BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

Publication

Policy Statement | PS15/21

Regulated fees and levies: Rates for 2021/22

July 2021

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1 Overview

1.1 This Prudential Regulation Authority (PRA) Policy Statement (PS) provides feedback to responses to Consultation Paper (CP) 8/21 'Regulated fees and levies: Rates proposals 2021/22'.[1] It also contains the PRA's final policy, as follows:

- the fee rates to meet the PRA's 2021/22 Annual Funding Requirement (AFR) for the financial period Monday 1 March 2021 to Monday 28 February 2022 ('fee year'); and
- amendments to the Fees Part of the PRA Rulebook (Appendix 1).

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

Background

1.3 In CP8/21, the PRA made proposals on:

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

Summary of responses

1.4 The PRA received four responses to the CP. Respondents made a number of observations and requests for clarification which are set out in Chapter 2. No changes have been made to the proposals outlined in the CP as a result of these responses.

Implementation

1.5 The implementation date for the PRA FEES AMENDMENT (No 2) INSTRUMENT 2021 is Thursday 8 July 2021.

1.6 The policy set out in this PS has been designed in the context of the United Kingdom (UK) having left the European Union (EU) 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]

Online fees calculator

1.7 The Financial Conduct Authority (FCA) provides an online fees calculator to enable firms to calculate their periodic fees for the forthcoming year, using the PRA rates (set out in Appendix 1).[3] The updated fees calculator for 2021/22 fees, and levies using the final fee rates as set out in this PS, will be available for firms to use from Thursday 8 July 2021.

1 April 2021: https://www.bankofengland.co.uk/prudential-regulation/publication/2021/april/regulated-fees-and-levies-rates-proposals-2021-22.
2 For further information, please see https://www.bankofengland.co.uk/eu-withdrawal/transitioning-to-post-exit-rules-and-standards.
3 Available at: https://www.fca.org.uk/firms/calculate-your-annual-fee/fee-calculator.

2 Feedback to responses

2.1 Before making any proposed rules, the PRA is required by the Financial Services and Markets Act 2000 (FSMA) to have regard to any representations made to it, and to publish an account, in general terms, of those representations and its feedback to them.[4]

2.2 The PRA has considered the responses received to the CP. This chapter sets out the PRA's feedback to those responses, and its final decisions.

2.3 The PRA received four responses to the CP, regarding the following:

- increase in the Ongoing Regulatory Activities (ORA), including in relation to insurers;
- increase in minimum fees;
- impact of fee increase on mutual insurers;
- increase in the new authorisation application fee for credit unions (CUs);
- transparency on fee block allocation;
- EU withdrawal costs incorporated into business as usual (BAU) rather than as a separate project cost; and
- publication of the PRA Business Plan 2021/22 after the close of the CP consultation.

Increase in the ORA, including in relation to insurers

2.4 The PRA proposed the budget for the 2021/22 AFR and ORA in the CP. Three respondents requested further information supporting the increase in fees. In light of the impact of the proposed end of the European Economic Area (EEA) discount, two respondents sought further explanation concerning the increase in the ORA for insurers – particularly the A3 fee block (general insurers) – as compared to other fee blocks.

2.5 One respondent commented that the increase in fees for insurers was significant, and that the PRA had not made an adequate case for the increase in costs, or provided a detailed account by fee block of the policy and supervisory work undertaken to justify the increase. The respondent also sought clarity on the figures set out in Table IIIA of the proposed rule amendments.[5]

2.6 The AFR has increased primarily due to heightened PRA regulatory responsibilities following EU withdrawal, additional firm supervision, and continued developments in technology. The increase in the PRA's supervisory responsibilities for EEA firms has had a greater impact on general insurers than on other fee blocks. The PRA notes that the removal of the periodic fee discount received by inward-passporting EEA firms (to reflect the cessation of inward passporting) has reduced the impact on non-EEA individual firms in the A1, A3, and A4 fee blocks from increases in the AFR. For general insurers (the A3 fee block), the reduced impact is largest, with the average cost per firm for non-EEA firms decreasing. This is reflected in the fee payable per £ million of gross written premiums (GWP)

4 Sections 138J(3) and 138J(4) of FSMA
5 See Appendix 1 of CP8/21: https://www.bankofengland.co.uk/prudential-regulation/publication/2021/april/regulated-fees-and-levies-rates-proposals-2021-22.

and best estimated liabilities (BEL). Having considered the responses, the PRA has decided to maintain the policy as consulted on.

Increase in minimum fees

2.7 The PRA proposed an increase to the minimum fee payable by all PRA-regulated firms, varying according to the size and type of firm. Minimum fees applicable to small CUs remain unchanged.

2.8 Two respondents commented on the impact of the proposed increase to some minimum fees. One respondent supported the low increase or zero increase in fees paid by the smaller CUs, but expressed disappointment in the fee increase for larger CUs. The respondent requested that the PRA defer increases to a future year, due to the regressive nature of minimum fees, and the timing of such an increase. Another respondent commented on the potential impact of the increase on small non-directive friendly societies. While acknowledging the fee remains low, the respondent added that without detailed reporting, they were unable to comment whether the fee was closer to the cost of the PRA's supervision of these firms.

2.9 The PRA's intention to review minimum fees had already been set out in CP4/20 'Regulated fees and levies: Rates proposals 2020/21'.[6] Minimum fees have remained effectively unchanged since before the PRA's inception, and remain well below the cost to the PRA of supervising firms. While minimum fees impose a fixed cost on firms – reflecting that all firms are subject to a minimum level of supervision – the current approach (with a lower-tiered minimum fee) particularly benefits smaller mutuals.

2.10 After considering the responses, the PRA has decided not to change the proposed policy and will be increasing the minimum fees as consulted. For deposit-takers, the modified eligible liabilities metric links a firm's fee to the size of its deposit book, which represents an important indicator of the risks these entities pose to the PRA's statutory objectives. By having non-linear fees for deposit-takers, other aspects of the fees approach – such as special project fees, model application fees and the model maintenance fee – the PRA has taken measures to ensure larger and more complex firms pay fees proportionate to the risks they pose to the PRA's objectives, and the extra supervisory work their activities generate.

Impact of fee increase on mutual insurers

2.11 One respondent noted the impact of fee increases on mutual insurers, stating that there had not been any significant policy developments affecting small mutuals to justify the increase, particularly given the PRA's risk-based approach to supervision.

2.12 The PRA does not consider that the increase in fees is disproportionate for insurers or mutuals in general, but will continue to consider the impact of fees on different sectors. The PRA further considers that many smaller mutuals continue to benefit from a minimum fee that is set lower than the cost to the PRA of supervising such firms.

Increase in the new authorisation application fee for CUs

2.13 The PRA proposed an increase in new authorisation application fees. One respondent commented that the increase of the application fee for new CUs was relatively insignificant compared to the other costs of setting up a CU, and that this did not pose a major barrier to market entry.

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6 April 2020: https://www.bankofengland.co.uk/prudential-regulation/publication/2020/regulated-fees-and-levies-rates-proposals-2020-21.

Transparency on fee block allocation

2.14 Respondents requested greater transparency on how the PRA costs are allocated to its fee blocks, particularly in respect of insurers.

2.15 Allocating costs to fee blocks is a complex process and involves many different factors. The PRA's allocation of costs to the fee blocks is driven by its supervisory approach, through which it aims to closely align firms' fees to the risks posed by those firms to the PRA's prudential objectives, and the resources allocated to those risks.

2.16 The PRA will continue to review the methodology it uses in allocating costs to fee blocks, with a view to consulting on any changes in the future.

EU withdrawal costs

2.17 Although EU withdrawal-related work is continuing in 2021/22, the PRA proposed to remove the separate EU withdrawal fee to reflect that this work is moving to business as usual.

2.18 One respondent noted that the PRA's costs associated with EU withdrawal work should not be included in its main budget, as this would inflate the fee in future years and make it more difficult to assess how the PRA managed such work. Having considered the respondent's comments, the PRA will not be setting out these costs separately given EU withdrawal work is moving to business as usual.

PRA Business Plan 2021/22 publication

2.19 As set out in the CP, the PRA Business Plan 2021/22 was published on Monday 24 May 2021. The consultation for this policy closed on Thursday 20 May 2021.

2.20 Two respondents stated that earlier publication of the Business Plan would have been helpful to better understand the proposals in the CP, for example those related to the allocation of costs, savings, and efficiencies. One respondent commented that pre-sight of the Business Plan would have been helpful in determining if the costs imposed on individual firms were fair and proportionate.

2.21 The PRA has considered the comments made by the respondents in relation to the respective publication dates of the Business Plan and CP. The Business Plan is a separate publication to the CP, and does not form part of it. The PRA considers that the CP included all key information and rationale relevant to the proposed changes to the PRA's fees and levies, therefore the later publication of the Business Plan would therefore not have affected a respondent's ability to respond to the CP.

3 Annual Funding Requirement for 2021/22

3.1 The PRA's AFR for 2021/22 is £287.7 million, which is £11.6 million higher than the AFR for 2020/21 of £276.1 million. The 4% increase in the AFR is driven primarily by increases in the PRA's responsibilities following EU withdrawal, including setting rules in areas previously under the EU's purview; additional firm supervision; and developments in technology.

Change in AFR and allocation to fee blocks relative to CP8/21

3.2 At the time of writing the proposals contained within CP8/21, the impact of external market conditions – as at the end of February 2021 – on the PRA's pension costs for 2021/22 had yet to be fully assessed. This assessment has now been completed, with pension costs being £3.9 million less than anticipated in CP8/21. The CP indicated that these costs might change, and set a tolerance limit of £7.0 million. The £3.9 million change is below that tolerance limit.

3.3 Table 1A sets out the allocation of the PRA's AFR to fee blocks for 2021/22, a comparison to the draft allocation set out in the CP, and the allocation for 2020/21.

Table 1A: Allocation of AFR for 2021/22 to fee blocks and comparison to the draft allocation

£million		Final AFR	Draft AFR	Change	2020/21 AFR	Change
A0	Minimum Fees	0.7	0.7	-	0.5	0.1
A1	Deposit takers	180.2	182.5	(2.3)	175.9	4.3
A3	Insurers-general	41.2	41.8	(0.6)	36.8	4.3
A4	Insurers-life	50.0	50.8	(0.8)	47.9	2.2
A5	Managing agents at Lloyd's	1.7	1.7	(0.0)	1.6	0.1
A6	The Society of Lloyd's	2.1	2.2	(0.0)	2.1	0.1
A10	Firms dealing as principle	11.7	11.9	(0.2)	11.3	0.5
		287.7	**291.6**	**(3.9)**	**276.1**	**11.6**

Rows and columns may not sum due to rounding

3.4 Table 1B sets out an analysis of the final tariff data for 2021/22, used to allocate the PRA's AFR to firms within fee blocks compared to the draft data presented in the CP.

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

Fee block	Tariff basis	2021/22 final number of firms	2021/22 draft number of firms	Mvt to number of firms	2021/22 final tariff data	2021/22 draft tariff data	Mvt to tariff data	Mvt in fee rates from draft
A0	Minimum Fees	1,376	1,404	(2.0%)	n/a	n/a	n/a	-
A1	Modified Eligible Liabilities	764	766	(0.3%)	£3,583bn	£3,587bn	(0.1%)	(1.3%)
A3	Gross Written Premiums (GWP)	311	311	0.0%	£70bn	£69bn	1.3%	(2.8%)
	Best Estimate Liabilities (BEL)				£142bn	£125bn	13.3%	(13.1%)

A4	Gross Written Premiums (GWP)	154	155	(0.6%)	£104bn	£130bn	(19.7%)	22.6%
	Best Estimate Liabilities (BEL)				£1,213bn	£1,166bn	4.1%	(5.4%)
A5	Active Capacity	56	56	0.0%	£37bn	£38bn	(1.5%)	0.1%
A10	Total Trading Book Assets	8	8	0.0%	£2,491bn	£2,611bn	(4.6%)	3.4%
	Financial & Operating Income				£17bn	£17bn	(5.5%)	4.4%

Rows and columns may not sum due to rounding

3.5. The final fee rates for 2021/22 are largely unchanged for most fee blocks. As highlighted in CP8/21,[7] the indicative fee rates for the A3 and A4 fee blocks were completed using 2020/21 fee tariff data, as the Solvency II reporting deadline was after the publication of the CP which meant the draft rates were a less useful predictor of the final fee rates.

7 April 2021: https://www.bankofengland.co.uk/prudential-regulation/publication/2021/april/regulated-fees-and-levies-rates-proposals-2021-22.

4 Annual Funding Requirement shortfall/surplus for 2020/21

Confirmation of surplus/shortfall for 2020/21 relative to CP8/21

4.1 CP8/21 stated that there was a surplus of £11.9 million between the total fees collected for 2020/21 and the actual spend, based on a draft, unaudited figure. Following the finalisation of the PRA's annual accounts and a review of the allocation across fee blocks to ensure correct application of the rules, the total £11.9 million figure remains unchanged.[8]

4.2 Table 4A sets out the 2020/21 surplus.

Table 4A Allocation of AFR surplus for 2020/21 to fee blocks (inc. retained financial penalties) and comparison to the draft allocation

£million		Final	Draft	Change
A1	Deposit takers	7.6	7.6	-
A3	Insurers-general	1.6	1.6	-
A4	Insurers-life	2.1	2.1	-
A5	Managing agents at Lloyd's	0.1	0.1	-
A6	The Society of Lloyd's	0.1	0.1	-
A10	Firms dealing as principle	0.5	0.5	-
		11.9	**11.9**	-

Allocation of shortfall from 2020/21

4.3 There will be a refund to payers of the ORA and EU withdrawal fees for 2020/21 of £11.9 million, including retained financial penalties. This figure has been confirmed following the finalisation of the PRA's accounts, and remains unchanged from the CP. The refund will be allocated to ORA and EU withdrawal fee-paying firms, proportionate to ORA and EU withdrawal fees paid for the 2020/21 fee year.

4.4 For 2020/21, there are retained penalties of £2.3 million which the PRA will allocate across fee blocks using firm population data for 2020/21 (the financial year to which the retained penalties relate). This amount will be refunded to firms across all fee blocks excluding those firms that incurred fines.

8 The PRA's statement of accounts for the year ended 28 February 2021 is available in the Bank of England Annual Report and Accounts 2021: https://www.bankofengland.co.uk/annual-report/2021

Appendix

1 **PRA RULEBOOK: PRA FEES AMENDMENT (No 2) INSTRUMENT 2021, available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2021/july/ps1521app1.pdf**