policy Statement PS10/7 published May 2010.

14 CP07/19: *Regulatory fees and levies: Policy proposals for 2008/09* (published November 2007).

15 CP09/7: *Regulatory fees and levies: Rates proposals 2009/10* (published February 2009).

16 Based on the proportion of insurers that paid periodic fees in 2010/11 that also met the size the criteria for being within the scope of SII.

9.7 The IMAP SPF has been levied for the past three years on our estimation of the number of firms who are likely to seek internal model approval. We have continually sought to refine this estimation based on the information we had available to us at the time. Our estimation has been weighted to the larger firms and has grown from the 20 largest in 2008/09 to the largest 200 in 2010/11 – 125 general insurers, 75 life insurers and Lloyd's.

9.8 When we consulted on the 2010/11 IMAP SPF method of recovery, the main issue raised by respondents was that the current method is unfair because some firms large enough to be charged do not intend to apply for model approval, while medium and small firms that do intend to apply are not charged. We made a commitment to review the method for recovering the IMAP SPF in 2011/12.

IMAP SPF – proposed revised recovery method for 2011/12

9.9 We propose to target the recovery of the 2011/12 IMAP SPF to those firms within groups that have declared their intention to use the internal model approach and have been notified by us that they have been accepted into what we generically refer to in this CP as 'pre-IMAP status', as set out in our notification letter. Also, for ease of reference, where we discuss pre-IMAP status in relation to firms we are referring to firms within groups. Pre-IMAP status is voluntary on both sides.

9.10 We believe this revised method is a fairer method of recovery compared to the 2010/11 method. This is because:

- a large proportion of our IMAP work in 2011/12 is expected to be reviewing the internal model preparation by the firms in pre-IMAP status;
- many firms currently in pre-IMAP status would not be contributing to the IMAP costs if we used the 2010/11 method, as there are medium and small firms that are in pre-IMAP status; and
- there would be a cost impact on a firm caught by being one of the 200 largest firms who are not in pre-IMAP status.

9.11 The 2011/12 IMAP SPF will be levied on all firms still in pre-IMAP status on 31 March 2011. This means that, if a firm has been notified that it has been accepted into pre-IMAP status before 1 April 2011, and we have not received a notification from the firm before 1 April 2011 to say that they no longer wish to be in pre-IMAP status, they will pay the full 2011/12 IMAP SPF. There will be no refund of the IMAP SPF if we are notified of the firm's withdrawal from pre-IMAP from the 1 April 2011. This policy is the same as that which applies to periodic fees when a firm applies to cancel its permissions during the year in which the periodic fee is paid. The draft instrument in Appendix 2 of this paper defines in detail the application of this approach and how it applies to both solo internal and group internal models.

Allocating currently estimated IMAP costs across general insurers (A.3 fee-block), life insurers (A.4 fee-block) and Lloyd's

9.12 In 2010/11 we allocated the IMAP SPF costs to the A.3, A.4 and A.6 fee-blocks in proportion to the total periodic fees raised in 2009/10. For 2011/12 we are proposing to allocate the currently estimated IMAP SPF costs to the A.3 and A.4 fee-blocks in the same way, using total 2010/11 periodic fees. Lloyd's periodic fees are calculated on an individual basis and we are proposing to do the same for their 2011/12 IMAP SPF, which under current estimates of IMAP costs, has been calculated as £1.25m.

Recovering the IMAP SPF allocation from pre-app firms in A.3 and A.4 fee-blocks

9.13 The £18.95m IMAP SPF costs for 2011/12 that has been allocated to the A.3 and A.4 fee-blocks will be recovered from pre-app status firms in proportion to their size (straight-line recovery) using the same measures of size we use to calculate their periodic fees (premium income and liabilities). This will ensure that small and medium size firms in pre-IMAP status will pay proportionally less than the larger firms, and that will broadly reflect the level of engagement we will have with firms. As with periodic fees, the amount of IMAP SPF will not directly relate to the actual resources applied to individual firms.

9.14 The calculation of the IMAP SPF rates in the draft instrument in Appendix 2 is based on our projection of the number of the firms that will be in pre-IMAP status as at 31 March 2011. As with periodic fee rates, the IMAP SPF rates are also based on estimates of tariff data (measures of size). These will not be finalised until April and will then be used to calculate the actual IMAP SPF rates for 2011/12. Therefore, the actual 2011/12 IMAP SPF rates may differ from those consulted on in this paper.

Reimbursement of 2010/11 underspend

9.15 As indicated during the 2010/11 consultation, if the cost of the SII programme is not as high as we anticipate we will reimburse firms. Our intention was that such reimbursement would be made by carrying forward such underspend and off-setting it against the following year's budgeted costs. We are proposing to refund the anticipated 2010/11 underspend of £6.5m to the firms that paid a IMAP SPF in 2010/11. We propose to do this via a credit off-set against their 2011/12 periodic fees. We are taking this approach because the population of firms from which the 2010/11 budget of £13m was recovered, is likely to be very different to that from which we will recover the 2011/12 budget of £20.2m. The final underspend for 2010/11 will also not be finalised until April 2011.

Entry to pre-IMAP status during 2011/12

9.16 If a firm that has not previously declared their intention to use the internal model approach – and has therefore not been accepted by us into pre-IMAP status by 31 March 2011 – does so during 2011/12, we will treat such a request to be in pre-IMAP status as a request for individual guidance. We will levy a Guidance IMAP SPF[17], which will be calculated on the same basis as the IMAP SPF above. This will ensure that a firm accepted into pre-IMAP status during 2011/12 will pay the same fees as those that were accepted by 31 March 2011. We will base our plans for resourcing IMAP on the number of firms in pre-IMAP status as at 31 March 2011 and therefore we cannot guarantee that we would be able to accept firms into pre-IMAP status during 2011/12.

Q3: Do you have any comments on the proposed IMAP SPF for 2011/12 or on the changes we are proposing to the method of recovery?

We must receive any responses to Q3 by 1 April 2011.

Non-IMAP SPF for 2011/12

9.17 The non-IMAP SPF recovers the other costs we are incurring to implement SII. These include the costs of staff recruitment, staff training, revised supervisory processes (other than IMAP) and developing and putting in place the technology required to support SII reporting and supervisors.

9.18 The anticipated 2010/11 non-IMAP SPF underspend of £5.6m will be off-set against the 2011/12 budget of £26.2m, which means that we are proposing to recover £20.6m in 2011/12. The final underspend for 2010/11 will not be finalised until April 2011.

9.19 We are not proposing any change in the method of recovering the non-IMAP SPF from SII firms for 2011/12. The recovery method will therefore be the same as 2010/11, which in summary is:

- £20.6m will be allocated to the A.3, A.4 and A.6 (Lloyd's) fee-blocks in proportion to the total periodic fees raised in 2010/11; and
- recovery from the firms within the A.3 and A.4 fee-blocks will be in proportion to their size (straight-line recovery) using the same measures of size we use to calculate their periodic fees (premium income and liabilities).

9.20 The calculation of the non-IMAP SPF rates in the draft instrument in Appendix 2 is based on our estimate of the firms that will be within the scope of SII as at 31 March 2011. As with periodic fee rates, they are also based on estimates of tariff data (measures of size) and these will not be finalised until April and will then be used to calculate the actual non-IMAP SPF for 2011/12. Therefore the actual 2011/12 non-IMAP SPF rates may differ from those consulted on in this paper.

17 Under our powers, in section 157(4)(c) of the Financial Services and Markets Act 2000 (FSMA), to charge for giving guidance at the request of any person.

9.21 If a firm notifies us before 1 April 2011 that it intends to migrate out of the UK for regulatory purposes before SII is implemented (1 January 2013 according to current proposals), it will also be exempt from this non-IMAP SPF. If the firm notifies us during the 2011/12 financial year, it will have to pay the full non-IMAP SPF. This policy is the same as for periodic fees, when a firm applies to cancel its permissions during the year in which the periodic fee is paid. However, the cancellation of permissions must become effective within three months from the start of the financial period 2011/12 (30 June 2011).

9.22 In line with article 302 of the directive, we will apply an exchange rate [EUR-GBP] based on the last working day of October the previous year – i.e. 31 October 2010 – both to identify the firms that are within the scope of SII and to calculate the fee rates.

Q4: Do you have any comments on the proposed non-IMAP SPF for 2011/12?

We must receive any responses to Q4 by 1 April 2011

Firms should note that in relation to SII, the term we use in this paper "IMAP SPF" relates to the term "Solvency 2 Special Project fee" in the draft rules in Appendix 2. Also, the term "non-IMAP SPF" used in this paper relates to the term "Solvency 2 Implementation fee" in the draft rules in Appendix 2.

10

Mutuals Public Register – charges under new enhanced service

10.1 In this chapter we set out our proposal to set charges on a new enhanced service to the Mutuals Public Register (MPR).

10.2 This proposal will affect users of the public register services and may also affect those in the F Unauthorised Mutuals[18] (Mutuals) fee-block.

Background

10.3 As the Mutuals registrar, we provide public access to the records accepted from industrial and provident societies, friendly societies, building societies and credit unions. We provide 'search' and 'copy' services, so anyone can obtain information either in person or by requesting photocopies of specific documents. We have enhanced the MPR to allow the online purchase of documents either immediately (when available) or after being scanned. Anyone purchasing documents via the enhanced MPR will benefit from a faster service and will receive the documents in an electronic format.

10.4 While it is not cost-effective to scan all existing archive documents (due to how many there are), from now on we will scan all the main types of new document when we receive them. In addition, existing documents that are specifically requested will also be provided online and will then be added to the list of available documents. Over time, therefore, the library of documents immediately available will grow.

10.5 We plan to switch on the new online functionality in the first quarter of 2011. This will sit alongside our existing distribution channels and charges.

18 An *industrial and provident* society; or a society registered under the Friendly Societies Acts; subject to the registration functions transferred to the FSA in Part XXI of FSMA; BUT NOT otherwise authorised under Part IV of FSMA.

Proposal

10.6 The new online system will provide for two charges on a 'per document' basis:

- **For requests that require documents to be scanned for the first time, a charge of £20 per document.** We expect that these documents will be available within three working days of the payment being made, unless the request is not clear or is particularly complicated.
- **For documents available for immediate download, a charge of £12 per document**

10.7 We will continue to provide services through the existing distribution channels. To deliver the faster turnaround time for requests on the MPR, we will now operate a 20 working day turn-round for requests for copies using the existing paper-based services. This compares with our existing aim to meet 90% of requests within 15 working days.

10.8 The existing copy charges are calculated on a 'per page' basis for documents from the same society file, with a fixed charge of £27 for up to 20 pages, £0.60 for each additional page and a further £5 for postage. We recognise that the new 'per document' charges will mean that some requests may be more expensive. Our analysis shows that around 50% of all requests are for one document only and a further 20% approximately are for two documents.

10.9 The costs (and income) from search and copy are allocated to the F fee-block. When setting the proposed prices, we sought to ensure that costs of the service are covered and also the expected income is broadly in line with that provided by the existing services. The reason for this is that any material under or over recovery is allocated to the F fee-block and would affect the periodic fees in this fee block.

10.10 We will keep these charges under review and will consult again if we believe that any changes are necessary.

Q5: Do you have any comments on the proposed charges for access to public records through the MPR?

We must receive any responses to Q5 by 28 February 2011.

Section III

Funding the Financial Services Compensation Scheme (FSCS) 2011/12

11

FSCS management expenses levy limit 2011/12

(FEES 6 – draft rules Appendix 2)

11.1 In this chapter we consult on the FSCS's management expenses levy limit (MELL) for 2011/12. Management expenses are the non-compensation costs that are incurred or are expected to be incurred by the FSCS in connection with its functions. Management expenses include base costs and specific costs. Base costs are the general costs associated with running the scheme, which are not dependent on the level of claims made on the FSCS. Base costs are levied across all FSA-authorised firms. Specific costs are the costs associated with managing claims received by the scheme due to a firm default. Specific costs are allocated to sub-classes depending on the claims received in relation to the different activities carried out by those sub-classes.

11.2 Under Financial Services Markets Act 2000, we must set a limit on the total to be levied which will allow the FSCS adequate resources to perform its functions efficiently and economically. This represents the maximum that can be levied for management expenses under the FEES rules, although it is not necessarily the amount the FSCS will actually levy in the coming year. The levy limit applies from 1 April 2011, the start of the FSCS's new financial year to 31 March 2012. The draft rule can be found in Appendix 1.

11.3 We only consult on the MELL of the FSCS. The compensation costs levy, the amount levied to pay claims, is determined by the FSCS and is not consulted on. There are limits under the FEES rules on how much can be raised annually to pay for compensation costs levy.

11.4 For further information on the compensation cost levy and a break down of total FSCS levies by sub-class, please see the FSCS Plan and Budget 2011/12. This will be available on the FSCS's website shortly after the publication of this CP: www.fscs.org.uk/industry/publications/industry.

FSCS MELL 2011/12

11.5 The proposed MELL for 2011/12 is £1bn (the same amount as 2010/11 and 2009/10), comprising:

- budgeted management expenses for continuing operations of £37.1m;
- change investment expenses of £21.9m;
- specified deposit-taking default (SDD) expenses, in particular the interest costs on the FSCS borrowing, associated with the five major bank failures in 2008/9, assumed to be incurred in the coming year of £346.9m; and
- a total reserve contingency of £594.1m (which will only be levied if needed, for example, if the interest costs on the SDD loans are greater than forecast).

11.6 To fund the compensation relating to the SDD defaults, the FSCS borrowed from the Bank of England. These loans were refinanced by the Treasury. Interest costs on borrowings by the FSCS are classed as management expense and are a specific cost element of the management expenses, not a base cost. As such, the interest costs are attributable only to the deposit class. Levies to pay for the SDD costs are invoiced by the FSA in July of each year, payable by firms by 1 September. The invoice relates to the levy period preceding each July – for example, invoices sent in July 2011 will be for the costs incurred between 1 April 2010 and 31 March 2011.

11.7 The total of FSCS management expenses is particularly sensitive to the level of interest rates on the SDD loans. The calculation of this part of the levy is forecast based on the loan interest rate as at October 2010 (the interest rate is LIBOR + 30 basis points – which equates to approximately 1.8% at that time). This is consistent with previous forecasting practice. As interest rates are currently at historic lows, and may rise in the future, the level of expense actually incurred could therefore change. To accommodate this uncertainty, the proposed MELL is set at a level that allows for interest rate increases.

11.8 In practice, the FSCS is unlikely to raise more than its budgeted costs, unless there is a specific event or events, which may include a rise in interest costs over the budgeted amount.

11.9 Table 11.1 shows how the MELL we are consulting on breaks down. It should be noted that, in addition to SDD expenses, outsourcing and certain other operational costs are also specific costs and are only levied on the sub-class in which the defaults arose. The smaller quantum of non claim-specific costs will be levied across all sub classes, and includes the costs of change investments.

Table 11.1: Overview of FSCS budget information

FSCS Management Expenses	2011/12 Budget £m	2010/11 Budget £m	Against 2010/11 Budget Inc/(dec) £m	2010/11 Reforecast £m	Against 2010/11 Reforecast Inc/(dec) £m
Continuing operations expenses – excludes outsourcing costs	23.0	22.5	0.5	22.6	0.4
Outsourcing costs	14.1	10.2	3.9	15.3	(1.2)
Total continuing operations costs	**37.1**	**32.7**	**4.4**	**37.9**	**(0.8)**
Change investments	21.9	12.4	9.5	18.5	3.4
Total operations and change programme expenses	**59.0**	**45.1**	**13.9**	**56.4**	**2.6**
Plus Specified deposit default expenses	346.9	305.3	41.6	339.2	7.7
Total scheme management expenses	**405.9**	**350.4**	**55.5**	**395.6**	**10.3**
Reserve contingency within MELL	594.1	649.6	(55.5)		
MELL	**1,000.0**	**1,000.0**	**0.0**		

Continuing operations

11.10 Table 11.2 provides a breakdown of the continuing operations budget for 2010/11, the revised forecast for 2010/11(based on figures to September 2010) and the proposed budget for 2011/12. The table also indicates the increase or decrease in the Budget for 2011/12 against the 2010/11 Budget and 2010/11 Reforecast.

Table 11.2: Synopsis of FSCS budget information for continuing operations 2011/12

FSCS Management Expenses for continuing operations	2011/12 Budget £m	2010/11 Budget £m	Against 2010/11 Budget Inc/(dec) £m	2010/11 Reforecast £m	Against 2010/11 Reforecast Inc/(dec) £m
Employment costs	13.3	12.5	0.8	11.7	1.6
Other staff costs	1.2	1.5	(0.3)	1.6	(0.4)
Outsourcing	14.1	10.2	3.9	15.3	(1.2)
Accommodation	2.2	2.4	(0.2)	2.3	(0.1)
Office Services	0.7	0.5	0.2	0.8	(0.1)
I.T.	2.0	0.8	1.2	1.0	1.0
Professional	2.0	2.4	(0.4)	2.6	(0.6)
Depreciation	1.0	0.9	0.1	0.9	0.1
Press & communication	0.1	0.4	(0.3)	0.4	(0.3)
Other	1.2	1.1	0.1	1.3	(0.1)
Target cost efficiency savings	(0.7)	0.0	(0.7)	0.0	(0.7)
Total continuing operations costs	**37.1**	**32.7**	**4.4**	**37.9**	**(0.8)**

11.11 The figures in Tables 11.1 and 11.2 show that the FSCS continuing operational business costs for 2010/11 are forecast to exceed the budgeted amount for the year by £5.2m.

11.12 Approximately 95% of claims received by FSCS are outsourced. This gives the FSCS flexibility to handle fluctuating numbers of claims. And the FSCS believes that this is the most responsive, cost effective and efficient means of coping with the significant peaks and troughs in its workflow. But it also means that the FSCS' continuing operational budget can fluctuate considerably depending on the number of claims.

11.13 Total new claims volumes for 2010/11 are now projected to be significantly higher than the assumptions made for the initial 2010/11 budget. This is largely due to the Keydata Investment Services Limited and Wills & Co Stockbrokers Limited defaults, plus expected continued growth in PPI claims. Outsourcing costs for 2010/11 have been reforecast at £15.3m, compared with the outsourcing budget for the year of £10.2m.

11.14 The budget for continuing operational business costs in 2011/12 is projected to be £0.8m lower than the 2010/11 reforecast. This is due to lower projected claims volumes and planned efficiency savings. The outsourcing budget is £14.1m, which reflects a projected falling back of investment intermediary claims – however, this is expected to be offset by continued growth in PPI claims.

11.15 As in previous years, there is considerable uncertainty about quantity, timing and type of claims which may rise in the coming year. The FSCS must take account of this uncertainty in its planning for the year. The FSCS assesses the likely upper and lower ranges of projected claims volumes. The planning assumptions represent the FSCS's view of a 'most likely' outcome within this range and are used to estimate the management expenses.
For information on projected claims volumes please refer to the FSCS Plan and Budget.

11.16 As the larger defaults are worked through in 2011/12 – for example, Keydata Investment Services Limited – the FSCS expects the overall volume of new claims received next year to decline from 2010/11 levels. However the FSCS believes that claim numbers may also become much more volatile and less predictable than in previous years, given ongoing uncertainties in the financial climate.

Change investments

11.17 In addition to continuing operations, the FSCS is still undertaking a comprehensive programme of change investments, to transform and strengthen the scheme's structure, processes and operations. Once completed, the investments will improve the FSCS's effectiveness and efficiency. This will ensure the continuing provision of a compensation service that protects consumers and supports financial stability. The FSCS will also be able to deal with greater complexity and volatility of claims. The program includes expenses for mandatory projects resulting from our Banking and Compensation reform work in 2009, including delivery of faster payout and the consumer awareness campaign.[19]

19 PS09/11: *Banking and Compensation Reform* (July 2009).

11.18 The cost of the change investments for 2010/11 is forecast to exceed the budgeted amount by £6m. The increase is mainly due to investments in new systems necessary to deliver the mandatory capability for faster payout for deposit taking firms, required from January 2011, which have proven to be more costly than the FSCS estimated.

11.19 The scheme's change investments in 2011/12 are expected to be £21.9m, the main components of the investments are:

- £5m dedicated to completing a number of projects responding to regulatory change, including faster pay-outs for depositors;
- £8m dedicated to improving IT and MI systems, building on the investments already made for faster payout in deposits;
- £5m earmarked for streamlining operational processes and improving customer responsiveness; and
- £3.5m dedicated to continuing the Consumer Awareness campaign.

11.20 Investments to improve IT and MI systems and to streamline operational processes have resulted from increasing demands being placed on FSCS to handle large amounts of data. The FSCS needs to review and further improve the management of its IT infrastructure and hardware in 2011/12. Improvements and enhancements are also required to IT management and control processes across the scheme. The FSCS also plans to build on investments already made for the faster payout system for deposit claims, in order to improve service standards. The further investments should, in turn, enable the FSCS to halve the response time to three months to handle other claims.

11.21 The FSCS launched its consumer awareness campaign in January 2011 and plans to continue its awareness programme into 2011/12 at a similar level of expenditure. Public awareness and understanding of the FSCS and how it protects consumers' money are important to maintaining consumer confidence in financial services and, in turn, financial stability. The scheme's expectation is that, after 2011/12, the FSCS's spending on awareness will fall as the public is increasingly made aware of the FSCS and the industry takes forward the campaign's key messages.

Contingency reserve

11.22 The contingency reserve allows the FSCS to levy additional funds without further formal consultation. The contingency reserve proposed for 2011/12 is £594.1m. Of this, the majority is to accommodate possible increases in interest rates on the SDD loans. Each 0.5% change in LIBOR affects the loan interest expense by approximately £100m each year. In addition, the contingency reserve gives the FSCS access to sufficient funding to deal with fluctuating claims volumes.

11.23 The reserve contingency level requested is not intended to reflect the specific or known costs of any particular future failures, but is indicative of the costs involved in dealing with large defaults, should they occur, within tight timeframes and given the uncertainties of the financial climate.

11.24 In line with its usual practice, the FSCS will liaise with relevant parties, such as the FSA and trade associations, before raising a levy for its reserve contingency. To the extent that any such levy is for operational and change programme costs over £20m, the FSCS will publish an explanation.

11.25 For more detail on FSCS' operations and proposed levies for 2011/12, please refer to the FSCS 2011/12 Plan and Budget. This will be available on its website shortly after the publication of this CP: www.fscs.org.uk

Q7: Do you have any comments on the proposed 2011/12 FSCS management expenses levy limit figure?

We must receive any responses to Q7 by 28 February 2011.

Fee-payers should note that estimates referred to in this paper are budgeted and reforecast costs for the FSCS, which are expected to be incurred in the respective financial year. The estimates are based on assumptions of claims volumes and amounts. While these are forecast according to the best available information at the time, actual numbers of claims can be volatile and unforeseeable. The actual amount raised by the overall FSCS levy also depends on any amounts carried forward from the previous financial year and the value of recoveries made by the FSCS. The FSCS levy figures in this paper are indicative only and may change significantly when they are finalised in March 2011.

Compensation cost estimates for 2011/12

11.26 The FSCS provides an initial indication of its current estimated compensation figures and their related funding through levies in its 2011/12 Plan and Budget. This will be available on its website shortly after the publication of this CP: www.fscs.org.uk.

11.27 The FSCS will confirm its actual levy requirements in early April 2011.

Section IV

Funding the Financial Ombudsman Service general levy 2011/12

12

Financial Ombudsman Service general levy 2011/12

(FEES 5 Annex 1R – draft rules in Appendix 2)

12.1 In this chapter, we consult on the 2011/12 tariff rates for firms in the compulsory jurisdiction (CJ) of the Financial Ombudsman Service (the ombudsman service). In Annex 4 we set out the proposed tariff rates for firms in each industry block.[20]

12.2 Feedback on proposals consulted on in CP10/24 to extend the levy to firms subject to the second Electronic Money Directive (2EMD) is set out in Chapter 14 of this paper.

12.3 The ombudsman service's overall budget is subject to the ombudsman service's own consultation[21] on its draft budget and corporate plan, which began on 10 January and ends 21 February 2011.

12.4 Under FSMA, the ombudsman service's 2011/12 budget must be set before the financial year begins on 6 April 2011. In March, the ombudsman service's board will present a final budget to the FSA Board and the FSA will be asked to approve the ombudsman's service's total annual budget, including the amount of the general levy, case fees and the number of free cases.

12.5 The FSA board will base its decision on the information it has available to it at the time. This will include updated advice from the ombudsman service on:

- its 2010/11 end of year position and the conclusions from its consultation on its corporate plan and draft budget;

20 The ombudsman service's general levy is calculated using 'industry blocks', which are similar (but not identical) to the FSA 'fee-blocks'. Each industry block has a minimum levy and, in most cases, the levy then increases in proportion to the amount of 'relevant business' (i.e. business done with private individuals) each firm does. The proportion is called 'tariff rate'.

21 The ombudsman service's consultation of its Corporate Plan and draft 2011/12 budget is available at www.financial-ombudsman.org.uk/publications/pb11/cpb-11-12.pdf

- the latest position regarding the legal challenges from the British Bankers' Association (BBA) regarding the approach the ombudsman service takes to complaints about PPI and the FSA; and
- any other evidence that may indicate increased volatility.

12.6 The tariff rates for firms in the ombudsman service's CJ will be approved by the FSA Board in May. This is because we will not have complete data until the end of March 2010 on actual costs for 2010/11 and actual fee block populations, fee income and fee tariff data.

12.7 The ombudsman service's consultation sets out the inherent uncertainty it faces and seeks feedback on its reserves policy. As the ombudsman service's consultation remains open, we have modelled the rates for the CJ to reflect:

- £17.7m – a general levy held at the 2010/11 level (£17.7m), without any addition to increase the level of the ombudsman service's reserves;
- £32.7m – comprising of an additional £15m to the ombudsman service's reserves; and
- £47.7m – comprising of an additional £30m to the ombudsman service's reserves.

12.8 To help illustrate what this may mean for firms, we have set out figures for the three models[22] in Annex 4. The draft instrument at Appendix 2 sets out the effect on fee blocks of each of these rates.

Comments on the ombudsman service budget

12.9 Comments on the ombudsman service's overall budget for 2011/12, including its reserves policy, should be submitted in response to the ombudsman service's consultation – which closes on 21 February 2011.

12.10 This Consultation Paper does not intend to cover the ombudsman service's overall budget, but we have summarised some key issues here as background to our consultation on the tariff rates for the general levy.

12.11 The deadline for any comments on the proposed tariff rates payable by firms under the CJ towards the 2011/12 general levy of the ombudsman service (as described in this chapter) is 11 March 2011.

22 The three figures have been provided for indicative and illustrative purposes only, and do not represent options. The final general levy may be any size within the range of £17.7 million and £47.7 million.

Ombudsman service's budget and funding

Funding structure

12.12 The ombudsman service is required to budget separately for the CJ, the consumer credit jurisdiction (CCJ) and the voluntary jurisdiction (VJ).

12.13 Table 12.1 shows how the ombudsman service's 2011/12 budget is distributed across the jurisdictions.

Table 12.1: Division of the ombudsman service's 2011/12 budget across jurisdictions[23]

	£m			%		
	No reserve	£15m reserve	£30m reserve	No reserve	£15m reserve	£30m reserve
Compulsory jurisdiction (CJ)	113.4	128.4	143.4	97.5	97.9	98
Voluntary jurisdiction (VJ)	1.0	1.0	1.0	0.8	0.7	0.7
Consumer credit jurisdiction (CCJ)	1.8	1.8	1.8	1.7	1.4	1.3
Total	**116.2**	**131.2**	**146.2**	**100**	**100**	**100**

12.14 Each of these three jurisdictions is funded by a combination of annual fees (levies) and case fees – with the majority coming from case fees (which are invoiced and collected once cases have been resolved).[24]

12.15 Case fees are paid by authorised firms (covered by the CJ) and other financial businesses (covered by the CCJ or VJ) that have cases referred to the ombudsman service.

12.16 Since 2008/09, case fees have been charged only for the fourth and any subsequent cases per firm/business per year. The ombudsman service is consulting on proposals to maintain three free cases annually per firm/business and hold the case fee at £500 for the fourth consecutive year.

12.17 The CJ levy (which is raised and collected by the FSA) is payable by all firms authorised or registered by the FSA, including those that have not had any cases referred to the ombudsman service, unless they have notified us that they do not deal with retail customers and are exempt.

23 The ombudsman service has modelled its draft budget for 2011/12 on three different new caseload scenarios. The figures used in the table are based on its 'high caseload' scenario.

24 The FSA's power to raise the general levy from authorised firms arises from section 234 of the Financial Services and Markets Act 2000 (FSMA). The ombudsman service's power to charge case fees is in Schedule 17 paragraph 15 of FSMA. The rules on funding are in Chapters 1, 2 and 5 of the Fees Manual (FEES) in the FSA Handbook.

Budget assumptions

12.18 The ombudsman service is a demand-led organisation. It is required to deal with all eligible cases[25] it receives promptly.[26]

12.19 The volume of its workload is dependent on external factors outside the control of the ombudsman service. The speed at which the ombudsman service is able to progress and close cases is also dependent on external factors; for example, the extent to which firms and consumers cooperate with its investigations or push for final decisions from an ombudsman.

12.20 For the purpose of its 2011/12 budget, the ombudsman service's consultation forecasts new cases of between 137,000 and 193,000, of which between 48,000 to 72,000 may be cases about PPI.

12.21 During 2011/12, the ombudsman service aims to make further improvements to reduce the average and maximum times for the resolution of cases. To achieve this, the ombudsman service plans to close 15,000 more cases than it receives.

12.22 Should the number of cases mirror these ranges, and subject to the volatility issues described below, the ombudsman service believes that its funding needs for 2011/12 can be met without any increase in the basic CJ levy – which has been held at £17.7m since 2009/10. This will involve efficiency savings by the ombudsman service of 10% in 2011/12.

12.23 The ombudsman service's forecast unit cost (total costs, excluding financing, divided by the number of case closures) for 2010/11 is £608. This compares with a budgeted unit cost for 2010/11 of £550 and an actual cost for 2009/10 of £555. The ombudsman service attributes the increased unit cost to an increase in the:

- complexity of cases and the number of cases challenged, increasing demands on customer service;
- number of cases considered by an ombudsman and receiving a final decision – around 14% of cases in 2010/11, compared with 8% in 2008/09; and
- fluctuations in the variety and composition of cases. The ombudsman service budgeted for around 190,000 new cases in 2010/11, compared with a forecast of 180,000. Of these, 24% were anticipated to be about payment protection insurance (PPI), compared with a forecast of 38%.

12.24 As part of its commitment to ensuring efficiency, and as referred to in CP10/5, the ombudsman service is commissioning a value-for-money study by the National Audit Office. This is part of the ombudsman service's regular voluntary reviews of how it delivers its functions and is expected to take place during 2011/12.

25 DISP 2.7.1 R
26 DISP 3.5.1 R

Volatility

12.25 The volatility experienced by the ombudsman service can include sharp fluctuations in case load volumes, as well as unpredictability in what those cases are about. The ombudsman service has seen an increasing volatility in its workload, primarily as a result of mass claims. Of over one million cases received by the ombudsman service in the last ten years, more than half have related to just six topics.

12.26 Cases on PPI are just the latest example of this volatility. By 31 December 2010, the ombudsman service had received close to 60,000 cases on PPI in the current financial year, and new PPI cases were continuing to come in at a rate of more than 2,000 per week.

12.27 Volatility (and its effect on funding) arises from more than the inflow of cases. It is also affected, for example, by the behaviour of firms and by regulatory action, which may lead to more (or fewer) complaints being considered by the ombudsman service. As well as having an impact on the volume of cases, regulatory action may also affect the complexity of cases being considered by the ombudsman service. It may also mean a delay to the case fees received by the ombudsman service, should it decide to put cases on hold temporarily. Regulatory action will in future include the enhanced powers given to the FSA by new section 404 of FSMA.[27]

12.28 If some firms routinely take all cases through to the ombudsman final-decision stage or slow down the progress of cases in other ways, this delays cases being closed, increases costs and postpones the receipt of case fees.

12.29 Further information on the causes and types of case load volatility the ombudsman service expects in its workload in 2011/12 is set out in Chapter 5 of the ombudsman service's consultation on its corporate plan and draft budget.[28]

12.30 In considering its workload for 2011/12, the ombudsman service has analysed a variety of operational scenarios, how they might affect its finances and how this may affect the amount to be raised by the CJ levy. For example, in Chapter 5 of its consultation, the ombudsman service explains that if firms were to suspend cooperation on PPI cases, its loss of income from case fees in just one month could lead to an operating monthly deficit of up to £4m.

12.31 In determining the amount of the CJ levy, a range of relevant information, including the implications of this sort of scenario, will need to be taken into account.

12.32 This is not an exhaustive list of factors. And these factors can happen in combination, affecting absolute costs and/or cashflow. The effect can be increased overheads in the immediate term that may not necessarily be recovered by case fee income at a later time.

12.33 The ombudsman service has looked at a wide range of scenarios that may well occur during the remainder of 2010/11 or during 2011/12. The negative effect of these on reserves would range from £15m to £30m.

27 Inserted by section 14 of the Financial Services Act 2010.
28 www.financial-ombudsman.org.uk/publications/pb11/cpb-11-12.pdf

12.34 This inter-relates with the inherent volatility of funding the majority of the ombudsman service budget through case fees. It normally receives around £1.75m per week of its income in case fees.

12.35 The ombudsman service has set out in further detail in its consultation the number and range of cases it expects to receive during 2011/12 and what impact this may have on its operations.

Reserves for 2011-12

12.36 It is essential for confidence in financial services that the ombudsman service is able to operate effectively and efficiently. This requires funding that can deal with the uncertain risks arising from volatility that cannot be reasonably forecast.

12.37 Any significant interruption in case-fee income – whether or not accompanied by increased overheads as a result of having to respond to more complex cases – can have a considerable effect on the ombudsman service's reserves quite quickly.

12.38 So, for example, reserves set at 5% of the ombudsman service's overall budget would be used up entirely (through non-receipt of case fees) if 25% of cases could not be progressed for around three months.

12.39 Against that background – and as discussed in the ombudsman service's consultation – the audit committee and board of the ombudsman service have concluded that for 2011/12 it is likely to need a significant increase to the previous level of reserves.

12.40 The board of the ombudsman service, conscious of its Companies Act responsibilities, concluded that it would present an unacceptable level of risk to depend mainly on the availability of overdraft facilities alone.

12.41 The ombudsman service board will propose the amount of reserves to the FSA board in March 2011, when the position (including that of ombudsman service reserves at its 31 March year end) may be a little clearer.

12.42 The FSA board will be asked to agree that any increase in reserves should be funded through the levy for the CJ. We believe this is fair as it is from this jurisdiction that case volatility arises.

12.43 The ombudsman service's board did not consider it appropriate to fund any increase in reserves by making changes to case fees, including increasing case fees, in view of the inherent volatility of that source of income.

12.44 We set out below our proposals for how industry blocks will be levied for the proposed 2011/12 reserve.

Governance

12.45 In seeking the approval of its budget from our board, the board of the ombudsman service will explain the mechanism that it intends to put in place (and to publish) to ensure transparent governance of its reserves.

12.46 This mechanism will ensure that releasing funds from the reserve to the operations budget is controlled by the ombudsman service non-executive board and is not used to deal with 'business-as-usual' issues nor to mask any shortfall in efficiency.

12.47 The ombudsman service will, as part of its usual reporting on its budget and business in its annual review, also set out how it is operating the reserve.

Reserves in future years

12.48 The ombudsman service is consulting on its reserves policy, including what an appropriate level of reserves might be and how this might be funded.

12.49 The board of the ombudsman service intends to review its reserves each year, in light of advice from its audit committee on the implications of current circumstances and what the following year is likely to have in store.

12.50 That may lead to a proposed decrease or increase in the amount reserved in future years – which would result in a decrease or increase in the overall funding required by the ombudsman service for the relevant year.

12.51 How any change in the funding requirement would affect the levy and case fee (and the appropriate split between levy and case fee) – and so where any benefit or burden would fall – would be the subject of public consultation in the usual way.

12.52 A proposed decrease or increase in the amount payable by firms in each fee block towards the CJ levy, would also be the subject of public consultation in the usual way.

12.53 We will work with the ombudsman service to consider its reserves policy beyond 2011/12.

CJ levy for 2011/12

Apportionment among fee blocks

12.54 The focus of this consultation is the proposed amounts payable towards the 2011/12 CJ levy by firms in the various fee blocks. Table 12.3 shows the proportions in which the CJ levy would be distributed across the fee blocks.

12.55 In line with FEES 5.3.3 G, this is based on the ombudsman service's forecasts for the proportion of resources it expects to devote in 2011/12 to cases from firms in each sector.[29]

29 FEES 5.3.3 G. The general levy for the ombudsman service is payable across industry blocks. The amount raised from each industry block is based on the budgeted costs and numbers of ombudsman service staff required to deal with the volume of complaints expected about the firms in respect of their relevant business activity in each of those blocks. (Fees Manual: Fees 5)

Table 12.3: Distribution of CJ levy based on the 2011/12 forecast of relevant business per industry block

Industry block		Proportion of total CJ levy (%)
I001	Deposit acceptors, home finance lenders and administrators	39.1%
I002	Insurers – General	12.3%
I003	The Society of Lloyds	0.1%
I004	Insurers – Life	4.2%
I005	Fund managers	1.0%
I006	Operators, Trustees and Depositaries of collective investment schemes	0.1%
I007	Dealers as principal	0.1%
I008	Advisory arrangers, dealers or brokers (holding client money)	2.1%
I009	Advisory only firms and arrangers, dealers, or brokers (not holding client money)	2.1%
I010	Corporate finance advisors	0.1%
I013	Cash plan health providers	0.0%
I014	Credit unions	0.1%
I015	Friendly societies	0.0%
I016	Home finance lenders, advisers and arrangers	1.5%
I0017	General insurance mediation	36.8%
IA11	Authorised Payment Institutions	0.1%
IS11	Small Payment Institutions & Small e-money issuers	0.2%

12.56 For the basic element of the levy, where there is no increase in reserves, the total levy remains the same – but the amounts payable by each block vary to reflect changes in the proportions of cases from each block.

12.57 For most blocks, the proportions for 2011/12 are broadly similar to those for 2010/11.

12.58 But there are significant decreases in block 4 (life assurers), blocks 8 and 9 (investment advisers) and block 16 (mortgage intermediaries) – and so for those firms that pay on the basis of a tariff rate. This reflects a reduction in the proportion of cases arising from those blocks.

12.59 There is a significant increase in the tariff rate in block 17 (insurance intermediaries) to reflect an increase from 21.0% to 36.8% in the proportion of the ombudsman service's resources devoted to cases about insurance mediation. This reflects a continuing increase in the number of PPI cases.

12.60 As we set out in Chapter 14 of this paper, we intend to establish a new industry block called '18 – electronic money issuers', which will cover all electronic money issuers within the CJ of the ombudsman service. Our intention is that electronic money issuers (except for small electronic money institutions) should have a tariff base based on average outstanding electronic money, as defined in Article 2(4) of 2EMD.

12.61 However, tariff data relating to the amount of average outstanding electronic money institutions is not currently available. Therefore, we propose for 2011/12 only, that electronic money institutions should pay a flat fee of £75 to £200 dependant on the amount of the levy. Electronic money issuers that wish to provide unrelated payment services will be in both block 11 and 18.

Apportionment of the reserve across industry blocks

12.62 We considered whether it was appropriate to depart from the formula in FEES 5.3.3 G for any part of the CJ levy that reflects an increase in the ombudsman service's reserves to cope with volatility risks. We looked at a number of alternative options:

- **Apportioning contributions to the reserve based on tariff data over a longer period – for example, three or five years.** Although the allocation for the reserve would be based predominantly on historic tariff data, it would be based on current fee blocks.

  The benefits of considering a longer period include the ability to better reflect past case volatility. However, while historical contributions can be a useful guide, we recognise that this reflects past activity that has already been addressed (and levied for) and does not necessarily reflect future activity. Also, it is not clear what the optimal period should be. For example, the amounts payable by banks in block 1 would be just 4.6% lower on a five-year basis, however they would be 17.1% higher on a three-year basis.

- **Apportioning contributions to the reserve solely on the blocks most likely to generate the cases that will require the reserve.**

  This approach would link costs more directly to those industry blocks which may give rise to significant case uncertainty. While this (in theory) ensures only those blocks responsible are levied, uncertainty about where future volatility may arise makes it difficult to operate this model as a general reserve.

- **Raising the reserve incrementally, over a longer period of time, rather than in a single collection.**

  This approach would allow the ombudsman service to raise its reserves to deal with volatility, but only over the long-term. This has the potential advantage of creating a reserve that reflects those fee blocks that generate most volatility. But the past does not necessarily reflect future activity. In light of the immediate need for a reserve and the uncertainty about its size, we do not consider this approach to be appropriate

12.63 These alternatives would also introduce unhelpful extra complexity and would not deal with the position – inherent in the nature of fee blocks – that the behaviour of some firms can affect the amount paid by other firms undertaking the same activity.

12.64 We believe that applying the current approach to the whole of the CJ levy is the best option for achieving the objectives of the reserve and mitigating unintended consequences – as well as being the simplest and clearest.

12.65 It also ensures that any reserve is spread across business activities, enabling it to be called on in response to case volatility arising from activities in any industry block.

Apportionment of the CJ levy within fee blocks

12.66 Annex 5 sets out the proposed allocation of the CJ levy for 2011/12 within each industry block – for a levy of £17.7m (no general reserve), £32.7m (a reserve of £15m) and £47.7m (a reserve of £30m). The rates for 2010/11 are also included for comparison.

12.67 There is a minimum levy in each industry block, and in most cases the levy then increases in proportion to the amount of 'relevant business' (i.e. business done with private individuals) each firm does.

12.68 For 2011/12, it is estimated that 81.7% of firms will only pay the minimum levy for their block.

12.69 Individual firms can calculate the impact on them of the proposed fees and levies using our online fees calculator.[30]

12.70 The general levy tariff rates will be finalised in June 2011 for the 2011/12 fee period.

12.71 Case fees are set by the ombudsman service and approved by the FSA, following approval of the ombudsman service's 2011/12 budget by the FSA board in March 2011. The fees will come into force on 1 April 2011.

Overall position

12.72 Table 12.3 summarises how the bottom, middle and top scenarios for 2011/12 compare with the ombudsman service's funding for 2010/11.

Table 12.3: Comparison of ombudsman service funding in 2010/11 and 2011/12

	Proposals for 2011/12[31]			2010/11 Forecast	2010/11 Budget
Budgeted expenditure	£112.6m			£109.4m	£115.5m
Budgeted income	£116.2m	£131.2m	£146.2	£101.4m	£113.7m
Addition to reserves	£0	£15m	£30m	-	-
CJ levy	£17.7m	£32.7m	£47.7m	£17.9m	£17.7m
CCJ and VJ levy	£2.8m			£2.6m	£1.8m
Case fees	£95.7m			£81.2m	£94.5m

30 www.fsa.gov.uk/pages/Doing/Regulated/Fees/calculator/index.shtml
31 The ombudsman service has modelled their draft budget for 2011/12 on three different new caseload scenarios. The figures used in the table are based on its 'high caseload' scenario.

	Proposals for 2011/12[31]			2010/11 Forecast	2010/11 Budget
General levy/case fee split	16:84	25:75	33:67	18:82	16:84
Case Fees	£500			£500	£500
Estimated case closures	208,000			180,000	210,000
Unit cost	£541			£608	£550
Free cases	3			3	3

12.73 As in previous years, it is proposed that the 2011/12 budget should continue to be predominantly made up from case fees. This means that firms generating complaints will pay a significantly greater proportion of the ombudsman service's costs than firms that generate few or no complaints.

Q8: Do you have any comments on the proposed method of calculating the tariff rates for firms in each fee block towards the CJ levy (which this year includes the proposed reserve) and our proposals for how the overall CJ levy should be apportioned?

We must receive any responses to Q8 by 11 March 2011.

Fee payers should be aware that the final tariff rates for 2011/12 will be finalised by our board at its May 2011 meeting. Therefore the final levy rates could vary from that set out in this paper.

Section V

Funding the Consumer Financial Education Body 2011/12

13

Consumer Financial Education Body levies 2011/12

(FEES 7 – draft rules in Appendix 2)

13.1 In this chapter, we consult on the proposed Consumer Financial Education Body (CFEB)[32] 2011/12 levy and provide feedback on proposals consulted on in CP10/24 to extend the levy to payment services institutions (PIs). Feedback on proposals consulted on in CP10/24 to extend the levy to firms subject to the second Electronic Money Directive (2EMD) is set out in Chapter 14 of this paper.

CFEB funding and budget

13.2 The Financial Services Act 2010 (the Act) required us to establish a new Consumer Financial Education Body (CFEB) to enhance:

- the understanding and knowledge of members of the public of financial matters (including the UK financial system); and
- the ability of members of the public to manage their own financial affairs.

13.3 The Act received Royal Assent on 8 April 2010 and CFEB has been operating as an independent body since 26 April 2010.

13.4 CFEB's remit replaces our public awareness objective under the Financial Services and Markets Act 2000 (FSMA), which required us to promote public awareness of financial services. This had been delivered through the FSA's National Strategy for Financial Capability and Money Guidance and by working in partnership with the government, industry and the third sector.

32 CFEB is due to be rebranded as the Money Advice Service in Q2 2011

13.5 The total budget for CFEB in 2010/11 was £32.9m, all of which came from FSMA authorised firms through the levy. This included delivering the final year of the Delivering Change strategy, setting up the money advice service, including a financial healthcheck, working towards developing its long-term strategy, and achieving operational independence from the FSA.

13.6 The total budget for CFEB in 2011/12 is £43.7m. The budget includes investment in the money advice service delivery, including the financial healthcheck and face-to-face service, as well as costs for operation, staff, IT investment and premises.

Table 13.1: Breakdown of CFEB expenditure for 2011/12

Activity	Cost (£)
Staff and associated costs	12,544,000
Core operational and change costs	4,136,000
FSA/CFEB IT Transition costs	750,000
Non-digital delivery (including face to face, telephone and print)	11,361,000
Web, digital development and delivery	3,394,000
Financial Healthcheck development and delivery	2,145,000
All other product and service development	1,796,000
Research and Evaluation	2,300,000
Monitoring and Information	725,000
Communications and Marketing	4,585,000
Total	**£43,736,000**

13.7 CFEB's functions include promoting awareness of the benefits of financial planning, and the benefits and risks associated with different kinds of financial activity. CFEB will continue to provide information and advice to members of the public.

13.8 CFEB already works in a variety of ways with public, private and third sector partners, and it intends to bring this work together in a more strategic way. In particular it will be developing a model for sharing knowledge and good practice with levy payers and other key stakeholders to influence public and regulatory policy and industry practice.

13.9 It recognises the need to generate worthwhile outcomes and to demonstrate value for money. This will mean developing impact metrics that, for example, measure the changes in behaviour of the people that encounter its products and services when compared to the population at large.

13.10 During the course of the year, CFEB will:

- Launch a universal, multi channelled, free, unbiased money advice service, including a financial health check.
- Review its products, services and delivery channels to maximise their reach and impact to ensure value for money.

- Develop further tailored products and services for people at key life stages and events, focusing in particular on digital offerings.
- Achieve full operational independence from the FSA.
- Establish a robust measurement suite to monitor and guide its progress.

13.11 The money advice service will be the UK's first free and impartial national money advice service, and will provide advice on all areas of personal finance. It will operate online, face-to-face and over the telephone. A key component of the service is an online financial health check, which will provide people with an interactive review of their finances and the actions they need to take to understand and manage their money.

13.12 The service will fill the gap between financial information and regulated advice by providing generic money advice, which will include generic product recommendations. This means it will not recommend specific providers, nor will it give regulated advice – however, it will advise people on how to manage their money and the actions they should take. This will form part of a personalised action plan that will be taken away from an advice session.

13.13 This action plan will include specific actions, such as drawing up a budget using calculators and online tools or taking out a generic financial product, such as life insurance. In other instances, it will refer people towards further advice, such as debt advice, or regulated advice where appropriate. The plan will equip people with the information they need, and the key things to think about, so they can take effective action.

13.14 A key part of the money advice service is to articulate clearly what regulated advice services exist, what the different types of advisers are, and how consumers can access them. Where CFEB have identified that a user of the service would benefit from regulated advice they will refer them on appropriately.

13.15 The money advice service aims to equip people with the knowledge, skills and confidence to make appropriate financial choices and engage effectively with the financial services industry. CFEB's work will therefore bring clear benefits, not only to consumers, but also to the financial services industry.

Allocation and recovery of CFEB funding

13.16 CFEB's 2011/12 funding will come entirely from levies raised from FSMA-authorised firms, PIs and firms subject to the 2EMD. Overall this will come through an allocation and recovery framework that:

- mirrors the allocation of CFEB funding to the fee-block structure used to allocate our annual funding requirement (AFR) in 2010/11; and
- recovers those allocations from the firms that have permission to undertake the regulated activities covered by the relevant fee-blocks, based on the size of the business undertaken, using the tariff data (which is the unit of measure for the size of business undertaken) used to calculate FSA periodic fees. This is subject to a fixed £10 minimum levy.

13.17 As stated in CP10/24, we will retain this 2010/11 framework for 2011/12. CFEB has existed as an independent body for less than a year, and is not yet in a position to review the levy structure and propose an alternative. In the future, we will work with CFEB to propose a levy structure that remains simple to collect, but more closely matches its own strategy and business activities.

13.18 The proposed allocation of £43.7m CFEB funding requirement to the FSA fee-block structure for 2011/12 is set out in Table 13.2.

Table 13.2: Proposed allocation of CFEB 2011/12 budget to fee-blocks, compared to actual allocation for 2010/11

Fee-blocks	Proposed allocation 2011/12 (£m)	Actual allocation 2010/11 (£m)	% year-on-year change
A.0 Minium fee(i)	0.2	0.2	0%
A.1 Deposit acceptors	13.9	10.5	33%
A.2 Home finance providers and administrators	1.0	0.8	33%
A.3 Insurers – General	3.3	2.5	33%
A.4 Insurers – Life	5.2	3.9	33%
A.5 Managing Agents at Lloyds	0.1	0.1	33%
A.6 The Society of Lloyd's	0.2	0.1	33%
A.7 Fund managers	3.3	2.5	33%
A.9 Operators, Trustees and Depositaries of collective investment schemes	0.6	0.5	33%
A.10 Firms dealing as principal in investments	3.0	2.3	33%
A.12 Advisory arrangers, dealers or brokers (holding client money)	2.8	2.1	33%
A.13 Advisory only firms and advisory, arrangers, dealers, or brokers (not holding client money)	4.3	3.2	33%
A.14 Corporate finance advisors	0.8	0.6	33%
A.18 Home finance providers, advisers and arrangers	1.5	1.2	33%
A.19 General insurance mediation	3.3	2.5	33%
TOTAL(ii)	**43.6**	**32.9**	**33%**

Notes:

(i) We are proposing to maintain the minimum fee at £10 so have maintained the 2011/12 allocation to this fee-block as that allocated in 2010/11.

(ii) The difference between the total CFEB funding requirement of £43.7m in Table 13.1 and the £43.6m in this table relates to the £0.1m to be recovered from PIs and 2EMD firms.

13.19 The year-on-year increases in the CFEB allocations will be reflected in the levy rates set out in the draft instrument in Appendix 2. The fees calculator – which is available on our website to help firms calculate the impact of the fees and levy proposals in this CP – also covers the CFEB levy, as well as FSA fees and the FSCS and ombudsman service levies.

> **Q8:** Do you have any comments on the proposed 2011/12 CFEB levy rates?
>
> **We must receive any responses to Q8 by 1 April 2011.**

In Chapter 6 we explain how, in setting draft FSA fee rates for consultation, we estimate the data required for the number of fee-payers in each fee-block and the amount of tariff data (unit of measure of size). We highlight that, in setting the final fee rates in May 2011, we use updated data and therefore final fee rates can materially vary from those set out in this paper. As CFEB levies are calculated based on the same data, the final CFEB levies set in May can also materially vary from those set out in this paper.

Feedback on proposals to apply CFEB levy to PIs

13.20 In CP10/24, we proposed to extend the CFEB levy to PIs from 2010/11. PIs had not been included in our original consultation on the CFEB levy because they were added to the scope of the Act after we published our proposals in February 2010.

13.21 In future, whenever firms are brought within our remit, but outside FSMA – most commonly under EU directives – we will take a view at the time about whether they should be liable for the CFEB levy and ensure that the appropriate provisions are included in the regulations or other instrument implementing the new regime. This is how we have handled 2EMD, as discussed in Chapter 14.

13.22 Our current proposals are limited to the non-FSMA authorised PIs in fee-blocks G.3 and G.4 because:

- firms authorised under FSMA are already paying the CFEB levy in their original 'A' fee-blocks, so should not be double-charged – this affects all firms in fee-block G.2 and some in G.3; and
- the regulations exempt the Bank of England, government departments and local authorities from the levy.

13.23 The same exceptions apply to our proposals for extending the CFEB levy to firms that are subject to 2EMD (see Chapter 14).

13.24 The CFEB levy is applied to authorised firms by distributing the costs between fee-blocks A.0 to A.19 in line with their contribution to our total 2010/11 AFR, with a minimum charge of £10. In setting the rates for 2011/12, we have applied the same framework for distributing the CFEB levy between PIs, including the minimum of £10.

13.25 The question on which we consulted was:

> ***Q13:*** *Do you agree with the funding framework we are proposing for payment institutions contributing towards the CFEB levy?*

Responses

We received two responses, one agreeing with the proposal, the other arguing that there was an imbalance between the small flat fee levied on small firms and the variable fees levied against larger firms. This respondent suggested charging all firms a variable rate, and only applying the flat fee when it fell below a set figure.

Our feedback

We expect the level of the fee to be one of the matters considered as part of the wider review of the CFEB levy structure, which we said in CP10/24 we and CFEB would carry out in the future.

In our view, levying a flat minimum fee from small PIs in fee-block G.4 is transparent and simpler to administer than applying a variable rate to relatively small transaction values. We are proceeding with our original proposals, although we realise that they may change once we and CFEB have reviewed the wider levy structure.

Section VI

Feedback on policy proposals in CP10/24

14

Second Electronic Money Directive (2EMD) – new regulatory regime (Chapter 2 CP10/24)

(FEES 4 Annex 11 – draft rules in CP10/24 Appendix 3, to be implemented May 2011)

(Fees 5 Annex 1 – draft rules in CP10/24 Appendix 3, to be implemented May 2011)

14.1 This chapter presents feedback on our proposals for annual periodic fees to implement the second Electronic Money Directive (2EMD) that we set out in our October 2010 CP (CP10/24, Chapter 2). This was a joint consultation with the Financial Ombudsman Service (the ombudsman service) and included the levy for the Consumer Financial Education Body (CFEB). The Financial Services Compensation Scheme (FSCS) levy will not apply to electronic money issuers because they are not members of the scheme. We also consulted on the split of fees between electronic money (e-money) and payment services activities. Our proposals on the rates to be charged are set out in Chapter 8 of this CP.

14.2 2EMD establishes a few new conduct requirements for all electronic money issuers and new authorisation and prudential standards for electronic money institutions (EMIs). 2EMD has to be fully implemented in the UK by 30 April 2011, The Electronic Money Regulations 2011 (the EMRs) were laid before Parliament on 19 January and we plan to publish changes to the Handbook and the Policy Statement (PS) in February 2011. The PS will include feedback on the consultation responses on application fees as well as feedback on CP10/25.[33]

33 CP10/25, *Implementation of the second Electronic Money Directive.*

14.3 In this CP, we provide feedback on our proposed framework for charging fees and at the same time we consult on our proposed fee rates for 2011/12. The fees will be finalised through our consolidated fees PS, which we will publish in May 2011. Invoices will be issued from June 2011.

Electronic money issuers

14.4 The EMRs define 'electronic money issuers' as any of the following persons when they issue e-money:

- authorised electronic money institutions (authorised EMIs);
- small electronic money institutions (small EMIs);
- EEA authorised electronic money institutions;
- credit institutions;
- the Post Office Limited;
- the Bank of England, the European Central Bank and the national central banks of EEA States other than the United Kingdom, when not acting in their capacity as a monetary authority or other public authority;
- government departments and local authorities when acting in their capacity as public authorities;
- credit unions;
- municipal banks; and
- the National Savings Bank.

14.5 Of the bodies defined as electronic money issuers, the following do not require authorisation or registration to issue e-money: the Post Office Limited; the Bank of England; government departments and local authorities, credit unions, municipal banks and the National Savings Bank.

Periodic fees

14.6 All electronic money issuers will be placed in the new fee-blocks G.10 or G.11 and charged annual periodic fees to recover our costs of supervision and the set-up costs of establishing the processes to support the new regime. Since the new regime comes into force from 1 May 2011, we will start to levy fees in the 2011/12 financial year.

Small EMIs

14.7 We will allocate these bodies to fee-block G.11, where they will be charged a flat fee of £1,000.

Existing small e-money issuers

14.8 Bodies that have been certified to issue e-money before 30 April 2011 (small e-money issuers) are currently in fee-block G.4, where they pay the £400 minimum fee charged to payment institutions (PIs). They will be moved to fee-block G.11 after 30 April 2011 and, if successfully registered or authorised, will either remain in G.11 or move on to G.10 as appropriate. Since the EMRs give small e-money issuers a year (until 30 April 2012) to transition to the new regime, they will remain on the current rate of £400 for the whole of 2011/12. They will be charged the full rate for G.10 or G.11 from 2012/13. Moving to the full rate immediately after registration or authorisation might otherwise have acted as a disincentive to early application.

Authorised EMIs and credit institutions that issue e-money

14.9 We will allocate these bodies to fee-block G.10. They will be charged a variable rate fee, which is explained in more detail below. This group will include businesses that could have chosen to be registered as small EMIs because they fall below the €5m threshold, but have decided to become authorised so that they can passport out of the UK into other EEA states.

Electronic money issuers that do not need authorisation or registration to issue e-money

14.10 We propose to place these electronic money issuers into the fee block that best reflects their average outstanding e-money. Those with average outstanding e-money of less than €5m will be placed in fee-block G.11 and those with a higher average outstanding e-money will be placed in fee block G.10. We proposed in our wider consultation on 2EMD (CP10/25) that these bodies should provide us with their average outstanding e-money on a half-yearly basis if they begin to issue e-money. We can use this information to allocate them to a fee block to calculate their fees.

Tariff base

14.11 We base our variable fees on a common metric, known as a tariff base, which best represents the size of the business a firm undertakes in that particular fee-block. We use the size of the business as a guide to the impact on our statutory objectives should that business fail. We propose to base the tariff on average outstanding e-money, as defined in Article 2(4) of 2EMD, because we are confident firms will already have the data to hand.

14.12 Businesses applying for authorisation or registration will have to estimate their average outstanding e-money in their business case and authorised EMIs and small EMIs will have to provide their average outstanding e-money in the reporting returns on capital requirements.

14.13 The survey referred to in paragraph 14.14 confirmed that credit institutions have this information available and we will write to each credit institution that issues e-money to request the information at the appropriate time of each year.

14.14 The definition in 2EMD is:

> '**Average outstanding electronic money:** average total amount of financial liabilities related to electronic money in issue at the end of each calendar day over the preceding six calendar months, calculated on the first calendar day of each calendar month and applied for that calendar month.'

While preparing our October CP, we wrote to authorised electronic money institutions (known as ELMIs) and credit institutions that issue e-money, inviting them to supply information on this basis for the six months ending 31 July 2010. This was partly to confirm that the data was available and partly to help us set tariff bands based on size of firm. We received a good response, confirming that they could supply the information. We informed the firms that we would write to them again, seeking the same information for the six months ending 31 December 2010 as a more up-to-date basis for calculating the fees for 2011/12.

14.15 We propose to use average outstanding e-money, as defined in 2EMD, as the tariff base for fees for the G.10 fee-block in 2011/12.

14.16 The questions on which we consulted were:

Q2: Do you agree that small electronic money institutions and exempted electronic money issuers with an average outstanding electronic money of less than £5m should be in a separate fee block, G.11, and pay a flat fee of £1,000?

Q3: Do you agree that we should use the definition of average outstanding electronic money in 2EMD as the tariff base for periodic fees for the electronic money issuers in fee-block G.10 in 2011/12, using the figure supplied on application or notification and the figure for the six months ending 31 December 2010 for firms that are already authorised?

Responses

We received two responses on Q2. One respondent argued that the flat fee, for small PIs as well as small EMIs, penalised larger firms, who were subsidising the costs of regulating smaller ones. It could also discourage growth. Instead, all PIs and EMIs should pay a flat fee, with additional costs levied annually on the basis of their actual costs of regulation.

The other respondent considered that the flat fee of £1,000 was inconsistent compared to the £400 fee paid by small PIs and did not represent value for money in terms of the supervisory oversight they would actually receive.

We received only one response on Q3, describing our proposed tariff base for 2011/12 as reasonable.

Our feedback

We believe that £1,000 is a fair estimate of the average cost of supervising small EMIs. A flat rate seems to us to be the simplest and most straightforward method of assessing the fees liable from smaller firms. Combining flat fees for all EMIs with a top-up reflecting the actual costs of regulation might appear more equitable in principle, but in practice would be complex and expensive to administer, so we do not propose to change our methodology.

Since there were no objections to the tariff base, we are proceeding as proposed.

14.17 If we retain average outstanding e-money as the tariff base in the future, we will continue to apply it to the six months ending 31 December before the relevant fee-year. However, we are aware that there are different opinions on the suitability of average outstanding e-money as a long-term measure of impact risk. When we wrote to authorised firms, we also asked them for their informal views on whether they believed we should be considering alternative metrics, such as the number of e-money accounts.

14.18 We received one suggestion – that e-money turnover might be a better measure, since outstanding liabilities would include dormant accounts that do not generate any business activity. The same objection would apply to the total number of e-money accounts. We understand that firms may not be able to distinguish between dormant and active accounts. We accordingly invited views from other firms on the most appropriate measures of impact risk, and whether any of them raise particular definitional issues that we should be aware of to ensure consistent reporting.

14.19 The question on which we consulted was:

Q4: Do you think we should retain average outstanding electronic money for the six months ending 31 December before the relevant fee-year as the tariff base for fee-block G.11? Or, do you think we should consider alternative measures as better indicators of impact risk and, if so, what should they be?

Responses

The single comment we received suggested two potential difficulties with this measure in the long-term:

- average outstanding e-money might include dormant accounts, which could distort the impact risk; and
- an average over six months might be distorted by seasonal trading patterns, such as higher demand over Christmas.

Our suggestion of turnover as a possible alternative would need further clarification, since it could relate to the e-money issued or redeemed in the relevant year, or both.

Our feedback

The respondent has posed some helpful and relevant practical questions. We will investigate the options further in discussion with the industry and set out our conclusions for consultation in our October 2011 fees CP.

Tariff bands

14.20 One of our objectives in asking existing ELMIs and credit institutions issuing e-money for preliminary data was to get a sense of the range of e-money liabilities held by them so that we could decide what the appropriate tariff bands might be.

14.21 Some authorised EMIs in fee-block G.10 may fall below the threshold for small EMIs because they applied for full authorisation so that they could passport out of the UK. Since our regulatory engagement with them is likely to be greater than with similar-sized firms in fee-block G.11, we propose to charge a flat fee of £1,500 per year for the first £5m of e-money liabilities.

14.22 For e-money liabilities beyond £5m, we are proposing a variable rate of £150 per £m or part-£m as set out in Table 8.11 in Chapter 8.

14.23 As with the fees for authorised firms in the 'A' fee-blocks and for PIs, our costs allocated to the new fee-blocks will be recovered, above the minimum fee, in line with the tariff data that each firm reports – straight-line recovery. This means that the periodic fee rates will be the same for each of the tariff bands. The tariff bands represent our moderation framework, which allows our straight-line recovery policy to accommodate a targeted recovery of costs within a fee-block, on an exceptions basis, if it can be justified. This moderation can be either side of the straight-line recovery and is achieved by applying a premium or discount to tariff data measures. Currently we only apply moderation (a premium) to certain bands in fee-block A.1 (deposit acceptors). We do not propose to apply any moderation to the new fee-blocks and, if we were to do so in the future, we would consult on it.

14.24 The question on which we consulted was:

Q5: Do you agree with our proposed tariff-bands for electronic money issuers in G.10?

Responses

We received one response, arguing that we were proposing an unjustifiably large increase in fee rates, which did not reflect the supervisory resources we would be putting into the electronic money issuers. The respondent could not support such high fees unless we restored relationship management for authorised EMIs and referred us to arguments they had put forward in response to our proposals on reporting returns for authorised EMIs in CP10/25.

Our feedback

Our proposed fee rates reflect the supervisory resources we anticipate committing to electronic money issuers under the n regime. We will provide feedback on the comments received in response to CP10/25 in our Policy Statement to be published soon.

Discount for inward-passporting EEA authorised electronic money institutions and credit institutions that issue electronic money

14.25 We propose to use the same tariff base for inward-passporting EEA-authorised e-money institutions and credit institutions that issue electronic money as for the UK equivalent, with a percentage discount on periodic fees. This is the model we apply for other fee-blocks, as supervisory responsibilities are split between the home and host states. In this case, we are supervising conduct of business (COB), but will not be responsible for regulating prudential requirements and monitoring compliance with authorisation conditions. We believe that our

COB responsibilities are comparable to those we undertake for payment services institutions, and so we propose to apply the same discount of 40% as an allowance for the prudential supervision we are not undertaking.

14.26 The question on which we consulted was:

> **Q6:** *Do you agree with our proposal to offer a discount of 40% on the variable periodic fees charged to inward-passporting EEA-authorised electronic money institutions and credit institutions that issue electronic money in fee-block G.10?*

Responses

We received one response, agreeing that our proposals were reasonable since they are consistent with our wider fees policy.

Our feedback

We are proceeding as proposed.

Applications part-way through a financial year

14.27 When a firm becomes newly authorised during a fee-period, we apply a discount to reflect how much of the financial year remains. We will apply the same model to electronic money issuers, as set out in Table 14.1. Please note that, as indicated in the table, there will be no discount on the fees for 2011/2012 for EMIs brought into the new regime when it comes into force in May 2011.

Table 14.1: Proportion of full-year periodic fee payable for firms registered or authorised during the financial year

Quarter in which firm is registered or authorised	Proportion of full-year fee payable
1 April to 30 June inclusive	100%
1 July to 30 September inclusive	75%
1 October to 31 December inclusive	50%
1 January to 31 March inclusive	25%

Financial penalties

14.28 We will be empowered under the EMRs to impose financial penalties in certain circumstances.

14.29 Where a financial penalty is received, we will apply it firstly to meet the enforcement costs of the case. Any remaining penalty will be applied to reduce the fees of other electronic money issuers in proportion to their contributions in the year the penalty is distributed.

Providing payment services

14.30 Electronic money issuers will automatically receive permission for all payment services related to the issuing e-money, but will only pay fees in fee-block G.10 or G.11 as EMIs. They will not be charged additionally as PIs or small PIs.

14.31 If they wish to offer additional payment services that are not directly related to their electronic money business model (unrelated payment services), they need to notify us. We will not charge them an application fee, but they will be subject to periodic fees as a PI or small PI and be put into fee-block G.3 or G.4 as appropriate. This will be in addition to their fees in fee-block G.10 or G.11. Similarly, we may consider that an applicant for authorisation or registration as an e-money issuer, or a firm notifying us of their intention to issue e-money, proposes to offer payment services that fall outside its e-money business model. In that case, we will put it into both G.10 or G.11 for issuing e-money and into G.3 or G.4 for their payment services.

14.32 If a firm that is already a PI or small PI applies to become an EMI, it will pay the appropriate application fee and give up its authorisation as a PI or registration as a small PI. If all its payment services are directly related to its e-money business model, it will move out of its PI fee-block and into G.10 or G.11 as appropriate. If the transfer takes place during the financial year, we will apply the policy we have in place for all other variations of permission, charging the full year's fee for payment services and an additional fee for e-money activities for the remainder of the year, rounded up to the nearest quarter. From the following year, the firm will pay the e-money fees only.

14.33 The question on which we consulted was:

> *Q7: Do you agree with our proposals for charging additional fees to authorised electronic money institutions and small electronic money institutions that offer payment services that are not integral to the issuance of electronic money?*

Responses

We received two comments on this question. One agreed that, if there was increased supervision, then additional fees would be appropriate.

The other asked for clarification of the distinction between payment services that are 'integral' to the issuance of e-money and those which are not integral. They suggested it might be clearer to differentiate between payment services made using e-money (including issuance and redemption of value) and other payment services.

Our feedback

Since we received no objections to the principle of charging additional fees for unrelated payment services, we will proceed as proposed. The terminology used to refer to unrelated payment services will be addressed in our forthcoming Policy Statement, which will provide feedback on responses to CP10/25.

Consumer Financial Education Body (CFEB)

14.34 All electronic money issuers paying FSA fees will also be required to contribute towards the costs of CFEB unless they fall into the following two categories:

- firms authorised under FSMA will already be paying the CFEB levy in their original 'A' fee-blocks, so should not be double-charged; and
- the EMRs exempt the Bank of England, government departments and local authorities from the levy.

The same exceptions apply to our proposals for extending the CFEB levy to PIs in Chapter 13.

14.35 CFEB was set up under the Financial Services Act 2010 to enhance:

- the understanding and knowledge of members of the public of financial matters (including the UK financial system); and
- the ability of members of the public to manage their own financial affairs.

14.36 The CFEB levy is accommodated into the existing FSA fees framework. It mirrors our fees structure and is applied to the current tariff bands. For EMIs, this means adding the levy to the tariff-band discussed in paragraph 14.22 above. The levy we are proposing for small EMIs in fee-block G.11 and firms with outstanding e-money liabilities up to £5m in fee-block G.10 is £10, which is the minimum CFEB levy for FSMA-authorised firms and PIs (see Table 13.2 and paragraph 13.19 in Chapter 13).

14.37 The question on which we consulted was:

Q8: Do you agree with our proposals for applying the CFEB levy to electronic money issuers?

Responses

We received three responses, all supportive, one commenting that, since all financial services providers benefit from the work of CFEB, all should contribute towards its costs.

Our feedback

Since we received no objections to applying the CFEB levy, we will proceed as proposed.

The Financial Ombudsman Service

Background

14.38 CP10/25 proposed extending the compulsory jurisdiction of the ombudsman service to small EMIs and to the electronic money issuers that are exempt from authorisation. The ombudsman service also consulted on retaining issuing e-money as an activity in its voluntary jurisdiction.[34]

14.39 In CP10/24, we and the ombudsman service consulted on the associated funding arrangements and set out proposals for how authorised EMIs, small EMIs and the exempt electronic money issuers will contribute to the general levy for the ombudsman service.

Responses to our consultation

14.40 Two firms commented on our proposals for the ombudsman service. In general they agreed with our approach but raised an issue which is detailed below.

34 The voluntary jurisdiction allows businesses to sign up with the ombudsman service for complaints that would not otherwise be covered by its compulsory or consumer credit jurisdictions. It can include activities directed at UK consumers by businesses based in the EEA and complaints about acts or omissions that took place before the business was covered by the ombudsman service.

Compulsory jurisdiction

14.41 The ombudsman service is funded by a combination of a general levy on firms that fall within its jurisdictions and a case fee paid by firms (currently £500 for the fourth and any subsequent cases). The general levy is calculated on the basis of industry funding blocks that, for the compulsory jurisdiction, tend to mirror our own fee-blocks.

14.42 We proposed that all electronic money issuers should be subject to the compulsory jurisdiction of the ombudsman service when 2EMD is implemented.

14.43 We intend to establish a new industry block called '18 – electronic money issuers', which will cover all electronic money issuers within the compulsory jurisdiction of the ombudsman service. The levies in this block will cover payment services that are integral to issuing e-money. No changes are proposed to the ombudsman service's case fees, which are paid by firms that have cases referred to the ombudsman service.

14.44 Credit institutions (such as banks and building societies) that issue e-money will continue to fall into Industry Block 1, as well as the new Block 18. However, we propose to exclude e-money accounts from the tariff base for Block 1 so these institutions do not pay two sets of levies for the same business.

14.45 Electronic money issuers that wish to provide unrelated payment services will be charged in both Block 11 (for their unrelated payment services) and Block 18 (for issuing e-money). This does not apply to credit institutions as they are not charged separately for payment services.

14.46 The question on which we consulted was:

Q9: Do you agree with our proposals for a new, separate, industry block for electronic money issuers?

Responses

Both respondents supported our proposals for a new separate industry block given that this treatment is consistent with that of other categories of regulated firms.

Our feedback

In light of this we intend to implement our proposals as set out in the Consultation Paper.

Tariff base and levy

14.47 Each industry block has its own tariff base, which is used to determine an individual firm's contribution to the general levy. There is a minimum levy for individual firms in each industry block, with no maximum limit. Firms are allocated individual levies on a 'straight line' basis (i.e. their levy increases uniformly in line with the amount of 'relevant business' transacted).

14.48 We propose that the tariff base for electronic money issuers should be based on average outstanding electronic money, as defined in Article 2(4) of 2EMD – however, small EMIs should be charged on a flat-fee basis.

14.49 The question on which we consulted was:

Q10: Do you agree with our proposal that the tariff-base for electronic money issuers:

- *should be based on the average outstanding electronic money (except for small electronic money institutions); and*
- *that small electronic money institutions should pay a flat fee?*

Responses

We received two responses to this question, one of which supported the proposals.

The other considered that our proposals penalised firms that were more successful. They also stated that using average outstanding e-money as the basis for the tariff-base was not commensurate with the ombudsman service effort required. The respondent proposed a measure based on the number of e-money accounts held.

Our feedback

As indicated in our feedback on Q4, we propose to review the FSA tariff measure in consultation with the industry and report back in our October CP. This review will include our proposals for the ombudsman service. The comments on the relevance of the measure for the ombudsman service are helpful and will be considered in the review.

Voluntary jurisdiction

14.50 The ombudsman service proposes to retain issuing e-money as an activity in its voluntary jurisdiction. This will involve establishing a new industry block, 13V, to cover electronic money issuers (including credit institutions issuing electronic money) participating in the voluntary jurisdiction. E-money issuers providing unrelated payment services will be in new industry block 12V.

14.51 The tariff-base for electronic money issuers participating in the voluntary jurisdiction should be based on average outstanding e-money, as for EMIs in the compulsory jurisdiction. There will be a separate flat fee (as for the compulsory jurisdiction) for small EMIs.

14.52 The question on which we consulted was:

Q.11 Do you agree with the ombudsman service's proposals that:

- *there should be a new, separate, industry block for electronic money issuers participating in the voluntary jurisdiction; and*
- *the tariff-base should be based on average outstanding electronic money?*

Responses

There were two responses, both supporting the establishment of a separate industry block, though one respondent repeated the comments on the tariff base already discussed under Q10.

Our feedback

We will proceed accordingly as proposed, and present the results of our review of the tariff base in the October 2011 Fees and Levies CP.

Annex 1

Compatibility statement and cost benefit analysis

1. When we issue rules for consultation, we are required by section 155(2)(c) of the Financial Services and Markets Act 2000 (FSMA) to explain why we believe our proposals are compatible with our general duties under section 2 of FSMA. This is known as a 'compatibility statement'.

2. This annex contains the compatibility statement regarding our fees, along with the FSCS, the ombudsman service, and CFEB levies. Section 155(9) of FSMA (together with paragraph 4(2) (b) of Schedule 7 for the UKLA), exempts us from having to carry out cost benefit analysis on our fees, and the ombudsman service and CFEB levies. However, the rule setting the FSCS management expenses levies limit is not exempted from cost benefit analysis, and this analysis on the proposed 2011/12 limit is set out at the end of this annex.

3. We discuss our business plan for 2011/12 in Chapter 2 of this paper and our annual funding requirement(AFR), which these fees proposals aim to recover, in Chapters 4 to 8.

4. The FSCS Management Expenses Levy Limit (MELL) and indicative compensation costs for 2011/12 are in Chapter 11. Further information on potential levies for 2011/12 can be found in the FSCS plan and budget available on its website.[1]

5. Chapter 12 and Annex 4 contain details of the expected ombudsman service expenditure in 2011/12. The ombudsman service is consulting on its Corporate Plan and 2011/12 draft budget, available on its website.[2]

6. The CFEB levy and details of its expected expenditure in 2011/12 are set out in Chapter 13.

1 www.fscs.org.uk
2 www.financial-ombudsman.org.uk.

Compatibility with our statutory objectives

7. The fees policy proposals and draft rules we are consulting on build on our earlier consultations on the policy framework for our funding arrangements, and we believe that the current proposals are compatible with our general duties in section 2 of FSMA.

8. In carrying out our duties we are required to act in a way that is compatible with our four statutory objectives (market confidence, financial stability, protection of consumers and reduction of financial crime).

FSA regulatory fees and levies rates proposals

9. As we have stated in previous consultations on fees, our fee-raising arrangements support each of our statutory objectives because they provide the resources that allow us to meet them. They are not intended in themselves to act as vehicles to achieve our statutory objectives.

FSCS

10. The role of the FSCS is, in general, to provide compensation to consumers of financial products when authorised firms are unable to meet their obligations. The existence of a compensation scheme provides a safety net, offering protection to consumers, which in turn leads to greater confidence in their dealings with financial firms, benefiting all firms and leading to a stronger financial system. If the FSCS was unable to process claims because of financial constraints by an inappropriate levy limit that would offset any protection offered to consumers and increase consumer detriment.

11. In light of this, we believe the proposed FSCS MELL to be appropriate. The limit proposed ensures the FSCS has adequate resources to perform its functions for the coming year, including completing projects associated with some of the wider functions envisaged by the 2009 Banking Compensation Reform proposals. In addition, in setting the MELL for 2011/12, we have allowed for sufficient reserve contingency to prevent disruption to the FSCS's work if they need to exceed their operating budget for unexpected reasons.

12. Setting an FSCS MELL figure has no material significance for the reduction of financial crime objectives.

Ombudsman service

13. The overall structure of the ombudsman service's funding arrangements has been consulted on previously.[3] We are not proposing to alter the way in which we calculate the general levy for firms in the ombudsman service's compulsory jurisdiction

14. However, in contrast to previous years, and in response to recommendations from the ombudsman service and its own consultation on its plan and budget, we propose that the

3 See CP74: '*Funding the Financial Ombudsman Service*' (November 2000) Annex B

general levy include funding for a reserve to deal with caseload volatility. For 2011/12, we propose that any reserve element should be calculated on the same basis as the rest of the general levy. However, due to the inherent uncertainty about the caseload volatility faced by the ombudsman service, we are not consulting on a single rate for the general levy, but on indicative rates.

CFEB

15. Proposals on the CFEB 2011/12 levy reflect its statutory remit to enhance the understanding and knowledge of members of the public on financial matters, and their ability to manage their own financial affairs. This requires a strong communication effort, providing both universal as well as targeted services where necessary. We believe the CFEB levy to be appropriate.

Compatibility with the principles of good regulation

16. We have outlined in previous fees consultations how our general policy framework has been influenced by the 'have regard' factors in section 2(3) of FSMA (also known as the 'principles of good regulation'). Below, we consider how the proposals in this CP take account of these principles.

The need to use our resources in the most efficient and economic way

17. Our fee rates are set to recover our costs in carrying out our responsibilities under FSMA and associated legislation. We endeavour to carry out this work in the most efficient and economic way possible, concentrating on areas of activity that pose the greatest risk to our statutory objectives.

18. Our priorities for each financial year will be set out in our annual Business Plan (to be published in March), mitigating the risks identified in our new Prudential Risk Outlook (PRO) and the Conduct Risk Outlook (CRO), which together replace the Financial Risk Outlook and will be published later in February and in March. The Business Plan includes our budget for the forthcoming year, which is the basis for our AFR, which we recover through fees levied on firms. Chapter 2 of this CP includes a summary of our 2011/12 Business Plan.

19. In Chapter 9 we make proposals to revise the method we use to recover the Solvency II (SII) internal model approval process (IMAP) special project fee (SPF) for 2011/12. The revised method will better target the recovery of the IMAP SPF costs to the firms that are actively engaged with us in this process.

20. In Chapter 10 we make proposals to set charges on a new enhanced service to the Mutuals Public Register (MPR), which will lead to a better alignment of the amounts charged with the speed of provision of the requested documents.

21. The FSCS, ombudsman service and CFEB are operationally independent, but accountable to us, which means that our resources are not directly involved in the exercise of proposed activities.

22. Our rules for the FSCS include a similar requirement on them to use their resources in the most efficient and economic way when carrying out their functions. Setting the MELL after public consultation encourages good internal management and effective operating procedures.

23. The ombudsman service is committed to increasing efficiency and reducing their operating costs. The ombudsman service is consulting separately on its corporate plan and budget where it sets out how it intends to achieve this. The ombudsman service will also be commissioning a 'value for money' study by the National Audit Office in 2011/12, looking at how it delivers it functions.

24. CFEB recognises the need to demonstrate it is delivering its outcomes in an efficient way. To ensure it provides value for money it is developing 'impact metrics' to help it better measure the impact of its work.

The burden to be imposed should be proportionate to the benefits

25. To investigate whether the burden of a proposal is proportionate to the benefits that are expected to arise from its imposition, we normally carry out a cost benefit analysis. As explained above, rules relating to FSA fees, the ombudsman service and CFEB levies are excluded from this requirement. However, we believe we have taken care in framing our proposals to impose burdens that are proportionate to the benefits.

26. As set out in Chapter 4, our total budget for 2011/12 is £492m and in Chapter 9 the total SII SPF budget for 2011/12 is £46.4m.

27. We believe our budgeted expenditure is proportionate, given the scale of the activities needed to deliver our planned work programme. Our AFR for 2011/12 is £500.5m, 10.1% higher than the AFR of £454.7m for 2010/11. This increase reflects our planned work programme for 2011/12, which is driven by our statutory objectives and the risks being faced by the firms and markets we regulate and the consumers who use them.

28. In addition, much of our work is driven by European Union (EU) requirements. We are also beginning to prepare for the restructuring of financial services regulation set out by the Treasury in July 2010. Our plan continues much of the work we started last year and, importantly, contains no significant discretionary initiatives and will be accomplished without increasing our headcount. The key areas for the coming year are set out in Chapter 2 as a summary of our annual Business Plan, which will be published in March.

29. We believe the budgeted expenditure under the SII SPF is proportionate given the scale of the activities to implement this directive. The net amount we are raising in 2011/12 of £34.3m, takes into account the expected underspend for 2010/11. This is within our previous estimate that our costs would be in the range of £100m to £150m over the life of the SII implementation programme.

30. The FSCS's MELL remains as it has for 2009/10 and 2010/11, to continue to allow for significant costs associated with the 2008 deposit-taking defaults. This is substantially larger than the limit that was set before the defaults.

31. However, it should be noted that the measures described in Chapter 11, whereby the FSCS has borrowed funds from the Treasury with a repayment plan structured over a number of years (allowing for recoveries for the defaults concerned), has been structured in this way to minimise the immediate impact of these defaults. Had these measures not been implemented, the FSCS would have needed to levy a greater amount, which would have placed a disproportionate burden on the firms concerned. In addition, had decisive action not been taken, confidence would have suffered further, leading to further detriment across the whole financial sector.

32. The firms affected by the interest costs relating to the banking default all belong to the Deposit class. This is because interest costs are classified as specific costs, which are only attributable to the class in which the defaults arose. Firms in the Deposit class are charged FSCS levies in proportion to their share of eligible protected deposits.

33. The ombudsman service continues to see significant growth in volume and the complexity of the cases it receives. The ombudsman service is required to resolve cases promptly – however, the rate at which it can progress cases can be affected by external factors outside its control, including more cases being referred to an ombudsman for a final decision. As discussed in Chapter 12, the ombudsman service may require a reserve of up to £30m in addition to their usual budget.

34. We believe that the proposals for the ombudsman service's annual budget including a proposed reserve are proportionate to the benefits delivered from having a reliable, credible and prompt redress mechanism.

35. The CFEB remit now places a greater focus on outcome-based delivery. In addition to continuing to provide information and advice to members of the public, it is also now focused on ensuring that efforts to influence consumer behaviour are better coordinated and effective.

The international character of financial services and the desirability of maintaining the competitive position of the UK

36. When we set our fees, we consider the fact that many financial services firms are globally mobile and that regulatory costs – both direct (fees) and indirect (compliance) – can be one of the influences affecting decisions about location. By ensuring the calculation of our fees is based on weighting our costs allocation (as far as possible) towards the fee-blocks that take up our resources – and by recovering those costs from firms within the fee blocks through a consistently applied framework – we ensure that they do not present barriers to mobility, while our discounts (other than minimum fees) for passporting firms facilitate cross-border trade

Most appropriate method

37. In discharging our general duties, we are required to act in a way that we consider most appropriate for the purpose of meeting our objectives.

38. We believe that our fees policy proposals are the most appropriate means of raising the funding required to maintain our statutory objectives because they are:

- consistent and build on existing fee-raising arrangements, which have operated since N2 (1 December 2001 – when the FSA gained its powers);
- are targeted towards the most appropriate firms;
- are influenced by our risk-based approach to achieving our statutory objectives; and
- are compatible with the legal framework provided by both FSMA and our Handbook.

39. FSMA requires there to be a compensation scheme and for a limit to be set on the amount it can levy firms for management expenses in any period. If no limit were set, the compensation scheme would be unable to operate.

40. Setting this limit by a rule and following an open consultation period allows scrutiny of the FSCS's budget proposals by stakeholders and helps encourage good resource management. For the reasons set out in Chapter 11, we believe that the proposed levy limit and contingency margin strike the most appropriate balance between ensuring that FSCS has the resources to fulfil its duties and giving firms some certainty about the size of their total contribution in 2011/12. We believe that these proposals are the most appropriate way to meet our objective.

41. The proposals make no changes to the ombudsman service fees rules other than to the ombudsman service general levy tariff rates, and ensure that it continues to operate effectively and efficiently. Our reasons for believing the proposed levies are the most appropriate way of doing this are set out in Chapter 12.

42. CFEB was established under the Financial Services Act 2010 as an independent body in April 2010, inheriting some functions previously carried out by the FSA. Its 2011/12 funding will come entirely from levies raised from FSMA-authorised firms and PIs. As stated in CP10/24, we will retain for 2011/12 the 2010/11 framework which mirrors the fee block structure used to allocate the FSA's AFR in 2010/11.

Cost benefit analysis (CBA)

43. For the FSCS levy, FSMA requires a cost-benefit analysis comparing the position if the levy limit is set as proposed with the position if the limit were either not set, or set at a lower amount.

44. If the limit was not set, the position is clear – the FSCS would be unable to operate. If the limit was set at a lower amount than proposed, the FSCS would either not have the resources

to deal adequately with the expected number of claims or – in the case of the contingency reserves – would not have the flexibility to increase its resources to deal with higher claims than expected or upward changes in the level of the interest costs on the special deposit default (SDD) loans during the year ahead.

45. In either case, resource limitations on FSCS operations could affect consumers. If the FSCS is unable to meet its obligations, consumer protection is undermined and the associated cost would outweigh any benefits arising from the reduction of firms' levies. Therefore we should reject both of the above on CBA grounds.

46. The FSCS would use the contingency reserve account only in the case of unexpected events that are not already covered by its budgeted operating costs. The need to use the reserve contingency account will be kept under review by the FSCS and will be subject to further discussion with relevant parties before raising an additional levy.

Annex 2

List of consultation questions

Consultation questions requiring response

Chapter 6

Q1: Do you have any comments on the proposed FSA 2011/12 minimum fees and periodic fee rates for authorised firms?

Responses due by 1 April 2011

Chapter 8

Q2: Do you have any comments on the proposed FSA 2011/12 minimum fees and periodic fee rates for fee-payers other than authorised firms?

Responses due by 28 February 2011 and 1 April 2011

Chapter 9

Q3: Do you have any comments on the proposed IMAP SPF for 2011/12 or on the changes we are proposing to the method of recovery?

Q4: Do you have any comments on the proposed non-IMAP SPF for 2011/12?

Responses due by 1 April 2011

Chapter 10

Q5: Do you have any comments on the proposed charges for access to public records through the MPR?

Responses due by 28 February 2011

Chapter 11

Q6: Do you have any comments on the proposed 2011/12 FSCS management expenses levy limit figure?

Responses due by 28 February 2011

Chapter 12

Q7: Do you have any comments on the proposed method of calculating the tariff rates for firms in each fee block towards the CJ levy (which this year includes the proposed reserve) and our proposals for how the overall CJ levy should be apportioned?

Responses due by 11 March 2011

Chapter 13

Q8: Do you have any comments on the proposed 2011/12 CFEB levy rates?

Responses due by 1 April 2011

Annex 3

Location of fees and levy rules and guidance in our Handbook

1. All rules and guidance on regulatory fees and levies are consolidated in the Fees manual (FEES) in our Handbook. The table below shows the organisation of rules and guidance in FEES.

2. Our powers to make rules for the payment of fees are in FSMA, at paragraph 17 of Part 3 of Schedule 1. Section 99 of FSMA sets out our power to make fee rules for the UK Listing Authority.

Table A3: Location of fees rules in the Fees Sourcebook (FEES)

Chapter	Fees rules and guidance, and fee annexes
FEES 1	**Application and Purpose**
FEES 2	**General Provisions**
FEES 3	**Application, Notification and Vetting fees**
Annex 1R	Authorisation fees payable
Annex 2R	Application and notification fees payable in relation to collective investment schemes
Annex 3R	Application fees payable in connection with Recognised Investment Exchanges and Recognised Clearing Houses
Annex 4R	Application fees in relation to listing rules
Annex 5R	Document vetting and approval fees in relation to listing and prospectus rules
Annex 6R	Fees payable for permission or guidance on its availability in connection with the Basel Capital Accord
Annex 7R	Fees where changes are made to firms' transaction reporting systems and the FSA is asked to check that these systems remain compatible with FSA systems

Chapter	Fees rules and guidance, and fee annexes
Annex 8R	Fees payable for authorisation as an authorised payment institution or registration as a small payment institution in accordance with the Payment Services Regulations
Annex 9R	Special Project Fee for restructuring
FEES 4	**Periodic fees**
Annex 1R	Activity groups, tariff bases and valuation dates applicable
Annex 2R	Fee tariff rates, permitted deductions and EEA/Treaty firm modifications for the period from 1 April 2010 to 31 March 2011
Annex 3R	Transaction reporting fees
Annex 4R	Periodic fees in relation to collective investment schemes payable for the period 1 April 2010 to 31 March 2011
Annex 5R	Periodic fees for designated professional bodies payable in relation to the period 1 April 2010 to 31 March 2011
Annex 6R	Periodic fees for recognised investment exchanges and recognised clearing houses payable in relation to the period 1 April 2010 to 31 March 2011
Annex 7R	Periodic fees in relation to the Listing Rules for the period 1 April 2010 to 31 March 2011
Annex 8R	Periodic fees in relation to the discolour rules and transparency rules for the period 1 April 2010 to 31 March 2011
Annex 9R	Periodic fees in respect of securities derivatives for the period from 1 April 2010 to 31 March 2011
Annex 10R	Periodic fees for MTF operators payable in relation to the period 1 April 2010 to 31 March 2011
Annex 11R	Periodic fees in respect of payment services carried on by fee-paying payment service providers under the Payment Services Regulations in relation to the period 1 April 2010 to 31 March 2011
Annex 12G	Guidance on the calculation of tariffs set out in FEES 4 Annex 1R Part 2
FEES 5	**Financial Ombudsman Service Funding**
Annex 1R	Annual Fees Payable in Relation to 2010/11
FEES 6	**Financial Services Compensation Scheme Funding**
Annex 1R	Management Expenses Levy Limit
FEES 7	**Consumer Financial Education Body**
Annex 1R	CFEB levies for the period from 1 April 2010 to 31 March 2011

Notes:

Fees for unauthorised mutuals – the 'registrant-only' fee-block – are in rules outside the FSA Handbook. They are available at: www.fsa.gov.uk/Pages/Doing/small_firms/MSR.

Note: Fees for unauthorised mutuals – the 'registrant-only' fee-block – sit outside our Handbook. Details can be accessed on the web at: www.fsa.gov.uk/Pages/Doing/small_firms/MSR.

Annex 4

Financial Ombudsman Service general levy – overview of industry blocks 2011/12

£17.7m Levy

Industry Block	Description	Tariff Base	Proposed 2011/12 tariff rate	Actual 2010/11 tariff rate	Proposed 2011/12 minimum levy per firm	Actual 2010/11 minimum levy per firm	Proposed 2011/12 gross total	Actual 2010/11 gross total	Proposed 2011/12 contribution by block	Actual 2010/11 contribution by block
1	Deposit acceptors, home finance lenders and administrators (excluding firms in block 14)	Per relevant account	0.026681	0.0278	100	100	£6,938,559	£7,207,700	39.1%	40.7%
2	Insurers – general (excluding firms in blocks 13 & 15)	Per £1,000 of relevant annual gross premium income	0.0895	0.103	100	100	£2,176,112	£2,480,000	12.3%	14.0%
3	Society of Lloyd’s		0	0	20,000	20,000	£20,000	£20,000	0.1%	0.1%
4	Insurers – life (excluding firms in block 15)	Per £1,000 of relevant adjusted annual gross premium income	0.0159	0.025	100	100	£741,657	£1,594,300	4.2%	9.0%
5	Fund managers	Flat fee	0	0	200	200	£181,600	£177,000	1.0%	1.0%
6	Operators, Trustees and Depositaries of collective investment schemes	Flat fee	0	0	50	50	£21,200	£20,000	0.1%	0.1%
7	Dealers as principal	Flat fee	0	0	50	50	£13,000	£14,000	0.1%	0.1%
8	Advisory arrangers, dealers or brokers holding and controlling client money and/or assets	Per relevant approved person	15	35	35	35	£371,685	£923,000	2.1%	5.2%
9	Advisory arrangers, dealers or brokers not holding and controlling client money and/or assets	Per relevant approved person	9.40	35	35	35	£370,957	£923,000	2.1%	5.2%
10	Corporate finance advisors	Flat fee	0	0	50	50	£12,900	£14,000	0.1%	0.1%

Industry Block	Description	Tariff Base	Proposed 2011/12 tariff rate	Actual 2010/11 tariff rate	Proposed 2011/12 minimum levy per firm	Actual 2010/11 minimum levy per firm	Proposed 2011/12 gross total	Actual 2010/11 gross total	Proposed 2011/12 contribution by block	Actual 2010/11 contribution by block
11	Fee-paying payment service providers (excluding firms in any other industry block)	Authorised payment institutions per £1,000 of relevant income	0.0153	0.015	75	75	£26,416	£25,800	0.1%	0.1%
		Small payment institutions and small e-money issuers a flat fee	0	0	75	75	£40,650	£29,500	0.2%	0.2%
13	Cash plan health providers	Flat fee	0	0	50	50	£600	£600	0.0%	0.0%
14	Credit unions	Flat fee	0	0	50	50	£22,750	£24,000	0.1%	0.1%
15	Friendly societies whose tax exempt business represents 95% or more of their total relevant business	Flat fee	0	0	50	50	£3,450	£3,700	0.0%	0.0%
16	Home finance providers, advisers and arrangers (excluding firms in blocks 13, 14 & 15)	Flat fee	0	0	46	70	£271,860	£531,000	1.5%	3.0%
17	General insurance mediation	Per £1,000 of relevant business annual income	0.6338	0.25	85	85	£6,525,663	£3,712,400	36.8%	21.0%
18	Electronic money institutions	Authorised electronic money institutions	0	N/A	75	N/A	£2,625	N/A	0.0%	N/A
		Small electronic money institutions	0	N/A	75	N/A	£3,000	N/A	0.0%	N/A
	Total – all blocks						**£17,744,684**	**£17,700,000**	**100.0%**	**100.0%**

£32.7m Levy

Industry Block	Description	Tariff Base	Proposed 2011/12 tariff rate	Actual 2010/11 tariff rate	Proposed 2011/12 minimum levy per firm	Actual 2010/11 minimum levy per firm	Proposed 2011/12 gross total	Actual 2010/11 gross total	Proposed 2011/12 contribution by block	Actual 2010/11 contribution by block
1	Deposit acceptors, home finance lenders and administrators (excluding firms in block 14)	Per relevant account	0.04932	0.0278	100	100	£12,803,103	£7,207,700	39.1%	40.7%
2	Insurers – general (excluding firms in blocks 13 & 15)	Per £1,000 of relevant annual gross premium income	0.166	0.103	100	100	£4,023,406	£2,480,000	12.3%	14.0%
3	Society of Lloyd's		0	0	37,000	20,000	£37,000	£20,000	0.1%	0.1%
4	Insurers – life (excluding firms in block 15)	Per £1,000 of relevant adjusted annual gross premium income	0.0295	0.025	100	100	£1,371,054	£1,594,300	4.2%	9.0%
5	Fund managers	Flat fee	0	0	365	200	£331,420	£177,000	1.0%	1.0%
6	Operators, Trustees and Depositaries of collective investment schemes	Flat fee	0	0	90	50	£38,160	£20,000	0.1%	0.1%
7	Dealers as principal	Flat fee	0	0	100	50	£26,000	£14,000	0.1%	0.1%
8	Advisory arrangers, dealers or brokers holding and controlling client money and/or assets	Per relevant approved person	28.20	35	35	35	£685,370	£923,000	2.1%	5.2%
9	Advisory arrangers, dealers or brokers not holding and controlling client money and/or assets	Per relevant approved person	21.15	35	35	35	£687,006	£923,000	2.1%	5.2%
10	Corporate finance advisors	Flat fee	0	0	100	50	£25,800	£14,000	0.1%	0.1%

Industry Block	Description	Tariff Base	Proposed 2011/12 tariff rate	Actual 2010/11 tariff rate	Proposed 2011/12 minimum levy per firm	Actual 2010/11 minimum levy per firm	Proposed 2011/12 gross total	Actual 2010/11 gross total	Proposed 2011/12 contribution by block	Actual 2010/11 contribution by block
11	Fee-paying payment service providers (excluding firms in any other industry block)	Authorised payment institutions per £1,000 of relevant income	0.031	0.015	75	75	£48,799	£25,800	0.1%	0.1%
		Small payment institutions and small e-money issuers a flat fee	0	0	102	75	£55,284	£29,500	0.2%	0.2%
13	Cash plan health providers	Flat fee	0	0	100	50	£1,200	£600	0.0%	0.0%
14	Credit unions	Flat fee	0	0	100	50	£45,500	£24,000	0.1%	0.1%
15	Friendly societies whose tax exempt business represents 95% or more of their total relevant business	Flat fee	0	0	100	50	£6,900	£3,700	0.0%	0.0%
16	Home finance providers, advisers and arrangers (excluding firms in blocks 13, 14 & 15)	Flat fee	0	0	83	70	£490,530	£531,000	1.5%	3.0%
17	General insurance mediation	Per £1,000 of relevant business annual income	1.246	0.25	85	85	£12,051,644	£3,712,400	36.8%	21.0%
18	Electronic money institutions	Authorised electronic money institutions	0	N/A	140	N/A	£4,900	N/A	0.0%	N/A
		Small electronic money institutions	0	N/A	140	N/A	£5,600	N/A	0.0%	N/A
	Total – all blocks						**£32,738,675**	**£17,700,000**	**100.0%**	**100.0%**

£47.7m Levy

Industry Block	Description	Tariff Base	Proposed 2011/12 tariff rate	Actual 2010/11 tariff rate	Proposed 2011/12 minimum levy per firm	Actual 2010/11 minimum levy per firm	Proposed 2011/12 gross total	Actual 2010/11 gross total	Proposed 2011/12 contribution by block	Actual 2010/11 contribution by block
1	Deposit acceptors, home finance lenders and administrators (excluding firms in block 14)	Per relevant account	0.07198	0.0278	100	100	£18,674,167	£7,207,700	39.1%	40.7%
2	Insurers – general (excluding firms in blocks 13 & 15)	Per £1,000 of relevant annual gross premium income	0.2419	0.103	100	100	£5,856,377	£2,480,000	12.3%	14.0%
3	Society of Lloyd’s		0	0	53,800	20,000	£53,800	£20,000	0.1%	0.1%
4	Insurers – life (excluding firms in block 15)	Per £1,000 of relevant adjusted annual gross premium income	0.043	0.025	100	100	£1,996,082	£1,594,300	4.2%	9.0%
5	Fund managers	Flat fee	0	0	550	200	£499,400	£177,000	1.0%	1.0%
6	Operators, Trustees and Depositaries of collective investment schemes	Flat fee	0	0	130	50	£55,120	£20,000	0.1%	0.1%
7	Dealers as principal	Flat fee	0	0	145	50	£37,700	£14,000	0.1%	0.1%
8	Advisory arrangers, dealers or brokers holding and controlling client money and/or assets	Per relevant approved person	41.40	35	35	35	£1,000,266	£923,000	2.1%	5.2%
9	Advisory arrangers, dealers or brokers not holding and controlling client money and/or assets	Per relevant approved person	34	35	35	35	£1,001,837	£923,000	2.1%	5.2%
10	Corporate finance advisors	Flat fee	0	0	150	50	£38,700	£14,000	0.1%	0.1%

Industry Block	Description	Tariff Base	Proposed 2011/12 tariff rate	Actual 2010/11 tariff rate	Proposed 2011/12 minimum levy per firm	Actual 2010/11 minimum levy per firm	Proposed 2011/12 gross total	Actual 2010/11 gross total	Proposed 2011/12 contribution by block	Actual 2010/11 contribution by block
11	Fee-paying payment service providers (excluding firms in any other industry block)	Authorised payment institutions per £1,000 of relevant income	0.046	0.015	75	75	£70,083	£25,800	0.1%	0.1%
		Small payment institutions and small e-money issuers a flat fee	0	0	145	75	£78,590	£29,500	0.2%	0.2%
13	Cash plan health providers	Flat fee	0	0	140	50	£1,680	£600	0.0%	0.0%
14	Credit unions	Flat fee	0	0	145	50	£65,975	£24,000	0.1%	0.1%
15	Friendly societies whose tax exempt business represents 95% or more of their total relevant business	Flat fee	0	0	140	50	£9,660	£3,700	0.0%	0.0%
16	Home finance providers, advisers and arrangers (excluding firms in blocks 13, 14 & 15)	Flat fee	0	0	121	70	£715,110	£531,000	1.5%	3.0%
17	General insurance mediation	Per £1,000 of relevant business annual income	1.853	0.25	85	85	£17,575,065	£3,712,400	36.8%	21.0%
18	Electronic money institutions	Authorised electronic money institutions	0	N/A	200	N/A	£7,000	N/A	0.0%	N/A
		Small electronic money institutions	0	N/A	200	N/A	£8,000	N/A	0.0%	N/A
	Total – all blocks						**£47,744,611**	**£17,700,000**	**100.0%**	**100.0%**

Annex 5

List of non-confidential respondents

List of non-confidential respondents to CP10/24 chapters 2 and 4 (feedback in chapter 14 and 13 of this CP)

Questions 2-11 and 13

AXA UK Plc Group

Electronic Money Association

HSBC Merchant Services llp

List of non-confidential respondents to CP10/24 chapters 3, 5 and 6 (feedback in Handbook Notice 105, December 2010)

Questions 1, 12, 14-16

Aviva plc

British Bankers' Association

CMC Markets UK Plc

Euroclear & Ireland Limited

Futures and Options Association

Investment Management Association

SunGard Global Execution Services Limited

Appendix 1

Draft rules and guidance for consultation and response by 28 February 2011

FEES PROVISIONS (2011/2012) INSTRUMENT 2011

Powers exercised

A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in or under the Financial Services and Markets Act 2000 ("the Act"):

(1) section 99 (Fees);
(2) section 101 (Part 6 rules: general provisions);
(3) section 156 (General supplementary powers);
(4) section 157(1) (Guidance);
(5) section 213 (The compensation scheme);
(6) section 223 (Management expenses);
(7) paragraph 17(1) (Fees) of Schedule 1 (The Financial Services Authority); and
(8) paragraphs 1 (General), 4 (Rules), and 7 (Fees) of Schedule 7 (The Authority as Competent Authority for Part VI).

B. The rule-making powers listed above are specified for the purposes of section 153(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on 1 April 2011.

Amendments to the Handbook

D. The Fees manual (FEES) is amended in accordance with the Annex to this instrument.

Citation

E. This instrument may be cited as the Fees Provisions (2011/2012) Instrument 2011.

By order of the Board
XX March 2011

Annex

Amendments to the Fees manual (FEES)

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

4 Annex 5R Periodic fees for designated professional bodies payable in relation to the period 1 April ~~2010~~ 2011 to 31 March ~~2011~~ 2012

Table of fees payable by Designated Professional Bodies

Name of Designated Professional Body	Amount payable	Due date
The Law Society of England & Wales …	~~£34,545~~ £41,530	30 April ~~2010~~ 2011
	…	
…		

…

4 Annex 6R Periodic fees for recognised investment exchanges and recognised clearing houses payable in relation to the period 1 April ~~2010~~ 2011 to 31 March ~~2011~~ 2012

…

Part 1 – Periodic fees for UK recognised bodies

Name of UK recognised body	Amount payable	Due date
Euroclear UK & Ireland Limited	~~£277,500~~ £325,000	30 April ~~2010~~ 2011
	…	
ICE Futures Europe Ltd	~~£230,000~~ £255,000	30 April ~~2010~~ 2011
	…	
LIFFE Administration and Management	~~£325,000~~ £400,000	30 April ~~2010~~ 2011
	...	
LCH Clearnet Limited	~~£298,000~~ £375,000	30 April ~~2010~~ 2011

	…	
The London Metal Exchange Limited	~~£198,000~~ £237,500	30 April ~~2010~~ 2011
	…	
London Stock Exchange plc	~~£261,000~~ £335,000	30 April ~~2010~~ 2011
	…	
EDX London Ltd	~~£42,500~~ £60,000	30 April ~~2010~~ 2011
	…	
PLUS Markets Plc	~~£97,500~~ £110,000	30 April ~~2010~~ 2011
	…	
European Central Counterparty Limited	~~£163,500~~ £187,500	30 April ~~2010~~ 2011
	…	
ICE Clear Europe Limited	~~£184,000~~ £275,000	30 April ~~2010~~ 2011
	…	
…		

…

6 Annex 1R Financial Services Compensation Scheme – Management Expenses Levy Limit

This table belongs to FEES 6.4.2R	
Period	Limit on total of all management expenses levies attributable to that period (£)
…	
1 April 2010 to 31 March 2011	£1,000,000,000
1 April 2011 to 31 March 2012	£1,000,000,000

Appendix 2

Draft rules and guidance for consultation and response by 11 March for Financial Ombudsman Service general levy and 1 April 2011 for all others

PERIODIC FEES (2011/2012) AND OTHER FEES INSTRUMENT 2011

Powers exercised

A. The Financial Services Authority makes this instrument in the exercise of:

(1) the following powers and related provisions in or under the Financial Services and Markets Act 2000 ("the Act"):

(a) section 99 (Fees);
(b) section 101 (Part 6 rules: general provisions);
(c) section 156 (General supplementary powers);
(d) section 157(1) (Guidance);
(e) section 234 (Industry Funding);
(f) paragraph 17(1) (Fees) of Schedule 1 (The Financial Services Authority);
(g) paragraph 12 of Part 2 (Funding) of Schedule 1A (Further provision about the Consumer Financial Education Body); and
(h) paragraphs 1 (General), 4 (Rules), and 7 (Fees) of Schedule 7 (The Authority as Competent Authority for Part VI);

(2) the following provisions of the Payment Services Regulations 2009 (SI 2009/209) ("the Regulations"):

(a) regulation 82 (Reporting requirements);
(b) regulation 92 (Costs of supervision); and
(c) regulation 93 (Guidance); and

(3) the following provisions of the Electronic Money Regulations 2011 (SI 2011/99):

(a) regulation 49 (Reporting requirements);
(b) regulation 59 (Costs of supervision); and
(c) regulation 60 (Guidance).

B. The rule-making powers listed above are specified for the purposes of section 153(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on 1 June 2011.

Amendments to the Handbook

D. The Fees manual (FEES) is amended in accordance with the Annex to this instrument.

Citation

E. This instrument may be cited as the Periodic Fees (2011/2012) and Other Fees Instrument 2011.

By order of the Board
xx May 2011

Annex

Amendments to the Fees manual (FEES)

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

[This consultation draft includes text derived from other draft instruments that formed part of the consultation under CP10/24 as well as this consultation or assumes such text in relation to certain sections.]

…

4.2.11 R Table of periodic fees

1 Fee payer	2 Fee payable	3 Due date	4 Events occurring during the period leading to modified fee
…			
Sponsors	~~£ 12,500~~ <u>£20,000</u> per year for the period from 1 April to 31 March the following year (see Note)	…	…
…			

…

4 Annex 2R Fee tariff rates, permitted deductions and EEA/Treaty firm modifications for the period from 1 April ~~2010~~ <u>2011</u> to 31 March ~~2011~~ <u>2012</u>

Part 1

This table shows the tariff rates applicable to each fee block

…	
Note 1	~~In the case of activity group A.1 there are two tariff rates. The rate in column 1 is the general periodic fee. The rate in column 2 is the reclaim funds set-up fee and is payable by all *firms* except *credit unions* and *e-money issuers*. The total periodic fee for the A1 fee-block is determined by adding the amounts obtained under both columns.~~

	...			
Activity group	Fee payable			
A.1	Band width (£ million of Modified Eligible Liabilities (MELs))	Fee (£/£m or part £m of MELs)		
		Column 1 General Periodic fee	~~Column 2~~ ~~Reclaim Fund Set-Up fee~~	
	>10 – 140	~~29.90~~ 33.60	~~0.12~~	
	>140 – 630	~~29.90~~ 33.60	~~0.12~~	
	>630 – 1,580	~~29.90~~ 33.60	~~0.12~~	
	>1,580 – 13,400	~~37.38~~ 42.00	~~0.12~~	
	>13,400	~~49.34~~ 55.44	~~0.12~~	
	… The tariff rates in A.1 are not relevant for the *permissions* relating to *operating a dormant account fund*. Instead a flat fee of ~~£6,018~~ £6,000 is payable in respect of these *permissions*. ~~The flat fee of £6,018 is made up of a portion of the general periodic fee of £6,000 and a reclaim fund set-up fee of £18.~~			
A.2	Band width (No. of mortgages and/or *home finance transactions*)	Fee (£/mortgage)		
	>50 - 130	~~1.26~~ 1.79		
	>130 – 320	~~1.26~~ 1.79		
	>320 – 4,570	~~1.26~~ 1.79		
	>4, 570 – 37,500	~~1.26~~ 1.79		
	>37,500	~~1.26~~ 1.79		
A.3	Gross premium income (GPI)	Column 1 General periodic fee	Column 2 Solvency 2 Implement-ation fee	Column 3 Solvency 2 Special Project fee

	Minimum fee (£)	Not applicable	~~50.00~~ £25.00	£25.00
	Band Width (£ million of GPI)	Fee (£/£m or part £m of GPI)		
	>0.5 – 10.5	~~531.58~~ 521.46	~~110.45~~ 127.48	~~93.40~~ 161.27
	>10.5 – 30	~~531.58~~ 521.46	~~110.45~~ 127.48	~~93.40~~ 161.27
	>30 – 245	~~531.58~~ 521.46	~~110.45~~ 127.48	~~93.40~~ 161.27
	>245 – 1,900	~~531.58~~ 521.46	~~110.45~~ 127.48	~~93.40~~ 161.27
	>1,900	~~531.58~~ 521.46	~~110.45~~ 127.48	~~93.40~~ 161.27
	PLUS			
	Gross technical liabilities (GTL)	Column 1 General Periodic fee	Column 2 Solvency 2 Implementation fee	Column 3 Solvency 2 Special Project fee
	Band Width (£ million of GTL)	Fee (£/£m or part £m of GTL)		
	>1 – 12.5	~~28.39~~ 26.82	~~5.65~~ 6.45	~~5.55~~ 8.13
	>12.5 – 70	~~28.39~~ 26.82	~~5.65~~ 6.45	~~5.55~~ 8.13
	>70 – 384	~~28.39~~ 26.82	~~5.65~~ 6.45	~~5.55~~ 8.13
	>384 – 3,750	~~28.39~~ 26.82	~~5.65~~ 6.45	~~5.55~~ 8.13
	>3,750	~~28.39~~ 26.82	~~5.65~~ 6.45	~~5.55~~ 8.13
	…			
A.4	Adjusted annual gross premium income (AGPI)	Column 1 General Periodic fee	Column 2 Solvency 2 Implementation fee	Column 3 Solvency 2 Special Project fee
	Minimum	Not applicable	25.00	25.00

	fee (£)			
	Band Width (£ million of AGPI)	Fee (£/£m or part £m of AGPI)		
	>1 – 5	~~706.46~~ 687.85	~~137.00~~ 193.31	~~114.60~~ 205.33
	>5 – 40	~~706.46~~ 687.85	~~137.00~~ 193.31	~~114.60~~ 205.33
	>40 – 260	~~706.46~~ 687.85	~~137.00~~ 193.31	~~114.60~~ 205.33
	>260 – 4,000	~~706.46~~ 687.85	~~137.00~~ 193.31	~~114.60~~ 205.33
	>4,000	~~706.46~~ 687.85	~~137.00~~ 193.31	~~114.60~~ 205.33
	PLUS			
	Mathe-matical reserves (MR)	Column 1 General Periodic fee	Column 2 Solvency 2 Implementation fee	Column 3 ~~(~~Solvency 2 Special Project fee
	Minimum fee (£)	Not applicable	25.00	25.00
	Band Width (£ million of MR)	Fee (£/£m or part £m of MR)		
	>1 –20	~~15.32~~ 14.00	~~3.00~~ 3.94	~~2.95~~ 4.03
	>20 – 270	~~15.32~~ 14.00	~~3.00~~ 3.94	~~2.95~~ 4.03
	>270 – 7,000	~~15.32~~ 14.00	~~3.00~~ 3.94	~~2.95~~ 4.03
	>7,000 – 45,000	~~15.32~~ 14.00	~~3.00~~ 3.94	~~2.95~~ 4.03
	>45,000	~~15.32~~ 14.00	~~3.00~~ 3.94	~~2.95~~ 4.03
A.5	Band Width (£ million of Active Capacity (AC))	Fee (£/£m or part £m of AC)		
	>50 – 150	~~54.55~~ 56.34		

	>150 – 250	~~54.55~~ 56.34	
	>250 – 500	~~54.55~~ 56.34	
	>500 – 1,000	~~54.55~~ 56.34	
	>1,000	~~54.55~~ 56.34	
A.6	Flat fee	~~1,500,514~~ 1, 419,112.28	
	PLUS		
	Solvency 2 Special Project Flat fee (£)	~~249,603.72~~ 1, 250,000	
	PLUS		
	Solvency 2 Implementation Flat fee (£)	~~300,100.80~~ 385, 051.61	
A.7	For class 1(C), (2) and (3) *firms*:		
	Band Width (£ million of Funds under Management (FuM))		Fee (£/£m or part £m of FuM)
	>10 – 150		~~8.52~~ 6.92
	>150 – 2,800		~~8.52~~ 6.92
	>2,800 – 17,500		~~8.52~~ 6.92
	>17,500 – 100,000		~~8.52~~ 6.92
	>100,000		~~8.52~~ 6.92
	…		
…	…		
A.9	Band Width (£ million of Gross Income (GI))		Fee (£/£m or part £m of GI)
	>1 – 4.5		~~1,052.62~~ 1,607.54
	>4.5 – 17		~~1,052.62~~ 1,607.54
	>17 – 145		~~1,052.62~~ 1,607.54
	> 145 – 750		~~1,052.62~~ 1,607.54

	>750	~~1,052.62~~ 1,607.54
A.10	Band Width (No. of traders)	Fee (£/trader)
	2 – 3	~~3,196.91~~ 3,817.36
	4 – 5	~~3,196.91~~ 3,817.36
	6 – 30	~~3,196.91~~ 3,817.36
	31 – 180	~~3,196.91~~ 3,817.36
	>180	~~3,196.91~~ 3,817.36
…		
A.12	Band Width (No. of persons)	Fee (£/person)
	2 – 5	~~426.35~~ 786.18
	6 – 35	~~426.35~~ 786.18
	36 – 175	~~426.35~~ 786.18
	176 – 1,600	~~426.35~~ 786.18
	>1,600	~~426.35~~ 786.18
	For a *professional firm* in A.12 the fee is calculated as above less 10%.	
A.13	For class (2) *firms*:	
	Band Width (No. of persons)	Fee (£/person)
	2 – 3	~~1,290.54~~ 1,237.26
	4 – 30	~~1,290.54~~ 1,237.26
	31 – 300	~~1,290.54~~ 1,237.26
	301 – 2,000	~~1,290.54~~ 1,237.26
	>2,000	~~1,290.54~~ 1,237.26
	…	
A.14	Band Width (No. of persons)	Fee (£/person)
	2 – 4	~~1,340.87~~ 2,933.45

	5 – 25	~~1,340.87~~ 2,933.45
	26 – 80	~~1,340.87~~ 2,933.45
	81 – 199	~~1,340.87~~ 2,933.45
	>199	~~1,340.87~~ 2,933.45
…		
A.18	Band Width (£ thousands of Annual Income (AI))	Fee (£/£ thousand or part £ thousand of AI)
	>100 –180	~~10.54~~ 12.28
	>180 – 1,000	~~10.54~~ 12.28
	>1,000 – 12,500	~~10.54~~ 12.28
	>12,500 – 50,000	~~10.54~~ 12.28
	>50,000	~~10.54~~ 12.28
A.19	Band Width (£ thousands of Annual Income (AI))	Fee (£/£ thousand or part £ thousand of AI)
	>100 –325	~~2.43~~ 2.01
	>325 – 10,000	~~2.43~~ 2.01
	>10,000 – 50,750	~~2.43~~ 2.01
	>50,750 – 250,000	~~2.43~~ 2.01
	>250,000	~~2.43~~ 2.01
B. Market operators	£35,000	
B. Service companies	Bloomberg LP	£45,000
	EMX Co Ltd	£35,000
	LIFFE Services Ltd	£35,000
	[row deleted]	
	OMGEO Ltd	£35,000

	Reuters Ltd	£45,000
	Swapswire Ltd	£35,000
…		

…

Part 2

This table shows the permitted deductions that apply where financial penalties are received ~~under the *Act*~~ by the *FSA*:

Activity group	Amount of deduction
Part 1A (minimum fee)	~~7.5%~~ 15.6% of the fee payable by the *firm* for the activity group (see Part 1)
A.1	~~7.5%~~ 15.7% of the fee payable by the *firm* for the activity group (see Part 1)
A.2	~~7.5%~~ 18.6% of the fee payable by the *firm* for the activity group (see Part 1)
A.3	~~7.5%~~ 15.7% of the fee payable by the *firm* for the activity group (see Part 1). The deduction does not apply to any Solvency 2 Special Project fee (as defined in Part 1) or Solvency 2 Implementation fee as applicable under Part 5.
A.4	~~7.5%~~ 15.6% of the fee payable by the *firm* for the activity group (see Part 1). The deduction does not apply to any Solvency 2 Special Project fee (as defined in Part 1) or Solvency 2 Implementation fee as applicable under Part 5.
A.5	~~7.5%~~ 15.6% of the fee payable by the *firm* for the activity group (see Part 1)
A.6	~~7.5%~~ 15.6% of the fee payable by the *firm* for the activity group (see Part 1). The deduction does not apply to any Solvency 2 Special Project flat fee or Solvency 2 Implementation flat fee (as defined in Part 1).
A.7	~~7.5%~~ 16.5% of the fee payable by the *firm* for the activity group (see Part 1)
A.9	~~7.5%~~ 15.6% of the fee payable by the *firm* for the activity group (see Part 1)
A.10	~~7.5%~~ 17.3% of the fee payable by the *firm* for the activity

	group (see Part 1)
A.12	~~9.3%~~ 20.1% of the fee payable by the *firm* for the activity group (see Part 1)
A.13	~~7.8%~~ 15.9% of the fee payable by the *firm* for the activity group (see Part 1)
A.14	~~7.5%~~ 18.1% of the fee payable by the *firm* for the activity group (see Part 1)
A.18	~~7.5%~~ 17.0% of the fee payable by the *firm* for the activity group (see Part 1)
A.19	~~7.5%~~ 16.1% of the fee payable by the *firm* for the activity group (see Part 1)

…

Part 4

This table shows the calculation of the Solvency 2 Special Project fee for *firms* falling into fee block A3 or A4.

(1)	The Solvency 2 Special Project fee forms part of the periodic fee payable under fee ~~block~~ blocks A3 and A4 ~~(the "insurance fee blocks")~~.	
(2)	The Solvency 2 Special Project fee is only payable by a *firm* if it meets the conditions in Part ~~(~~5~~)~~ and the conditions set out in paragraph (3) of this Part. ~~In addition:~~	
	(a)	~~where the *firm* falls into fee block A.3, the Solvency 2 Special Project fee is only payable with respect to that insurance fee block if the amount of the periodic fees payable by it under *FEES* 4.3 in respect of the financial year 2009/10 with respect to that insurance fee block was at least £49,000~~; [deleted]
	(b)	~~where the *firm* falls into fee block A.4, the Solvency 2 Special Project fee is only payable with respect to that insurance fee block if the amount of the periodic fees payable by it under *FEES* 4.3 in respect of the financial year 2009/10 with respect to that insurance fee block was at least £55,000.~~ [deleted]
	(c)	[deleted]
	(d)	[deleted]
(3)	~~[deleted]~~ The conditions are that:	
	(a)	before 1 April 2011 the *firm*, or a member of the group of which the *firm* is also a member (in either case, 'the

		recipient’), received a written communication from the *FSA* that it has met the criteria for entry into pre- Internal Model Approval Process status (‘pre-IMAP’); and
	(b)	the recipient, remains in pre-IMAP status on 1 April 2011.
(4)	~~The prior year fee referred to in (2) for a particular insurance fee block does not take into account the Solvency 2 Special Project fee or the Solvency 2 Implementation fee.~~ For the purposes of (3)(b), the recipient will be deemed to be in pre-IMAP status unless, before 1 April 2011:	
	(a)	the recipient informs the *FSA* in writing that it wishes to withdraw from pre-IMAP status; or
	(b)	the recipient has been informed by the *FSA* in writing that it is no longer in pre-IMAP status.
(5)	~~[deleted]~~ For the purposes of this Part a reference to pre-Internal Model Approval Process status means the status achieved by the recipient by joining the process established by the *FSA* whereby the *FSA* and the recipient engage with a view to the *FSA* establishing whether an internal model developed by the recipient is likely to meet the tests and standards specified in the *Solvency 2 Directive*.	
(6)	~~[deleted]~~ A reference to ‘group’ in this Part means a group determined by reference to the provisions contained in Title III, Chapter I of the *Solvency 2 Directive*.	
…		

…

…

4 Annex 4 R Periodic fees in relation to collective investment schemes payable for the period 1 April ~~2010~~ 2011 to 31 March ~~2011~~ 2012

Part 1 - Periodic fees payable

Scheme type	Basic fee (£)	Total funds/sub-funds aggregate	Fund factor	Fee (£)
ICVC, AUT, Section 264 of the *Act* Section 270 of the *Act*	~~560~~ 600	1-2 3-6 7-15 16-50 >50	1 2.5 5 11 22	~~560~~ 600 ~~1,400~~ 1,500 ~~2,800~~ 3,000 ~~6,160~~ 6,600 ~~12,320~~ 13,200

Section 272 of the *Act*	~~2,280~~ 2,440	1-2 3-6 7-15 16-50 >50	1 2.5 5 11 22	~~2,280~~ 2,440 ~~5,700~~ 6,100 ~~11,400~~ 12,200 ~~25,080~~ 26,840 ~~50,160~~ 53,680

Fees are charged according to the number of funds or *sub-funds* operated by a *firm* as at 31 March ~~2010~~ 2011.

…

4 Annex 5 R Periodic fees for designated professional bodies payable in relation to the period 1 April ~~2010~~ 2011 to 31 March ~~2011~~ 2012

Table of fees payable by Designated Professional Bodies

Name of Designated Professional Body	Amount payable	Due date
The Law Society of England & Wales	£41,530	30 April 2011
	~~£48,565~~ £31,210	1 September ~~2010~~ 2011
The Law Society of Scotland	~~£14,620~~ £14,010	1 July ~~2010~~ 2011
The Law Society of Northern Ireland	~~£13,380~~ £12,940	1 July ~~2010~~ 2011
The Institute of Actuaries	~~£10,130~~ £10,110	1 July ~~2010~~ 2011
The Institute of Chartered Accountants in England and Wales	~~£27,350~~ £25,050	1 July ~~2010~~ 2011
The Institute of Chartered Accountants of Scotland	~~£11,450~~ £11,210	1 July ~~2010~~ 2011
The Institute of Chartered Accountants in Ireland	~~£10,700~~ £10,640	1 July ~~2010~~ 2011
The Association of Chartered Certified Accountants	~~£18,040~~ £16,990	1 July ~~2010~~ 2011
The Council for Licensed Conveyancers	~~£11,290~~ £11,230	1 July ~~2010~~ 2011
Royal Institution of Chartered Surveyors	~~£14,390~~ £13,810	1 July ~~2010~~ 2011

…

4 Annex 6 R **Periodic fees for recognised investment exchanges and recognised clearing houses payable in relation to the period 1 April ~~2010~~ 2011 to 31 March ~~2011~~ 2012**

…

Part 1 - Periodic fees for UK recognised bodies

Name of UK recognised body	Amount payable	Due date
Euroclear UK & Ireland Limited	£325,000	30 April 2011
	~~£372,500~~ £275,000	1 September ~~2010~~ 2011
ICE Futures Europe Ltd	£255,000	30 April 2011
	~~£280,000~~ £245,000	1 September ~~2010~~ 2011
LIFFE Administration and Management	£400,000	30 April 2011
	~~£475,000~~ £350,000	1 September ~~2010~~ 2011
LCH Clearnet Limited	£375,000	30 April 2011
	~~£452,000~~ £325,000	1 September ~~2010~~ 2011
The London Metal Exchange Limited	£237,500	30 April 2011
	~~£277,000~~ £212,500	1 September ~~2010~~ 2011
London Stock Exchange plc	£335,000	30 April 2011
	~~£409,000~~ £280,000	1 September ~~2010~~ 2011
EDX London Ltd	£60,000	30 April 2011
	~~£77,500~~ £30,000	1 September ~~2010~~ 2011
PLUS Markets Plc	£105,000	30 April 2011
	~~£122,500~~ £85,000	1 September ~~2010~~ 2011

European Central Counterparty Limited	£187,500	30 April 2011
	~~£211,500~~ £167,500	1 September ~~2010~~ 2011
ICE Clear Europe Limited	£275,000	30 April 2011
	~~£366,000~~ £265,000	1 September ~~2010~~ 2011
Chicago Mercantile Exchange Clearing Europe	£400,000	1 September 2011
…		

Part 2 - Periodic fees for overseas recognised bodies

Name of overseas recognised body	Amount payable	Due date
The Chicago Mercantile Exchange (CME) (ROIE)	£40,000	1 July ~~2010~~ 2011
Chicago Board of Trade	£40,000	1 July ~~2010~~ 2011
EUREX (Zurich)	£40,000	1 July ~~2010~~ 2011
National Association of Securities and Dealers Automated Quotations (NASDAQ)	£40,000	1 July ~~2010~~ 2011
New York Mercantile Exchange Inc.	£40,000	1 July ~~2010~~ 2011
The Swiss Stock Exchange	£40,000	1 July ~~2010~~ 2011
Sydney Futures Exchange Limited	£40,000	1 July ~~2010~~ 2011
ICE Futures US Inc	£40,000	1 July ~~2010~~ 2011
NYSE Liffe US	£40,000	1 July ~~2010~~ 2011
SIS x-clear AG	£100,000	1 July ~~2010~~ 2011
Eurex Clearing AG	~~£200,000~~ £70,000	1 July ~~2010~~ 2011
ICE Clear US Inc	£70,000	1 July ~~2010~~ 2011
Chicago Mercantile Exchange (CME) (ROCH)	~~£200,000~~ £100,000	1 July ~~2010~~ 2011
European Multi-Lateral Clearing Facility	£100,000	1 July ~~2010~~ 2011

Cassa di Compensazione e Garanzia (CC&G)	£70,000	1 July ~~2010~~ <u>2011</u>
<u>LCH Clearnet SA</u>	<u>£100,000</u>	<u>1 July 2011</u>
…		

4 Annex 7 R **Periodic fees in relation to the Listing Rules for the period 1 April ~~2010~~ 2011 to 31 March ~~2011~~ 2012**

Fee type	Fee amount
Annual fees for the period 1 April ~~2010~~ 2011 to 31 March ~~2011~~ 2012	
…	

…

There is deducted from the fee specified in this Annex ~~0.0%~~ 3.5% of the fee payable to take into account financial penalties received by the *FSA* in the previous financial year.

…

4 Annex 8 R **Periodic fees in relation to the disclosure rules and transparency rules for the period 1 April ~~2010~~ 2011 to 31 March ~~2011~~ 2012**

Annual fees for the period 1 April ~~2010~~ 2011 to 31 March ~~2011~~ 2012
…

…

There is deducted from the fee specified in this Annex 3.5% of the fee payable to take into account financial penalties received by the *FSA* in the previous financial year.

4 Annex 9 R **Periodic fees in respect of securities derivatives for the period from 1 April ~~2010~~ 2011 to 31 March ~~2011~~ 2012**

Part 1

…

For the purposes of this Annex, a "relevant contract" is any contract entered into or settled by *firms* on or through *LIFFE* or Eurex Clearing AG in *securities derivatives* and the "relevant period" is 1 January ~~2009~~ 2010 to 31 December ~~2009~~ 2010 inclusive.

The fee shown in the table below for *firms* (but not *market operators*) will be subject to a deduction of ~~7.7%,~~ 14.4%, as if that fee were a periodic fee charged under *FEES* 4.3.3R, and the deduction were a deduction set out in Part 2 of *FEES* 4 Annex 2 R.

…

Fee amount for *firms*	
Number of relevant contracts entered into by the *firm* during the relevant period	Fee amount
0 – 100	£0
101 - 1,000	~~£550~~ £590
1,001 - 100,000	~~£2,775~~ £2,975
100,001 - 1,000,000	~~£8,340~~ £8,950
1,000,001 - 5,000,000	~~£20,000~~ £21,500
5,000,001 - 20,000,000	~~£35,435~~ £38,000
>20,000,000	~~£54,000~~ £58,000

Fee amount for *market operators*	
Market operators providing facilities for trading in *securities derivatives* that do not identify those *securities derivatives* using an International Securities Identity Number	~~£10,300~~ £11,100

…

4 Annex 10 R Periodic fees for MTF operators payable in relation to the period 1 April ~~2010~~ 2011 to 31 March ~~2011~~ 2012

Name of MTF operator	Fee payable (£)	Due date 1 July ~~2010~~ 2011
~~Baikal Global Ltd~~	~~25,000~~	
Barclays Bank Plc	~~3,600~~ 4,000	
BATS Trading Ltd	80,000	
BGC Brokers L.P	~~3,600~~ 4,000	
Cantor Index Limited	~~7,750~~ 8,000	
~~CantorCO2e Limited~~	~~3,600~~	
Chi-X Europe Limited	~~125,000~~ 130,000	
EuroMTS Limited	30,000	
GFI Brokers Limited	~~3,600~~ 4,000	
GFI Securities Limited	~~3,600~~ 4,000	
ICAP Electronic Broking Limited	~~6,000~~ 6,250	
ICAP Energy Limited	~~3,600~~ 4,000	
ICAP Europe Limited	~~3,600~~ 4,000	
ICAP Shipping Tanker Derivatives Limited	~~3,600~~ 4,000	
ICAP Securities Limited	~~3,600~~ 4,000	
ICAP WCLK Limited	~~3,600~~ 4,000	

J.P.Morgan Cazenove Limited	4,000	
Liquidnet Europe Limited	70,000	
MF Global UK Limited	~~3,300~~ 4,000	
My Treasury Limited	~~3,600~~ 4,000	
~~NASDAQ OMX Europe Limited~~	~~70,000~~	
Nomura	4,000	
SmartPool Trading Limited	~~20,000~~ 22,500	
TFS-ICAP Limited	~~3,600~~ 4,000	
Tradeweb Europe Limited	~~12,500~~ 13,000	
Tradition (UK) Limited	~~3,600~~ 4,000	
Tradition Financial Services Limited	~~3,600~~ 4,000	
Tullett Prebon (Europe) Limited	~~3,600~~ 4,000	
Tullett Prebon (Securities) Limited	~~3,600~~ 4,000	
Turquoise Services Limited	80,000	
UBS Ltd	4,000	
	… In any other case ~~£3,000~~ £3,500	… In any other case, 1 July ~~2010~~ 2011

There is deducted from the fee specified in this Annex ~~7.5%~~ 14.4% of the fee payable to take into account financial penalties received by the *FSA* in the previous financial year.

…

4 Annex 11 R **Periodic fees in respect of payment services carried on by fee-paying payment service providers under the Payment Services Regulations and electronic money issuers under the Electronic Money Regulations in relation to the period 1 April ~~2010~~ 2011 to 31 March ~~2011~~ 2012**

…

Part 5 - Tariff rates

Activity group	Fee payable in relation to 2010/11	
G.2	Minimum fee (£)	400
	£ million or part £m of Modified Eligible Liabilities (MELS)	Fee (£/£m or part £m of MELS)
	> 0.1	~~0.42292~~ 0.47133
	> 0.25	~~0.42292~~ 0.47133
	> 1.0	~~0.42292~~ 0.47133
	> 10.0	~~0.42292~~ 0.47133
	> 50.0	~~0.42292~~ 0.47133
	> 500.0	~~0.42292~~ 0.47133
G.3	Minimum fee (£)	400
	£ thousands or part £ thousand of Relevant Income	Fee (£/£thousand or part £ thousand of Relevant Income)
	~~>0.1~~ > 100	~~0.48508~~ 0.52500
	~~>0.25~~ > 250	~~0.48508~~ 0.52500
	~~>1.0~~ > 1000	~~0.48508~~ 0.52500
	~~>10.0~~ > 10,000	~~0.48508~~ 0.52500
	~~>50.0~~ > 50,000	~~0.48508~~ 0.52500
	~~>500.0~~ > 500,000	~~0.48508~~ 0.52500
…		

G.10	Minimum fee (£)	1,500
	£million or part £m of average outstanding electronic money (AOEM)	Fee (£/£m or part £m of AOEM)
	> 5.0	150.00
G.11	[£1,000]	

Part 6 - Permitted deductions for financial penalties pursuant to the *Payment Services Regulations* and the *Electronic Money Regulations*

Fee-paying payment service providers may make deductions as provided in this Part.

Activity group	Nature of deduction	Amount of deduction
G.2	Financial penalties received	~~0.0%~~ 1.1%
G.3	Financial penalties received	~~0.0%~~ 1.1%
G.4	Financial penalties received	~~0.0%~~ 1.1%
G.5	Financial penalties received	~~0.0%~~ 1.1%
G.10	Financial penalties received	1.1%
G.11	Financial penalties received	1.1%

Part 7 - This table shows the modifications to fee tariffs that apply to *EEA authorised payment institutions*, *EEA authorised electronic money institutions* and *full credit institutions* and *e-money issuers* that are *EEA firms*.

Activity group	Percentage deducted from the tariff payable under Part 5 applicable to the firm
G.2	40%
G.3	40%
G.10	40%

5 Financial Ombudsman Service Funding

…

There are three different ranges for the general levy for 2011/12, see paragraph 12.7 of the consultation paper. Range 1 sets a total general levy of £17.7m; Range 2 a levy of £32.7m and Range 3 a levy of £47.7m

Range 1 – a total general levy of £17.7m

5 Annex 1 R Annual General Levy Payable in Relation to the Compulsory Jurisdiction for ~~2010/11~~ 2011/12

Introduction: annual budget

1. The *annual budget* for ~~2010/11~~ 2011/12 approved by the *FSA* is £116.2m.

2. The total amount expected to be raised through the *general levy* in ~~2010/11~~ 2011/12 will be £17.7m (net of £1.8m to be raised from consumer credit firms).

Industry block	Tariff base	General levy payable by firm
1 –Deposit acceptors, *home finance providers*, *home finance administrators* (excluding *firms* in block 14) and *dormant account fund operators*	…	~~£0.0278~~ £0.026681 per relevant account subject to a minimum levy of £100
2-Insurers - general (excluding *firms* in blocks 13 and 15)	...	~~£0.108~~ £0.0895 per £1,000 of relevant gross premium income subject to a minimum levy of £100
3-The *Society* (of Lloyd's)	…	£20,000 to be allocated by the *Society*
4-Insurers - life (excluding *firms* in block 15)	…	~~£0.033~~ £0.0159 per £1,000 of relevant adjusted gross premium income, subject to a minimum levy of £100

…		
8-Advisory *arrangers*, dealers or brokers holding and controlling *client money* and/or assets	…	~~£35~~ £15 per relevant *approved person* subject to a minimum levy of £35
9-Advisory *arrangers*, dealers or brokers not holding and controlling *client money* and/or assets	…	~~£35~~ £9.40 per relevant *approved person* subject to a minimum levy of £35
…		
11-*fee-paying payment service providers* (but excluding *firms* in any other Industry block except Industry block 18)	For *authorised payment institutions* (except for *small electronic money institutions*), the Post Office Limited, the Bank of England, government departments and local authorities, and *EEA authorised payment institutions* relevant income as described in *FEES* 4 Annex 11R Part 3	~~£0.015~~ £0.0153 per £1,000 of relevant income subject to a minimum levy of £75
	For *small payment institutions* and *small electronic-money issuers* a flat fee	Levy of £75
…		
16-*Home finance providers*, *advisers* and *arrangers* (excluding *firms* in blocks 13, 14 & 15)	Flat fee	Levy of ~~£90~~ £46
17-General insurance mediation (excluding *firms* in blocks 13, 14 & 15)	*Annual income* (as defined in *MIPRU* 4.3) relating to *firm's relevant business*	~~£0.31~~ £0.6338 per £1,000 of *annual income* (as defined in *MIPRU* 4.3) relating to *firm's relevant business* subject

		to a minimum levy of £85
<ins>18 – *fee-paying electronic money issuers*</ins>	<ins>For authorised *electronic money institutions*, the Post Office Limited, the Bank of England, government departments and local authorities and *EEA authorised electronic money institutions*, a flat fee</ins>	<ins>£75</ins>
	<ins>For *small electronic money institutions*, a flat fee</ins>	<ins>£75</ins>

…

Range 2 – a total general levy of £32.7m

5 Annex 1 R Annual General Levy Payable in Relation to the Compulsory Jurisdiction for ~~2010/11~~ <ins>2011/12</ins>

Introduction: annual budget

1. The *annual budget* for ~~2010/11~~ <ins>2011/12</ins> approved by the *FSA* is ~~£113.7m~~ <ins>£131.2m</ins>.

2. The total amount expected to be raised through the *general levy* in ~~2010/11~~ <ins>2011/12</ins> will be ~~£17.7m~~ <ins>£32.7m</ins> (net of £1.8m to be raised from consumer credit firms).

Industry block	Tariff base	General levy payable by firm
1 –Deposit acceptors, *home finance providers*, *home finance administrators* (excluding *firms* in block 14) and *dormant account fund operators*	…	~~£0.0278~~ <ins>£0.04932</ins> per relevant account subject to a minimum levy of £100
2-Insurers - general (excluding *firms* in blocks 13 and 15)	...	~~£0.108~~ <ins>£0.166</ins> per £1,000 of relevant gross premium income subject

		to a minimum levy of £100
3-The *Society* (of Lloyd's)	…	~~£20,000~~ <u>£37,000</u> to be allocated by the *Society*
4-Insurers - life (excluding *firms* in block 15)	…	~~£0.033~~ <u>£0.0295</u> per £1,000 of relevant adjusted gross premium income, subject to a minimum levy of £100
5 – Fund managers (including those holding *client money*/assets and not holding *client money*/assets)	…	Levy of ~~£200~~ <u>£365</u>
6 – *Operators, trustees* and *depositaries* of *collective investment schemes* and *operators* of *personal pension schemes* and *stakeholder pension schemes*	…	Levy of ~~£50~~ <u>£90</u>
7 – Dealers as principal	…	Levy of ~~£50~~ <u>£100</u>
8-Advisory *arrangers*, dealers or brokers holding and controlling *client money* and/or assets	…	~~£35~~ <u>£28.20</u> per relevant *approved person* subject to a minimum levy of £35
9-Advisory *arrangers*, dealers or brokers not holding and controlling *client money* and/or assets	…	~~£35~~ <u>£22.15</u> per relevant *approved person* subject to a minimum levy of £35
10 – Corporate finance advisers	…	Levy of ~~£50~~ <u>£100</u>
11-*fee-paying payment service providers* (but excluding *firms* in any other Industry block <u>except Industry block</u>	For *authorised payment institutions* (except for *small electronic money institutions*), the Post Office Limited, the	~~£0.015~~ <u>£0.031</u> per £1,000 of relevant income subject to a minimum levy of £75

18)	Bank of England, government departments and local authorities, and *EEA authorised payment institutions* relevant income as described in *FEES* 4 Annex 11R Part 3	
	For *small payment institutions* and *small electronic-money issuers* a flat fee	Levy of ~~£75~~ £102
…		
13 – Cash plan health providers	…	Levy of ~~£50~~ £100
14 – *Credit unions*	…	Levy of ~~£50~~ £100
15 – *Friendly societies* whose tax-exempt business represents 95% or more of their total relevant business	…	Levy of ~~£50~~ £100
16-*Home finance providers*, *advisers* and *arrangers* (excluding *firms* in blocks 13, 14 & 15)	…	Levy of ~~£90~~ £83
17-General insurance mediation (excluding *firms* in blocks 13, 14 & 15)	*Annual income* (as defined in *MIPRU* 4.3) relating to *firm's relevant business*	~~£0.31~~ £1.246 per £1,000 of *annual income* (as defined in *MIPRU* 4.3) relating to *firm's relevant business* subject to a minimum levy of £85
18 – *fee-paying electronic money issuers*	For authorised *electronic money institutions*, the Post Office Limited, the Bank of England, government departments and local authorities and *EEA authorised electronic money institutions*, a	£140

	flat fee	
	For *small electronic money institutions*, a flat fee	£140

…

Range 3 – a total general levy of £47.7m

5 Annex 1 R Annual General Levy Payable in Relation to the Compulsory Jurisdiction for ~~2010/11~~ 2011/12

Introduction: annual budget

1. The *annual budget* for ~~2010/11~~ 2011/12 approved by the *FSA* is ~~£113.7m~~ £146.2m.

2. The total amount expected to be raised through the *general levy* in ~~2010/11~~ 2011/12 will be ~~£17.7m~~ £47.7m (net of £1.8m to be raised from consumer credit firms).

Industry block	Tariff base	General levy payable by firm
1 –Deposit acceptors, *home finance providers*, *home finance administrators* (excluding *firms* in block 14) and *dormant account fund operators*	…	~~£0.0278~~ £0.07198 per relevant account subject to a minimum levy of £100
2-Insurers - general (excluding *firms* in blocks 13 and 15)	...	~~£0.108~~ £0.2419 per £1,000 of relevant gross premium income subject to a minimum levy of £100
3-The *Society* (of Lloyd's)	…	~~£20,000~~ £53,800 to be allocated by the *Society*
4-Insurers - life (excluding *firms* in block 15)	…	~~£0.033~~ £0.043 per £1,000 of relevant adjusted gross premium income, subject to a minimum levy of £100
5 – Fund managers (including those	…	Levy of ~~£200~~ £550

holding *client money*/assets and not holding *client money*/assets)		
6 – *Operators*, *trustees* and *depositaries* of *collective investment schemes* and *operators* of *personal pension schemes* and *stakeholder pension schemes*	…	Levy of ~~£50~~ £130
7 – Dealers as principal	…	Levy of ~~£50~~ £145
8-Advisory *arrangers*, dealers or brokers holding and controlling *client money* and/or assets	…	~~£35~~ £41.40 per relevant *approved person* subject to a minimum levy of £35
9-Advisory *arrangers*, dealers or brokers not holding and controlling *client money* and/or assets	…	~~£35~~ £34 per relevant *approved person* subject to a minimum levy of £35
10 – Corporate finance advisers	…	Levy of ~~£50~~ £150
11-*fee-paying payment service providers* (but excluding *firms* in any other Industry block except Industry block 18)	For *authorised payment institutions* (except for *small electronic money institutions*), the Post Office Limited, the Bank of England, government departments and local authorities, and *EEA authorised payment institutions* relevant income as described in *FEES* 4 Annex 11R Part 3	~~£0.015~~ £0.046 per £1,000 of relevant income subject to a minimum levy of £75
	For *small payment institutions* and *small electronic-money*	Levy of ~~£75~~ £145

	issuers a flat fee	
…		
13 – Cash plan health providers	…	Levy of ~~£50~~ £140
14 – *Credit unions*	…	Levy of ~~£50~~ £145
15 – *Friendly societies* whose tax-exempt business represents 95% or more of their total relevant business	…	Levy of ~~£50~~ £140
16-*Home finance providers*, *advisers* and *arrangers* (excluding *firms* in blocks 13, 14 & 15)	…	Levy of ~~£90~~ £121
17-General insurance mediation (excluding *firms* in blocks 13, 14 & 15)	*Annual income* (as defined in *MIPRU* 4.3) relating to *firm's relevant business*	~~£0.31~~ £1.853 per £1,000 of *annual income* (as defined in *MIPRU* 4.3) relating to *firm's relevant business* subject to a minimum levy of £85
18 – *fee-paying electronic money issuers*	For authorised *electronic money institutions*, the Post Office Limited, the Bank of England, government departments and local authorities and *EEA authorised electronic money institutions*, a flat fee	£200
	For *small electronic money institutions*, a flat fee	£200

…

…

7 Annex 1 R **CFEB levies for the period from 1 April ~~2010~~ 2011 to 31 March ~~2011~~ 2012**

Part 1

This table shows the *CFEB levies* applicable to each activity group (fee-block)

Activity Group	*CFEB levy* payable	
A.1	Band Width (£ million of Modified Eligible Liabilities (MELs))	Fixed sum (£/£m or part £m of MELs)
	> 10 - 140	~~3.67~~ 5.05
	> 140 - 630	~~3.67~~ 5.05
	>630 - 1,580	~~3.67~~ 5.05
	>1,580 - 13,400	~~3.67~~ 5.05
	>13,400	~~3.67~~ 5.05
	Note 1 For a *firm* in A.1 which has a limitation on its *permission* to the effect that it may *accept deposits* from *wholesale depositors* only, this levy is calculated as above less 30%.	
A.2	Band Width (no. of mortgages and/or *home finance transactions*)	Fixed sum
	>50 – 130	~~0.10~~ 0.142
	>130 – 320	~~0.10~~ 0.142
	>320 – 4,570	~~0.10~~ 0.142
	>4, 570 – 37,500	~~0.10~~ 0.142
	>37,500	~~0.10~~ 0.142
A.3	**Gross premium income (GPI)**	

	Band Width (£ million of GPI)	Fixed sum (£/£m or part £m of GPI)
	>0.5 – 10.5	~~45.21~~ 58.43
	>10.5 - 30	~~45.21~~ 58.43
	>30 - 245	~~45.21~~ 58.43
	>245 - 1, 900	~~45.21~~ 58.43
	>1,900	~~45.21~~ 58.43
	PLUS	
	Gross technical liabilities (GTL)	
	Band Width (£ million of GTL)	Fixed sum (£/£m of part £m of GTL)
	>1 – 12.5	~~2.29~~ 3.01
	>12.5 - 70	~~2.29~~ 3.01
	>70 - 384	~~2.29~~ 3.01
	>384 - 3,750	~~2.29~~ 3.01
	>3,750	~~2.29~~ 3.01
A.4	**Adjusted annual gross premium income (AGPI)**	
	Band Width (£ million of AGPI)	Fixed sum (£/£m or part £m of AGPI)
	>1 - 5	~~56.32~~ 79.98
	>5 - 40	~~56.32~~ 79.98
	>40 - 260	~~56.32~~ 79.98
	>260 - 4,000	~~56.32~~ 79.98
	>4,000	~~56.32~~ 79.98
	PLUS	
	Mathematical reserves	

	(MR)	
	Band Width (£ million of MR)	Fixed sum (£/£m or part £m of MR)
	>1 – 20	~~1.23~~ 1.63
	>20 - 270	~~1.23~~ 1.63
	>270 - 7,000	~~1.23~~ 1.63
	>7,000 - 45,000	~~1.23~~ 1.63
	>45,000	~~1.23~~ 1.63
A.5	Band Width (£ million of Active Capacity (AC))	Fixed sum (£/£m or part £m of AC)
	>50 - 150	~~4.25~~ 5.64
	>150 - 250	~~4.25~~ 5.64
	>250 - 500	~~4.25~~ 5.64
	>500 - 1,000	~~4.25~~ 5.64
	>1,000	~~4.25~~ 5.64
A.6	Flat levy	~~£120,590~~ £159,941.90
A.7	For class 1(C), (2) and (3) *firms*:	
	Band Width (£ million of Funds under Management (FuM))	Fixed sum (£/£m of part £m of FuM)
	>10 - 150	~~0.68~~ 0.814
	>150 - 2,800	~~0.68~~ 0.814
	>2,800 - 17,500	~~0.68~~ 0.814
	>17,500 - 100,000	~~0.68~~ 0.814
	>100,000	~~0.68~~ 0.814
	…	
A.9	Band Width (£ million of Gross Income (GI))	Fixed sum (£/£m of part £m of GI)

	>1 - 4.5	~~83.19~~ 99.20
	>4.5 - 17	~~83.19~~ 99.20
	>17 - 145	~~83.19~~ 99.20
	> 145 - 750	~~83.19~~ 99.20
	>750	~~83.19~~ 99.20
A.10	Band Width (no. of traders)	Fixed sum (£/trader)
	2 - 3	~~253.40~~ 341.38
	4 - 5	~~253.40~~ 341.38
	6 - 30	~~253.40~~ 341.38
	31 - 180	~~253.40~~ 341.38
	>180	~~253.40~~ 341.38
A.12	Band Width (no. of persons)	Fixed sum (£/person)
	2 – 5	~~33.90~~ 44.61
	6 - 35	~~33.90~~ 44.61
	36 - 175	~~33.90~~ 44.61
	176 - 1,600	~~33.90~~ 44.61
	>1,600	~~33.90~~ 44.61
	…	
A.13	For class (2) firms	
	Band Width (no. of persons)	Fixed sum (£/person)
	2 – 3	~~102.10~~ 136.06
	4 - 30	~~102.10~~ 136.06
	31 - 300	~~102.10~~ 136.06
	301 - 2,000	~~102.10~~ 136.06

	>2,000	~~102.10~~ 136.06
	…	
A.14	Band Width (no. of persons)	Fixed sum (£/person)
	2 – 4	~~106.11~~ 132.86
	5 - 25	~~106.11~~ 132.86
	26 - 80	~~106.11~~ 132.86
	81 - 199	~~106.11~~ 132.86
	>199	~~106.11~~ 132.86
A.18	Band Width (£ thousands of Annual Income (AI))	Fixed sum (£/£ thousand or part £ thousand of AI)
	>100 - 180	~~0.85~~ 1.36
	>180 - 1,000	~~0.85~~ 1.36
	>1,000 - 12,500	~~0.85~~ 1.36
	>12,500 - 50,000	~~0.85~~ 1.36
	>50,000	~~0.85~~ 1.36
A.19	Band Width (£ thousands of Annual Income (AI))	Fixed sum (£/£ thousand or part £ thousand of AI)
	>100 - 325	~~0.20~~ 0.26
	>325 - 10,000	~~0.20~~ 0.26
	>10,000 - 50,750	~~0.20~~ 0.26
	>50,750 - 250,000	~~0.20~~ 0.26
	>250,000	~~0.20~~ 0.26
G.3	Minimum fee (£)	10
	£ thousands or part £ thousand of Relevant Income	Fee (£/£thousand or part £ thousand of Relevant Income)
	>100	0.04787

	>250	0.04787
	>1,000	0.04787
	>10,000	0.04787
	>50,000	0.04787
	>500,000	0.04787
G.4	A flat fee of £10	
G.10	Minimum fee (£)	10
	£ million or part £m of average outstanding electronic money (AOEM)	Fee (£/£m or part £m of AOEM)
	> 5.0	12.00
G.11	A flat fee of £10	

…

Appendix 3

Draft rules and guidance for consultation and response by 1 April 2011 – Unauthorised Mutuals

PERIODIC FEES (UNAUTHORISED MUTUAL SOCIETIES REGISTRATION) (2011/2012) INSTRUMENT 2011

Powers exercised

A. The Financial Services Authority 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 156 (General supplementary powers); and
(2) paragraph 17 (Fees) of Schedule 1 (The Financial Services Authority).

B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on 1 June 2011.

Amendments to the FSA's rules

D. The Unauthorised mutuals registration fees rules are amended in accordance with the Annex to this instrument.

Citation

E. This instrument may be cited as the Periodic Fees (Unauthorised Mutual Societies Registration) (2011/2012) Instrument 2011.

By order of the Board
XX May 2011

Annex

Amendments to the Unauthorised mutuals registration fees rules

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

Amend Annex 1R as shown.

ANNEX 1R
PERIODIC FEES PAYABLE FOR THE PERIOD 1 APRIL ~~2010~~ 2011 TO 31 MARCH ~~2011~~ 2012

Part 1
Periodic fee payable by Registered Societies (on 30 June ~~2010~~ 2011)
This fee is not payable by a *credit union*.

Transaction	Total assets (£'000s)	Amount payable (£)
Periodic fee	0 - 50	55
	> 50 to 100	110
	> 100 to 250	180
	> 250 to 1,000	235
	> 1,000	425

Part 2
Methods of payment of periodic fees

A periodic fee must be paid using either direct debit, credit transfer (BACS/CHAPS), cheque, switch or by credit card (Visa/Mastercard only). Any payment by permitted credit card must include an additional 2% of the sum paid.

PUB REF: 002435

The Financial Services Authority
25 The North Colonnade Canary Wharf London E14 5HS
Telephone: +44 (0)20 7066 1000 Fax: +44 (0)20 7066 1099
Website: www.fsa.gov.uk