BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Publication

Consultation Paper | CP8/21

Regulated fees and levies: Rates proposals 2021/22

April 2021

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Responses are requested by Thursday 20 May 2021.

In light of current measures to help prevent the spread of COVID-19, please address any comments or enquiries by email to: CP8_21@bankofengland.co.uk.

Alternatively, please address any comments or enquiries to:

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Contents

1 Overview

1.1 This Consultation Paper (CP) sets out proposals for the Prudential Regulation Authority's (PRA) fees for 2021/22. The proposals would make amendments to the Fees Part of the PRA Rulebook (Appendix). The proposals include:

- the fee rates to meet the PRA's 2021/22 Annual Funding Requirement (AFR);
- fees applicable to firms in the temporary regimes;
- changes to new firm authorisation fees and Variation of Permission (VoP) regulatory transaction fees;
- setting out how the PRA intends to distribute a surplus from the 2020/21 AFR (Chapter 3); and the retained penalties for 2020/21 (Chapter 4).

1.2 This CP is relevant to all firms that currently pay PRA fees or are expecting to do so within the 2021/22 fee year.[1]

Summary of proposals

1.3 The PRA's AFR for 2021/22 is composed of the budgeted cost of Ongoing Regulatory Activities (ORA). Further information on this can be found in Chapter 2. The proposed ORA for 2021/22 is £291.6 million, an increase of £27.2 million (10%) on 2020/21. This figure is provisional and may need to be revised when final estimates for the PRA's pension costs are available (please see paragraph 2.5 for further detail).

Implementation

1.4 The PRA proposes to publish the changes resulting from this CP on Tuesday 6 July 2021 and they are expected to be effective from Thursday 8 July 2021.

Responses and next steps

1.5 This consultation closes on Thursday 20 May 2021. The PRA invites feedback on the proposals set out in this consultation. Please address any comments or enquiries to CP8_21@bankofengland.co.uk.

1.6 The proposals set out in this CP have been designed in the context of the UK having left the European Union and the transition period having come to an end. Unless otherwise stated, any references to EU or EU derived legislation refer to the version of that legislation which forms part of retained EU law.[2] The PRA will keep the policy under review to assess whether any changes would be required due to changes in the UK regulatory framework.

1 The 2021/22 fee year began on Monday 1 March 2021 and will end on Monday 28 February 2022.
2 For further information please see https://www.bankofengland.co.uk/eu-withdrawal/transitioning-to-post-exit-rules-and-standards.

2 Proposals

2.1 This chapter sets out proposals on fee rates to meet the PRA's Total Funding Requirement (TFR) for 2021/22. Detailed information on the PRA's strategy and workplan for the coming year, which will be funded by the TFR, is set out in the 'PRA Business Plan 2021/22', which is expected to be published on Monday 24 May 2021.

Total Funding Requirement (TFR)

2.2 The PRA's TFR covers the total fees it proposes to raise from firms and comprises the AFR and 'other fees' (see Table 2.A). The PRA's TFR for 2021/22 is £300.5 million, up £15.8 million from 2020/21 (£284.7 million).

Table 2.A: Estimated Total Funding Requirement for 2021/22 and movement from 2020/21

£ million	2021/22	2020/21	Change	Percentage change
Ongoing Regulatory Activities	291.6	264.4	27.2	10%
EU Withdrawal Fee	-	11.8	(11.8)	(100%)
Annual Funding Requirement	291.6	276.1	15.5	6%
Model Maintenance Fee	7.3	6.2	1.1	18%
Other fees	1.6	2.3	(0.7)	(30%)
Other fees to industry	8.9	8.6	0.3	4%
Total Funding Requirement (TFR)	300.5	284.7	15.8	6%

Rows and columns may not sum due to rounding

2021/22 Annual Funding Requirement (AFR) and comparison with 2020/21

2.3 The AFR is the budget required by the PRA to advance its statutory objectives. The PRA's proposed AFR for 2021/22 is £291.6 million and is composed of the budget for the ORA.

2.4 The proposed AFR for 2021/22 is £15.5 million higher than the AFR for 2020/21 of £276.1 million, an increase of 6%. The increase is driven primarily by increases in the PRA's responsibilities following EU withdrawal, including moving to rulemaking in areas previously under the EU's purview, additional firm supervision, and developments in technology.

2.5 The impact of external market conditions, as at Friday 26 February 2021, on the PRA's pension costs for 2021/22 has yet to be fully assessed. The figure for the ORA is therefore provisional and may need to be revised when final estimates are available (due in April 2021). The anticipated variation is likely to be less than £7.0 million, an increase or decrease on the AFR of 2.4%. If the final variation of the pension costs exceeds £7.0 million, an updated CP will be issued. If any responses have been received prior to the issuance of an updated CP, these will be followed up individually to check whether any respondents wish to revise their response.

2021/22 Ongoing Regulatory Activities (ORA)

2.6 The PRA's 2021/22 proposed budget for ORA is £291.6 million, compared with £264.4 million for 2020/21. Key factors affecting the year-on-year increase of £27.2 million (10%) are:

- an increase in the PRA's responsibilities following EU withdrawal;
- the removal of the 'EU Withdrawal Fee' (see below); and
- work on operational and cyber resilience.

EU Withdrawal Fee

2.7 Since the 2017/18 fee year, the PRA has levied an 'EU Withdrawal Fee' to cover the costs of EU withdrawal-related work (including allocated costs). While EU withdrawal-related PRA work is continuing in 2021/22, the PRA proposes to remove the separate EU Withdrawal Fee to reflect this work moving into business as usual activity.

Fees for firms in temporary regimes

2.8 In December 2020, the European Economic Area (EEA) passporting regime came to an end in the UK and a number of EEA inward passporting firms wishing to continue to operate in the UK entered the UK transitional regimes: the Temporary Permissions Regime (TPR) and the Financial Services Contract Regime (FSCR). As a result of the change in status of these firms, the PRA proposes to remove the 50% and 90% discount (for banks and insurers respectively) on periodic fees for former EEA inward passporting firms. This reflects the fact that the PRA now supervises these firms on the same basis as inward-branching firms from other countries. However, the PRA proposes that fee discounts for inward passporting banks and insurers from Gibraltar be retained. The PRA intends to review the approach for fees for Gibraltarian firms ahead of the introduction of the Gibraltar Authorisation Regime (GAR).

2.9 While firms operating in the TPR and Supervisory Run-Off Regime (SRO) will pay PRA fees on the same basis as other third-country branches in line with existing rules, the PRA proposes that TPR firms that previously operated in the UK prior to the end of the transition period as freedom of service providers (FOSP) should pay a flat rate periodic fee of £600.[3]

2.10 The PRA also notes that insurance branches in TPR with approval to use Solvency II internal models will not be subject to the model maintenance fee in the 2021/22 fee year, as the changes to these models will not be reviewed in this fee year.

Allocation of 2021/22 ORA to fee blocks

2.11 The proposed allocation of the ORA across the seven PRA-regulated fee blocks, including the minimum fee block, is set out in Table 2.B. Firms are allocated to PRA fee blocks based on the regulated activities for which they hold permissions, and pay a periodic fee for each fee block into which they fall. The proposed allocation to fee blocks is based on the anticipated work to be performed within each area, and reflects the PRA's risk based approach.

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

3 Chapter 3 in the Fees Part of the PRA Rulebook.

2.13 Any firm authorised to carry out any of the regulated activities covered by the 'A' fee blocks is also subject to the A0 minimum fee, with the exception of the A6 fee block, which consists of the Society of Lloyd's and its subsidiaries only and is invoiced on an individual basis.

Table 2.B: Proposed 2021/22 allocation of ORA, movement from 2020/21, and impact of the removal of the EU Withdrawal Fee

		2021/22			2020/21			Change	
£ million		**ORA**	**EUW**	**Total AFR**	**ORA**	**EUW**	**Total AFR**	**£m**	**%**
A0	Minimum Fees	0.7	-	0.7	0.5	-	0.5	0.1	24.9%
A1	Deposit takers	182.5	-	182.5	168.4	7.5	175.9	6.6	3.8%
A3	Insurers – general	41.8	-	41.8	35.3	1.6	36.8	5.0	13.5%
A4	Insurers – life	50.8	-	50.8	45.8	2.0	47.9	2.9	6.1%
A5	Managing agents at Lloyd's	1.7	-	1.7	1.6	0.1	1.6	0.1	5.6%
A6	The Society of Lloyd's	2.2	-	2.2	2.0	0.1	2.1	0.2	5.6%
A10	Firms dealing as principal	11.9	-	11.9	10.8	0.5	11.3	0.6	5.6%
Ongoing Regulatory Activities		**291.6**	**-**	**291.6**	**264.4**	**11.8**	**276.1**	**15.5**	**5.6%**

Rows and columns may not sum due to rounding

Online fees calculator

2.14 The Financial Conduct Authority (FCA) provides a facility on its website to enable firms to calculate their periodic fees for the forthcoming year based on the proposed PRA consultative rates (Appendix 1). The fee calculator for 2021/22 fees is expected to be available to firms from Thursday 15 April 2021.[4]

Changes to tariff data used in AFR allocations to fee blocks relative to 2020/21

2.15 Table 2.C sets out the analysis of tariff data used for allocating the PRA's proposed AFR to firms within fee blocks for 2021/22, and a comparison to 2020/21. The impact of the increase to the ORA is lessened where there is an increase in tariff data within the fee blocks, and magnified where there is a decrease in tariff data. For example, in the A5 fee block, there is an increase in the total reported Active Capacity, decreasing the rate charged to each firm per million GBP of capacity. Table 2.C shows 'gross' tariff data, excluding the impact of the discount to fees paid by inward-branching EEA firms in 2020/21. Given the end to the EEA discount proposed in this CP, the 'net' tariff base for the 2021/22 fee year is expected to increase for the A1, A3, and A4 fee blocks relative to 2020/21, which means that the shown movement in fee rates from 2021/21 (final column) is likely to be overstated for these fee blocks.

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

Table 2.C Analysis of tariff data for allocation of fees within fee blocks compared to 2020/21[5]

Fee block	Tariff basis	2021/22 draft number of firms	2020/21 number of firms	Mvt (%)	2021/22 draft tariff data (£ billion)	2020/21 tariff data (£ billion)	Mvt (%)	**Mvt in fee rates from 2020/21 (%)**
A0	Minimum Fees	1,404	1,310	7.2%	n/a	n/a	n/a	n/a
A1	Modified Eligible Liabilities	766	793	(3.4%)	3,587	3,450	4.0%	0.5%
A3	Gross Written Premiums	311	315	(1.3%)	69	71	(3.1%)	8.1%
	Best Estimate Liabilities				125	131	(4.3%)	17.8%
A4	Gross Written Premiums	155	163	(4.9%)	130	130	(0.1%)	8.1%
	Best Estimate Liabilities				1,166	1,167	(0.1%)	10.3%
A5	Active Capacity	56	57	(1.8%)	38	34	12.6%	(3.1%)
A10	Total Assets	8	8	0.0%	2,611	2,176	20%	(8.1%)
	Total Operating Income				17	14	23.2%	(10.5%)

Other fees

2.16 'Other fees' include implementation fees, the Model Maintenance Fees, Special Project Fees (SPF), and regulatory transaction fees. These fees vary from one year to another and can lead to greater volatility in periodic fees. Additional context on the PRA's approach to other fees can be found in Supervisory Statement (SS) 3/16 'Fees: PRA approach and application'.[6]

2.17 For 2021/22, the PRA proposes to raise £8.9 million in other fees, an increase of £0.3 million on 2020/21.

New authorisation application fee

2.18 New firm authorisation application fees for PRA-authorised firms were initially set by the Financial Services Authority in 2001 and have not been amended since. For new banks and insurers, the PRA authorisation application fee is £12,500, with smaller fees for new insurance special purpose vehicles (ISPVs), managing agents, credit unions, and friendly societies. In all cases, these fees are substantially below the current cost to the PRA of processing and assessing new authorisation applications. However, the PRA has recognised the benefit of supporting market access and ensuring that authorisation fees do not act as a barrier to entry.

2.19 Given the length of time since these fees were changed, the PRA proposes to increase the new authorisation application fees for banks, insurers, ISPVs, managing agents, credit unions, and friendly societies, as set out in the table below. This will increase fees broadly in line with inflation and the

5 As annual Solvency II returns for the 2020 financial year are not submitted until after the publication of this CP, the indicative fee rates for both A3 and A4 fee block payers shown in this table and the draft rules (Appendix 1) use year-end data for 2019. Final fee rates will be based on 2020 data.

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

changing costs of regulation since 2001, but leaves them well below the recovery costs to the PRA of carrying out this work, and low compared with other costs associated with setting up a new PRA-regulated firm. The PRA will continue to consider further reviews to these fees in the future years.

Table 2.D Proposed PRA new authorisation application fee

New Firm Authorisation Application type	Current rate (£)	Proposed rate (£)
A3 or A4 friendly society or A1 credit union	750	1,500
A3 ISPV or A5 managing agent	2,500	5,000
All other firms	12,500	25,000

Regulatory transaction fees for Variation of Permission (VoP) applications

2.20 Last year, the PRA aligned the fees for VoP (where FCA solo-regulated firms add a PRA-regulated activity such as deposit taking) with those for a full new authorisation. This reflected the fact that the PRA's work to assess these applications uses the same amount of resource as if a firm had submitted a new authorisation application. On the same basis, the PRA proposes to increase the VoP application fees where existing regulated firms are adding a PRA-regulated activity (and/or adding the activity of providing services to retail clients), in line with the changes set out in Table 2.D for new authorisations.

Special Project Fees (SPF) hourly rates

2.21 The PRA is not proposing to change the SPF hourly rates.

Minimum fee

2.22 Currently all PRA-regulated firms pay a 'minimum fee' which varies according to the size and type of firm. For the smallest PRA-regulated firms, the minimum fee is the only Periodic Fee they pay. The minimum fees have remained effectively unchanged since before the creation of the PRA and are substantially below the costs to the PRA of supervising these firms.

2.23 The PRA indicated last year that it would consider increasing minimum fees in 2021/22 to better reflect the costs to the PRA of supervising small firms. The PRA considers that there are benefits in simplifying the fee structure and having fewer minimum fee rates, both from an administration perspective for the PRA and from an improving clarity perspective for firms. The PRA therefore proposes that, from 2021/22, medium-sized credit unions and small non-directive friendly societies pay £300 in minimum fees, and all other firms pay £600. Minimum fees applicable to small credit unions remain unchanged.

Table 2.F Proposed new PRA minimum fee

Firm type	Current rate (£)	Proposed rate (£)
Small credit unions	80	unchanged
Medium-sized credit unions	270	300
Small non-directive friendly societies	215	300
All other firms	500	600

Periodic fees for holding companies

2.24 During the 2021/22 fee year, certain banking and designated investment firm financial holding companies, and mixed financial holding companies, have to apply to the PRA for approval or exemption as a holding company.[7] This brings them within scope of the PRA's regulatory responsibilities. In light of this, the PRA considers that it would be appropriate to charge these entities a periodic fee to reflect the ongoing costs of supervising them.[8]

2.25 However, it is not currently clear how the approval of holding companies will change PRA supervision of affected groups, or how the new responsibilities will affect the cost of supervision over the longer term. Moreover, the PRA considers that the application fee that will be paid by firms when they apply for approval or exemption mid-way as holding companies through the 2021/22 fee year will be sufficient to cover the expected costs of supervision through the rest of that year.

2.26 For these reasons, the PRA does not intend to consult on a periodic fee charge for these entities for the 2021/22 fee year, but will look to develop proposals for such a charge for the 2022/23 fee year.

Extension of payment terms

2.27 The PRA proposes to extend the payment terms from 30 days to 90 days for fee payers that would pay consolidated regulatory fees under £10,000 in 2021/22. The FCA acts as the collections agent for the PRA. Further details on this proposal will be set out in the FCA annual fees consultation, which is expected to be published on Thursday 15 April 2021.

7 Part 12B FSMA.
8 March 2021: https://www.bankofengland.co.uk/prudential-regulation/publication/2020/pra-fees-levies-holding-company-transaction-fees.

3 Surplus for 2020/21 TFR

3.1 In the PRA's 2020/21 fee year, there was a surplus of £11.9 million. This is a draft, unaudited figure and therefore will be subject to change, with the final figure to be confirmed when the final policy is published. This surplus consists of:

- £9.2 million surplus on the ORA, inclusive of £2.1 million of additional income from model fees and SPFs;
- £2.3 million of retained penalties; and
- £0.4 million surplus on the EU withdrawal costs allocation.

Surplus on AFR

3.2 Aside from the additional specific income, the surplus on the ORA principally reflects lower than assumed expensed project costs, and is allocated to firms in two stages:

- Stage 1 – Allocation to fee blocks. The PRA proposes to allocate the AFR surplus across all fee blocks, with the exception of the A0 minimum fee block, in proportion to the AFR for the 2020/21 fee year; and
- Stage 2 – Allocation to individual firms. Within each fee block, the AFR surplus is allocated with reference to fee block population and tariff data for the 2020/21 fee year, excluding firms that are no longer PRA fee payers.

3.3 The surplus in the EU Withdrawal Fee will be allocated to firms proportionate to the EU Withdrawal Fee paid for the 2020/21 fee year.

3.4 Table 3.A includes the proposed allocation of the AFR surplus for 2020/21, split by the ORA and the EU Withdrawal Fee and presented by firm type.

Table 3.A Proposed allocation of the 2020/21 Annual Funding Requirement surplus (inc. retained financial penalties)

£ million	ORA	EU W	Total
A1 Deposit takers	7.3	0.3	7.6
A3 Insurers – general	1.5	0.1	1.6
A4 Insurers – life	2.0	0.1	2.1
A5 Managing agents at Lloyd's	0.1	0.0	0.1
A6 The Society of Lloyd's	0.1	0.0	0.1
A10 Firms dealing as principal	0.5	0.0	0.5
Total estimated surplus	**11.5**	**0.4**	**11.9**

Rows and columns may not sum due to rounding

4 Financial penalty scheme and application of retained penalties for 2020/21

4.1 The legislative framework for financial penalties is set out in the Financial Services and Markets Act 2000 (FSMA).[9] Under FSMA, the PRA must:

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

4.2 The PRA's financial penalty scheme provides for retained penalties to be refunded as a rebate to the periodic fees payable by firms in the six fee blocks. There is no allocation to the A0 minimum fee or the PT1 Transition Costs fee blocks, as they do not bear any share of enforcement costs.

Application of retained penalties for 2020/21

4.3 In 2020/21, enforcement activity by the PRA resulted in fines and penalties of £48.3 million, of which £2.3 million is being retained by the PRA. Therefore, this amount (£2.3 million) will be refunded to firms across all the fee blocks, excluding those firms that incurred the fines. The remainder is remitted to HM Treasury.

9 Section 1ZB of FSMA.

5 The PRA's statutory obligations

5.1 In carrying out its policy making functions, the PRA is required to comply with several legal obligations. Before making any rules, FSMA[10] requires the PRA to publish a draft of the proposed rules accompanied by:

- a cost benefit analysis;
- an explanation of the PRA's reasons for believing that making the proposed rules is compatible with the PRA's duty to act in a way that advances its general objective,[11] insurance objective[12] (if applicable), and secondary competition objective;[13]
- an explanation of the PRA's reasons for believing that making the proposed rules is compatible with its duty to have regard to the regulatory principles;[14] and
- a statement as to whether the impact of the proposed rules will be significantly different to mutuals than to other persons.[15]

5.2 The Prudential Regulation Committee (PRC) should have regard to aspects of the Government's economic policy as recommended by HM Treasury.[16]

5.3 The PRA is also required by the Equality Act 2010[17] to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out its policies, services and functions.

Cost benefit analysis

5.4 The PRA is exempt from having to carry out a cost benefit analysis on its draft fee rates.[18]

Compatibility with the PRA's objectives

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

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

10 Section 138J of FSMA.
11 Section 2B of FSMA.
12 Section 2C of FSMA.
13 Section 2H(1) of FSMA.
14 Sections 2H(2) and 3B of FSMA.
15 Section 138K of FSMA.
16 Section 30B of the Bank of England Act 1998.
17 Section 149.
18 Section 138(6)(d) FSMA.

5.6 The PRA considers that the proposed PRA Periodic Fees (2021/2022) and Other Fees Instrument 2021 set out in Appendix 1 will enable the PRA to fund the regulatory activities required to advance its statutory objectives during 2021/22.

5.7 The proposed fees levels are expected to advance the PRA's secondary competition objective because fees for ORA are allocated in a proportionate manner across all PRA-regulated firms, while fees for specific projects and transactions are targeted only to those predominantly larger firms which generate these specific regulatory activities or, in the case of fees for new authorisation applications, continue to be subsidised by incumbent firms. For these reasons, the PRA considers the proposals to be compatible with the requirement for the PRA to act in a way that advances its objectives.[19]

Regulatory principles

5.8 In developing the proposals in this CP, the PRA has had regard to the regulatory principles. The following three of the principles are of particular relevance:

(i) the principle that a burden or restriction which is imposed on a person should be proportionate to the benefits which are expected to result from the imposition of that burden;

(ii) the desirability where appropriate of each regulator exercising its functions in a way that recognises differences in the nature of, and objectives of, businesses carried on by different persons; and

(iii) the principle that the regulators should exercise their functions as transparently as possible.

5.9 The PRA has followed principle (i) by allocating fees in a proportionate way through the use of fee blocks that take into account the size and nature of the PRA-regulated community. The PRA has followed principle (ii) by giving separate consideration to the interests of minimum fee payers and firms not affected by certain PRA activities. The PRA has followed principle (iii) by clearly setting out the basis on which the proposed fees are calculated and providing advance notice of the proposed changes to its fees and charges.

Impact on mutuals

5.10 Within each fee block, the proposed costs to be recovered from individual firms are based on the size of their business. While the PRA proposes a small increase to the minimum fee, it also applies a discount of 11% to the periodic fees payable by non-Directive general insurance firms, many of which are mutuals. In addition, all life insurance non-Directive firms are excluded from periodic fees. The PRA does not consider the impact of the proposed fee rates on mutual societies to be significant. These continue to be lower than the minimum fee that applies to all other firms, and considerably lower than the cost to the PRA of supervising these firms.[20]

19 Section 138J(2) FSMA.
20 See s.138K FSMA.

HM Treasury recommendation letter

5.11 HM Treasury has made recommendations to the PRC about aspects of the Government's economic policy to which the PRC should have regard when considering how to advance the PRA's objectives and apply the regulatory principles as set out in FSMA.[21]

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

(i) competition;

(ii) growth;

(iii) competitiveness; and

(iv) innovation.

Competition

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

Growth

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

Competitiveness

5.15 Given the international nature of some financial services, a transparent and proportionate fee regime helps to support the stability and competitiveness of the UK's financial markets.

Innovation

5.16 The proposals contained within this CP ensure that burdens are proportionate, take into account the differences in the business models employed by firms, and support innovation by ensuring that they do not result in barriers to new entrants.

Equality and diversity

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

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

Appendix

1 Draft PRA fees amendment instrument 2021

PRA RULEBOOK: PRA FEES AMENDMENT (No 2) INSTRUMENT 2021

Powers exercised

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

(1) section 137G (The PRA's general rules);
(2) section 137T (General supplementary powers); and
(3) paragraph 31 (Fees) of Part 3 (Penalties and Fees) of Schedule 1ZB (The Prudential Regulation Authority) of the Act.

B. The rule-making powers referred to above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Pre-conditions to making

C. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of the proposed rules and had regard to representations made.

PRA Rulebook: PRA Fees Amendment (No 2) Instrument 2021

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

Commencement

E. This instrument comes into force on [X].

Citation

F. This instrument may be cited as the PRA Rulebook: PRA Fees Amendment (No 2) Instrument 2021.

By order of the Prudential Regulation Committee

Annex

Amendment to the Fees Part

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

1 APPLICATION AND DEFINITIONS

…

1.2 In this Part, the following definitions shall apply:

…

~~*assets outside expected RFB subgroups*~~

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

…

cross border services

~~means:~~

~~(1) for a former incoming EEA firm or a former incoming Treaty firm, services provided within the UK prior to IP completion day under the freedom to provide services and subsequently under any legislative provision which replaces it;~~

~~(2)~~ <u>means </u>for *Gibraltar-based firms*, services provided under an entitlement conferred by the Financial Services and Markets Act 2000 (Gibraltar) Order 2001 in the *United Kingdom* without using a physical presence there to offer or provide those services.

…

~~*EU withdrawal costs*~~

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

~~*EU withdrawal costs fee block*~~

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

…

~~*former incoming EEA firm*~~

~~means a *person* who immediately before *IP completion day* was authorised to carry on a *regulated activity* by virtue of section 31(1)(b) of *FSMA*.~~

~~*former incoming Treaty firm*~~

~~means a *person* who immediately before *IP completion day* was authorised to carry on a *regulated activity* by virtue of section 31(1)(c) of *FSMA*.~~

…

~~*ring-fencing fees group*~~

~~means a banking group, or part of a banking group, which does not meet the *core deposit* level condition in Article 12 of the *FSMA* (Ring-fenced Bodies and Core Activities) Order 2014 and does not fall within the exemptions set out in Article 11 of the *FSMA* (Ring-fenced Bodies and Core Activities) Order 2014.~~

~~*ring-fenced body or RFB*~~

~~has the meaning in Section 142A of *FSMA*.~~

~~*ring-fencing*~~

~~means the *UK ring-fencing* regime as provided for in the Financial Services (Banking Reform) Act 2013, including statutory instruments and *PRA* rules made pursuant thereto.~~

…

3 PERIODIC FEES

…

Tariff bases, valuation points and the Periodic Fees Schedule

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

…

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

~~(5) the *ring-fencing fee*~~; [deleted] and

…

Modifications to *periodic fees* for ~~incoming EEA, Treaty firms~~ *Gibraltar-based firms,* ~~and~~ *non-directive insurers* **firms** and *former freedom of service providers*

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

~~(1) In relation to *former incoming EEA firms* and *former incoming Treaty firms*:~~ [deleted]

~~(a) [deleted.]~~

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

~~(c) the *EU withdrawal costs* allocation in Table VI is modified in accordance with Table IV of the *Periodic Fees Schedule*.~~

~~(d) *firms* having the status of *former incoming EEA firms* and *former incoming Treaty firms* immediately after *IP completion day* shall retain this status for the purposes of this rule (3.11(1)) throughout the 2020-21 *fee year*.~~

…

(3) ~~The *EU withdrawal costs* allocation in Table VI payable by *non-directive firms* in the A1 *deposit acceptors fee block*, A3 *general insurance fee block* and A4 *life insurance fee block* is subject to the modifications in Table V of the *Periodic Fees Schedule*~~ A *former freedom of services provider,* who does not carry on any *PRA regulated activities* from an establishment in the *UK*, shall pay a flat rate *periodic fee* of £600.00.

…

Periodic Fees Schedule - Fee Rates and Modifications for the Period from 1 March ~~2020~~ 2021 to 28 February ~~2021~~ 2022

TABLE IA MINIMUM PERIODIC FEES RATES

Fee payer	Fee payable (£)
Credit unions with *MELs* under £2.0 million:	
With *modified eligible liabilities* of 0 – £0.5 million	80.00
With *modified eligible liabilities* greater than £0.5 million and less than £2.0 million	~~270.00~~ 300
Non-directive friendly societies which either: (1) fall within the A3, but not the A4, *fee block* and have, in relation to their A3 activities, *gross written premium for fees purposes* of 0 - £0.5million and *best estimate liabilities for fees purposes* of 0-£1.0million; or (2) fall within the A4, but not the A3, fee block; or (3) fall within both the A3 and A4 *fee blocks* and meet condition (1) above in relation to their A3 activities.	~~215.00~~ 300
All other firms	~~500.00~~ 600

…

TABLE IIIA – PERIODIC FEE RATES APPLICABLE TO PRA FEE BLOCKS OTHER THAN THE MINIMUM FEE BLOCK FOR THE FEE YEAR ~~2020-21~~ 2021-22

Column 1 ***Fee block***	**Column 2** ***Tariff base***	**Column 3** ***Tariff bands***	**Column 4** ***Tariff rates***
A1 deposit acceptors fee block	***modified eligible liabilities***	**Band width (£million of *MELs*)**	**Fee payable per million or part million of *MELs*(£)**
		>10 - 140	~~33.459~~ 33.640
		>140 – 630	~~33.459~~ 33.640
		>630 - 1,580	~~33.459~~ 33.640
		>1,580 - 13,400	~~41.824~~ 42.050
		> 13,400	~~55.207~~ 55.506
A3 general insurers fee block ***gross written premium for fees purposes, best estimate liabilities for fees purposes***	***gross written premium for fees purposes***	**Band width (£million of *gross written premium for fees purposes*)**	**Fee payable per million of *gross written premium for fees purposes* (£)**
		>0.5	~~595.90~~ 547.71
	best estimate liabilities for fees purposes	**Band Width (£ million of *best estimate liabilities for fees purposes*)**	**Fee payable per million of *best estimate liabilities for fees purposes* (£)**
		>1	~~40.97~~ 33.66
		For *UK ISPVs* the *tariff rates* are not relevant and a flat fee of £430.00 is payable in respect of each *fee year*.	
A4 Life insurers fee block ***gross written premium for fees purposes, best estimate liabilities for fees purposes***	***gross written premium for fees purposes***	**Band width (£million of *gross written premium for fees purposes*)**	**Fee payable per million of *gross written premium for fees purposes* (£)**
		>1	~~217.84~~ 235.46
	best estimate liabilities	**Band width (£million of *best estimate liabilities***	**Fee payable per million of *best estimate liabilities for fees purposes* (£)**

	for fees purposes	***for fees purposes*)**	
		>1	~~15.81~~ <u>17.44</u>
A5 managing agents at Lloyd's	***active capacity***	**Band width (£million of active capacity)**	**Fee payable per million of *active capacity* (£)**
		>50	~~50.55~~ <u>48.99</u>
A6 Society of Lloyd's	**flat fee**	N/A	General periodic fee (£) ~~1,975,132.27~~ <u>2,178,765.49</u>
A10 Firms dealing as principal fee block ***total assets for fees purposes*, *total operating income for fees purposes***	***total assets for fees purposes***	Band width (£million of *total assets for fees purposes*)	Fee payable per million or part million of *total assets for fees purposes* (£)
		N/A	~~2.48~~ <u>2.28</u>
	total operating income for fees purposes	Band width (£million of *total operating income for fees purposes*)	Fee payable per million or part million of *total operating income for fees purposes* (£)
		N/A	~~381.05~~ <u>341.08</u>

TABLE IV – MODIFICATIONS TO PERIODIC FEES FOR GIBRALTAR-BASED FIRMS~~, FORMER INCOMING EEA FIRMS AND FORMER INCOMING TREATY FIRMS WITH BRANCHES IN THE UK~~

Fee payer	Discount applied to *periodic fees*
A1 deposit acceptors fee block	50%
A3 general insurers fee block	90%
A4 life insurers fee block	90%
[deleted.]	[deleted.]
***~~Former incoming EEA firms~~*, *~~former incoming Treaty firms~~* ~~and~~ *Gibraltar-based firms* offering *cross border services* only**	100%
[deleted.]	[deleted.]
[deleted.]	[deleted.]

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

Fee payer	**Discount applied to *periodic fees* in Table IIIA**	~~**Discount applied to *EU withdrawal costs fee block***~~ [deleted]
A1 deposit acceptors fee block	0%	~~50%~~ [deleted]
A3 general insurers fee block	11%	~~50%~~ [deleted]
[deleted.]	[deleted.]	[deleted]

TABLE VI ~~– EU WITHDRAWAL COSTS ALLOCATION~~

[deleted]

~~**Fee payer**~~	~~**Tariff base for allocations to firms**~~
~~All *firms*, except those paying only the minimum fee and *insurance special purpose vehicles*~~	~~Total *periodic fees* under 3.3(3) payable by the *firm* multiplied by 0.044588~~

4 REGULATORY TRANSACTION FEES

…

Regulatory transaction fees for new authorisations

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

(1) [Deleted.]

Table B – New authorisations	
Application type	£
Straightforward: A3 or A4 *fee payer* which is a *friendly society* or a *fee payer* which is an A1 *credit union*	~~750.00~~ 1,500.00

Moderately complex: A3 *fee payer* seeking permission as a UK *insurance special purpose vehicle* A5 *fee payer* seeking permission as a *managing agent* at Lloyd's	~~2,500.00~~ 5,000.00
Complex: A1 *fee payer* (other than a *credit union*) seeking permission to accept deposits or operate dormant accounts A3 *fee payer* (other than a *friendly society* or *UK insurance special purpose vehicle*) A4 *fee payer* other than a *friendly society*	~~12,500.00~~ 25,000.00

…

Variations of Part 4A permission and FCA authorised firms applying to carry on PRA regulated activity

4.7

…

(3) Subject to paragraph (4), where a *fee-payer* or *FCA* authorised firm seeks to vary its existing *Part 4A permission* to:

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

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

the fee payable shall be £~~12,500~~ 25,000.00.

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

(a) *fee block* A1 in respect of a *credit union* or *fee block* A3 in respect of a *friendly society*, it shall be ~~£750~~ £1,500.00;

(b) *fee block* A3 in respect of an *ISPV* or *friendly society* or *fee block* A5 in respect of a Lloyd's *managing agent*, it shall be ~~£2,500~~ £5,000.00.