

**FINANCIAL SERVICES COMPENSATION SCHEME (FUNDING REVIEW)
INSTRUMENT 2013**

Powers exercised

- A. The Financial Services Authority makes this instrument in the exercise of the powers and related provisions in:
- (1) the following sections of the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 156 (General supplementary powers);
 - (b) section 157(1) (Guidance);
 - (c) section 213 (The compensation scheme);
 - (d) section 214 (General); and
 - (e) section 223 (Management expenses); and
 - (2) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the Handbook.
- B. The rule-making powers referred to above are specified for the purposes of section 153(2) (Rule-making instruments) of the Act.

Commencement

- C. (1) Part 2 of Annex B to this instrument comes into force on 1 April 2014.
- (2) The remainder of this instrument comes into force on 1 April 2013.

Amendments to the Handbook

- D. The modules of the FSA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2) below.

(1)	(2)
Glossary of definitions	Annex A
Fees manual (FEES)	Annex B
Supervision manual (SUP)	Annex C
Dispute Resolution: Complaints sourcebook (DISP)	Annex D
Compensation sourcebook (COMP)	Annex E

Citation

- E. This instrument may be cited as the Financial Services Compensation Scheme (Funding Review) Instrument 2013.

By order of the Board
17 January 2013

Annex A

Amendments to the Glossary of definitions

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

Insert the following new definition in the appropriate alphabetical position. The text is not underlined.

retail pool the pool of *classes* to which the *FSCS* allocates levies as described in *FEES* 6.5A [to follow].

Delete the following definition.

~~*sub-class* one of the classes of *participant firms* within a *class* set out in *FEES* 6 Annex 3 R being sub-classes that carry on business of a similar nature or have other common characteristics, to which *compensation costs* and *specific costs* are allocated in accordance with *FEES* 6.4 and *FEES* 6.5. Class A (Deposits) is to be treated as being made up of a single *sub-class*.~~

Amend the following definitions as shown.

annual eligible income (in *FEES*) (in relation to a *firm* and a ~~*sub-class*~~) the annual income (as described in *FEES* 6 Annex 3R) for the *firm's* last financial year ended in the year to 31 December preceding the date for submission of the information under *FEES* 6.5.13R attributable to that ~~*sub-class*~~. A *firm* must calculate *annual eligible income* from such annual income in one of the following ways:

...

base costs ~~*management expenses, other than establishment costs,* which are not dependent on the level of *claims* made on the *FSCS* attributable to any particular class.~~

class ...

(5) (in *FEES*) one of the ~~broad~~ classes to which *FSCS* allocates levies as described in *FEES* 6.5.7R.

compensation costs the costs incurred:

...

(e) by virtue of section 61 (Sources of compensation) of the Banking Act 2009;

(including the costs of paying interest, principal and other costs of borrowing to pay such costs).

levy limit

(in *FEES*) the maximum aggregate amount of *compensation costs* and *specific costs* that may be allocated to a particular ~~*sub-class*~~ or *class* in one financial year as set out in *FEES* 6 Annex 2R.

Annex B

Amendments to the Fees manual (FEES)

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

Part 1: Comes into force on 1 April 2013

6 Financial Services Compensation Scheme Funding

6.1 Application

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General structure

- 6.1.4 G Section 213(3)(b) of the *Act* requires the *FSA* to make *rules* to enable the *FSCS* to impose levies on *authorised persons* in order to meet its expenses. These expenses include in particular expenses incurred, or expected to be incurred, in paying compensation, borrowing or insuring risks.
- 6.1.4A G Section 224F of the *Act* enables the *FSA* to make *rules* to enable the *FSCS* to impose levies on *authorised persons* (or any class of *authorised persons*) in order to meet its management expenses incurred if, under Part 15A of the *Act*, it is required by HM Treasury to act in relation to *relevant schemes*. But those *rules* must provide that the *FSCS* can impose a levy only if the *FSCS* has tried its best to obtain reimbursement of those expenses from the *manager of the relevant scheme*.
- 6.1.5 G The *FSCS* may impose three types of levy: a *management expenses levy* (consisting of a *base costs levy* and a *specific costs levy*), a *compensation costs levy* and a *MERS levy*. The *FSCS* has discretion as to the amount and timing of the levies imposed.
- 6.1.6 G In calculating a *compensation costs levy*, the *FSCS* may include ~~anticipated compensation costs for defaults expected to be determined~~ in the 12-month period following the date of the levy. The total amount of all *management expenses levies* attributable to a financial year ~~will be restricted to~~ may not exceed the amount set out on an annual basis in *FEES 6 Annex 1R*.
- 6.1.7 G In order to allocate a share of the amount of *specific costs and compensation costs* to be funded by an individual *participant firm*, the funding arrangements are split into ~~five~~ eight *classes*: the deposit deposits class; the life and pensions provision class; the general insurance provision class; the investment provision class; the life and pensions intermediation class; the home finance intermediation class; the investment intermediation class and the general insurance intermediation class. The ~~business carried on~~ permissions held by a *participant firm*

determines determine into which *class*, or *classes*, it falls.

- 6.1.8 G ~~Within each *class* there are one or more *sub-classes*. These relate to different types of activity carried on by *participant firms* within each *class*. Within a *class*, individual *participant firms* are allocated for funding purposes to one or more *sub-classes*, depending on their business activities. This, together with the The provisions on the allocation of levies to *sub-classes* up to their *levy limits*, ~~meets~~ meet a requirement of section 213(5) of the *Act* that the *FSA*, in making rules to enable the *FSCS* to impose levies, must take account of the desirability of ensuring that the amount of the levies imposed on a particular class of *authorised person* reflects, so far as practicable, the amount of claims made, or likely to be made, in respect of that class of person. ~~The deposit *class* is made up of a single *sub-class*. This means that a reference to a *sub-class* will, unless the context otherwise requires, include a reference to the *deposits class*.~~~~

The management expenses levy

...

- 6.1.10 G A *management expenses levy* ~~under *COMP*~~ may consist of two elements. The first is a *base costs levy*, for the base costs of running the *compensation scheme* in a financial year, that is, costs which are not dependent upon the level of activity of the *compensation scheme* and which therefore are not ~~referable~~ attributable to any specific ~~default~~ class.

...

- 6.1.11 G The second element of a *management expenses levy* is a *specific costs levy* for the "specific costs" of running the *compensation scheme* in a financial year. These costs ~~depend on the number of claims and types of default~~ are attributable to a class, and include the ~~salaries~~ salary costs of the certain staff of the *FSCS* and claims handling and legal and other professional fees ~~paid in respect of particular defaults~~. It also may include the cost of any insurance cover that *FSCS* secures against the risk of *FSCS* paying out claims above a given level in any particular *sub-class* (but below the *levy limit* for that *sub-class* for the year) ~~or the cost of commercial borrowing to allow *FSCS* to pay claims attributable to a particular *sub-class* in advance of the next levy. Where a *levy limit* has been reached and *FSCS* secures borrowing in order to pay claims allocated to another *sub-class* in accordance with the rules on allocation in *FEES* 6.5.2R, the costs of borrowing are attributable to the *sub-class* whose *levy limit* has been reached. The specific costs *specific costs* are allocated attributed to the *sub-class* which is responsible for those costs ~~under *COMP*, on the basis of the *protected claims* against that *person*. When the *FSCS* imposes a *specific costs levy*, the levy is allocated to the *class* which is responsible for those costs up to the relevant *levy limits*. The *FSCS* may include in a *specific costs levy* the specific costs *specific costs* that the *FSCS* expects to incur (including in respect of defaults not yet declared at the date of the levy) during the financial year of the *compensation scheme* to which the levy relates. The amount that each *participant firm* pays towards the *specific costs levy* is calculated by reference to the amount of business~~~~

conducted by the *firm* in each of the *sub-classes* to which the *FSCS* has allocated ~~specific costs~~ *specific costs*. Each *sub-class* has a separate "tariff base" for this purpose, set out in *FEES* 6 Annex 3R. *Participant firms* may be exempt from contributing to the *specific costs levy*.

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The compensation costs levy

- 6.1.14 G ~~The In imposing a compensation costs levy in each financial year of the compensation scheme is made up of the FSCS~~ will take into account the *compensation costs* which the *FSCS* has incurred and has not yet recovered from *participant firms* raised through levies, (less any recoveries it has made using the rights that have been assigned to it or to which it is subrogated), together with and those *compensation costs* it expects to incur (including in respect of defaults yet to be declared) over the 12 months following the date of the levy.
- 6.1.15 G *Compensation costs* are principally the costs incurred in paying compensation. Costs incurred:
- (1) in securing continuity of long-term insurance; or
 - (2) in safeguarding *eligible claimants* when insurers are in financial difficulties; or
 - (3) in making payments or giving indemnities under *COMP* 11.2.3R and; or
 - (4) as a result of the *FSCS* being required by HM Treasury to make payments in connection with the exercise of the stabilisation power under Part 1 of the Banking Act 2009; or
 - (5) in paying interest, principal and other costs from borrowing to allow the *FSCS* to pay claims attributable to a particular class;

are also treated as *compensation costs*. *Compensation costs* are attributed to the class which is responsible for the costs. For funding purposes, When the *FSCS* imposes a *compensation costs levy* these costs are allocated by the *FSCS*, and met by *participant firms*, in the same way as *specific costs* the levy is allocated to the class which is responsible for the costs up to relevant *levy limits* and then in accordance with the allocation provisions in ~~*FEES* 6.5.2R~~. Certain classes may be funded, for *compensation costs levies* beyond the *class levy limit*, by the *retail pool*.

Participant firms that are members of more than one class

- 6.1.16 G If a *participant firm* is a member of more than one *sub-class* the total *compensation costs levy* and *specific costs levy* for that *firm* in a particular year will be the aggregate of the individual levies calculated for the ~~firm~~ *firm* in respect of each of the *sub-classes* for that year. Each *sub-class* has a *levy limit* which is the maximum amount of *compensation costs* and

specific costs which may be allocated to a particular *sub-class* in a financial year for the purposes of a levy. ~~Once the costs attributable to a particular *sub-class* have exceeded the *levy limit* the excess costs are allocated to the other *sub-class* in the same *class*, up to the *levy limit* of that other *sub-class*, and thereafter allocated to a 'general retail pool' of all the other *sub-classes* whose *levy limits* have not been reached (with the exception of the home finance providers). The amount of the excess cost to be allocated to each particular *sub-class* in the general retail pool is calculated pro-rata in accordance with the relative size of the *levy limit* of that *sub-class* to the sum of the *levy limits* of the remainder of the *sub-classes* in the general retail pool whose *levy limits* have not been reached. In the case of the deposits *class*, once the costs attributable to that class have exceeded the *levy limit* the excess costs are allocated to the general retail pool. The use made by FSCS of borrowing facilities to provide liquidity until the next levy does not affect this allocation of costs.~~

- 6.1.16A G ~~FSCS may consider obtaining insurance cover, if available, against the risk that the value of claims FSCS pays out exceeds the *levy limits* of, or given levels within, particular *classes*. Any costs associated with the insurance would be allocated proportionally to the *classes* intended to benefit from that insurance. [deleted]~~

Incoming EEA firms

- 6.1.17 G *Incoming EEA firms* which obtain cover or 'top up' under the provisions of COMP 14 are firms whose *Home State* scheme provides no or limited compensation cover in the event that they are determined to be in default. Under FEES 6.6, the FSCS is required to consider whether *incoming EEA firms* should receive a discount on the amount that they would otherwise pay as their share of the levy, to take account of the availability of their *Home State* cover. The amount of any discount is recoverable from the other members of the *incoming EEA firm's sub-class*.

...

6.3 The FSCS's power to impose levies

~~General limits on levies~~ Imposing management expenses and compensation costs levies

- 6.3.1 R The FSCS may at any time impose a *management expenses levy*, ~~or a *compensation costs levy* or a *MERS levy*~~, provided that the FSCS has reasonable grounds for believing that the funds available to it to meet relevant expenses are, or will be, insufficient, taking into account expenditure already incurred, actual and expected recoveries and:
- (1) in the case of a *management expenses levy*, the level of the FSCS's ~~anticipated~~ expected expenditure in respect of those expenses in the financial year of the *compensation scheme* in relation to which the levy is imposed; ~~and~~

- (2) in the case of a *compensation costs levy*, the level of the *FSCS's anticipated expected* expenditure in respect of *compensation costs* in the 12 months immediately following the levy.

...

- 6.3.2A G The *FSCS* will usually levy once in each financial year (and in respect of *compensation costs*, for expenditure expected in the period of 12 months following 1 July in that year). However, if the *compensation costs* or *specific costs* incurred, or expected to be incurred, exceed the amounts held, or reasonably expected to be held, to meet those costs, the *FSCS* may, at any time during the financial year, do one or more of the following:
- (1) impose an interim *compensation costs levy* or *management expenses levy*; or
 - (2) utilise other sources of funding such as commercial borrowing or other borrowing including from the National Loans Fund; or
 - (3) utilise money collected from *firms* as set out in, and subject to, *FEES* 6.3.17R (Management of funds).

The *FSCS* will generally impose a levy rather than borrow or utilise funds as described in (3), unless the latter options appear to it to be preferable in the specific circumstances prevailing at the relevant time; for example, to address short-term liquidity issues, or in order to deal with a significant failure without having to wait for a levy to be imposed or collected.

- 6.3.3 G ~~The *FSCS* may impose one or more levies in a financial year to meet its *management expenses*, its *compensation costs* or its *management expenses* in respect of *relevant schemes*. The *FSCS* may also impose interim levies, as part of its overall levy commitment. This flexibility allows the *FSCS* to phase its financing over the course of a financial year and thus avoid collecting levies from firms before the money is actually needed. The *FSCS* has committed itself in the Memorandum of Understanding with the *FSA* (the text of which can be found on the *FSA* website www.fsa.gov.uk) to publish regularly an indicative timetable for its levy procedures and its policy in respect of levying.~~

...

Imposing a MERS levy

- 6.3.4A R The *FSCS* may at any time impose a *MERS levy* provided that the *FSCS* has reasonable grounds for believing that the funds available to it to meet relevant expenses are or will be insufficient, taking into account relevant expenses incurred or expected to be incurred in the 12 months following the date of the levy.

Limits on compensation costs and specific costs levies on ~~sub-classes and~~

classes

- 6.3.5 R The maximum aggregate amount of *compensation costs* and *specific costs* for which the *FSCS* can levy each ~~sub-class~~ and *class* in any one financial year of the *compensation scheme* is limited to the amounts set out in the table in *FEES* 6 Annex 2R.

...

Management of funds

- 6.3.11 R The *FSCS* must hold any amount collected from a *specific costs levy* or *compensation costs levy* to the credit of the *classes* and ~~relevant sub-classes~~, in accordance with the allocation established under *FEES* 6.4.6R and *FEES* 6.5.2R.

...

- 6.3.13 R Interest earned by the *FSCS* in the management of funds held to the credit of a ~~sub-class~~ must be credited to that ~~sub-class~~, and must be set off against the *management expenses* or *compensation costs* allocated to that ~~sub-class~~.

- 6.3.14 R The *FSCS* must keep accounts which ~~show~~ include:
- (1) the funds held to the credit of each *class* and ~~relevant sub-class~~; and
 - (2) the liabilities of that *class* and ~~relevant sub-class~~.

- 6.3.15 R ~~The *FSCS* may use the money collected from *firms* within one *class* to pay *compensation costs* in respect of any *sub-class* within that *class* so long as it ensures that this is done without prejudice to the *participant firms* from whom the money has been collected. [deleted]~~

- 6.3.15A G ~~*FEES* 6.3.15R deals with how the *FSCS* may use money available to it and does not affect the *rules* on allocation in *FEES* 6.5.2R. Therefore the requirement that the procedure in *FEES* 6.3.15R should not prejudice the *participant firms* does not apply to an allocation under *FEES* 6.5.2R. [deleted]~~

- 6.3.16 G *FEES* 6.3.15R means that, for example:
- (1) when crediting interest under *FEES* 6.3.13 R, the *FSCS* should regard any money collected from one ~~sub-class~~ which has been used to pay the *compensation costs* of another ~~sub-class~~ within the same *class* as standing to the credit of the first ~~sub-class~~;
 - (2) the *FSCS* should not raise a levy under *FEES* 6.3.1R on a ~~sub-class~~ solely because, as a result of the *FSCS's* action under *FEES* 6.3.15R, there appear to be insufficient funds available to the credit of the ~~sub-class~~ to meet its expenses; and

- (3) ~~(2) would not be applicable to the extent that the funds used are in respect of costs allocated to the *sub-class* in accordance with the rules on allocation in FEES 6.5.2 R(1) and (2). [deleted]~~
- 6.3.17 R (1) The *FSCS* may use any money held to the credit of one *class* (the creditor *class*) to pay ~~compensation costs~~ compensation costs or specific costs in respect of attributable or allocated by way of levy to another *class* (the debtor *class*) if the *FSCS* has reasonable grounds to believe that this would be more economical than borrowing funds from a third party or raising a levy.
- (2) Where the *FSCS* acts in accordance with (1), it must ensure that:
- ...
- (c) the amount lent by the creditor *class* to the debtor *class* is taken into account by the *FSCS* when considering whether to impose a ~~compensation costs levy~~ compensation costs levy on the creditor *class* under FEES 6.3.1R.
- 6.3.18 G FEES 6.3.17R deals with how *FSCS* may use money already available to it and does not affect the rules on levy allocation in FEES ~~6.5.2R~~ 6.4, 6.5 and 6.5A. ~~Therefore FEES 6.3.17R(2)(a), (b) and (c) do not apply where the costs otherwise attributable to one debtor *class* are allocated to the creditor *class* in accordance with the rules on allocation in FEES 6.5.2R.~~
- 6.3.19 R Unless FEES 6.3.20R applies, any recoveries made by the *FSCS* in relation to *protected claims* must be credited to the ~~*sub-classes*~~ to which the related *compensation costs* were allocated was attributable.
- 6.3.20 R (1) ~~This rule applies where~~ Where the *FSCS* makes recoveries in relation to *protected claims* where a related *compensation costs levy* would have been met by allocated to a *sub-class* (sub-class A) had the *levy limit* for sub-class A not been reached and have therefore been met by has been allocated to another *sub-class* or *sub-classes* in the retail pool, the recoveries must be applied:
- (a) first, to the *classes* to which the costs levied were allocated in accordance with FEES 6.5A in the same proportion as those *classes* contributed, up to the total amount of that allocation plus interest at a rate equivalent to the Bank of England's Official Bank Rate from time to time in force; and
- (b) thereafter, to class A.
- (2) This rule applies even though the recovery is made in a subsequent financial year.
- (3) ~~Recoveries referred to in (1) must be applied in the following order of priority:~~

- (a) ~~(if the *compensation costs* were allocated to the general retail pool (see *FEES 6.5.2 R(2)*) to the *classes* and *sub-classes* to which the costs were allocated in accordance *FEES 6.5.2 R(2)* in the same proportion as those *classes* and respective *sub-classes* contributed, up to the total amount of that allocation plus interest at a rate equivalent to the Bank of England's repo rate from time to time in force;~~
- (b) ~~(if the *compensation costs* were allocated to the other *sub-class* in the same *class* as sub-class A) to that other *sub-class* up to the total amount of that allocation plus interest at a rate equivalent to the Bank of England's repo rate from time to time in force; and~~
- (c) ~~sub-class A. [deleted]~~

...

- 6.3.21 R If the *FSCS* has more funds (whether from levies, recoveries or otherwise) to the credit of a *sub-class* than the *FSCS* believes will be required to meet levies on that *sub-class* for the next 12 *months* it may refund the surplus to members or former members of the *sub-class* on any reasonable basis.

...

Firms acquiring businesses from other firms

- 6.3.22C R (1) This *rule* applies to the calculation of the levies of a *firm* (A) if:
- (a) either:
 - (i) A acquires all or a part of the business of another *firm* (B), whether by merger, acquisition of goodwill or otherwise; or
 - (ii) A became authorised as a result of B's simple change of legal status (as defined in *FEES 3 Annex 1R Part 6*);
 - (b) B is no longer liable to pay a levy; and
 - (c) that acquisition or change takes place after the date to which, or as of which, A's most recent statement of business under *FEES 6.5.13R* is drawn up so far as concerns the *sub-classes* covered by B's business.
- (2) A must pay an additional amount equal to the levy that would have been payable by B in relation to the relevant business and relevant *sub-classes* if the acquisition or change in status had not taken place and B had remained liable to pay levies. The amount is based on the most recent information supplied by B under *FEES 6.5.13R*. A is included in the *sub-classes* applicable to the relevant business.

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6.4 Management expenses

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Base costs levy

- 6.4.5 R ~~Unless Subject to FEES 6.3.22R applies,~~ the FSCS must calculate a *participant firm's* share of a *base costs levy* by:
- (1) identifying the *base costs* which the FSCS has incurred, or expects to incur, in the relevant financial year of the *compensation scheme*, but has not yet levied; ~~and:~~
 - (a) allocating 50% of those *base costs* as the sum to be levied on participants in activity groups A.1, A.3, A.4, A.5 and A.6 (as listed in FEES 4 Annex 1R); and
 - (b) allocating 50% of those *base costs* as the sum to be levied on participants in all the activity groups listed in FEES 4 Annex 1R;
 - (2) calculating the amount of the *participant firm's regulatory costs* as a proportion of the total *regulatory costs* relating to all *participant firms* for the relevant financial year; ~~and:~~
 - (a) if the *participant firm* belongs to any of the activity groups in (1)(a), imposed by the FSA in respect of those groups; and
 - (b) if the *participant firm* belongs to any of the activity groups in (1)(b), imposed by the FSA in respect of those groups; and
 - (3) applying the proportion calculated in (2)(a) (if any) to the ~~figure~~ sum in (1)(a), and the proportion calculated in (2)(b) (if any) to the sum in (1)(b).

- 6.4.5A G The effect of FEES 6.4.5R is that if a *participant firm* belongs to activity groups in both (1)(a) and (1)(b) of that rule, it will be required to pay a share of the *base costs levy* in respect of both sets of activity groups.

Specific costs levy

- 6.4.6 R The FSCS must allocate any *specific costs levy* amongst the relevant ~~*sub-classes*~~ in proportion to the amount of relevant costs ~~arising from, or expected to arise from, claims in respect of~~ arising from the different activities ~~represented by~~ for which *firms* in those *sub-classes* have permission up to the *levy limit* of each relevant *class*.

- 6.4.7 R The *FSCS* must calculate a *participant firm's* share of a *specific costs levy* (subject to *FEES* 6.3.22R (Adjustments to calculation of levy shares) by:
- (1) identifying each of the relevant *sub-classes* to which the *participant firm* belongs, using the statement of business most recently supplied under *FEES* 6.5.13R;
 - (2) identifying the *management expenses* other than *base costs* which the *FSCS* has incurred, or expects to incur, in the relevant financial year of the *compensation scheme*, allocated to the *sub-classes* identified in (1), but not yet levied;
 - (3) calculating, in relation to each relevant *sub-class*, the *participant firm's* tariff base as a proportion of the total tariff base of all *participant firms* in the *sub-class*, using the statement of business most recently supplied under *FEES* 6.5.13R;
 - (4) applying the proportion calculated in (3) to the figure in (2); and
 - (5) if more than one *class* ~~or *sub-class*~~ is relevant, adding together the figure in (4) for each *sub-class*.

...

- 6.4.10A R (1) This *rule* deals with the calculation of:
- ...
- (c) the tariff base for the ~~*class* or *sub-classes*~~ *classes* that relate to the relevant *permissions* or extensions, as the case may be.

...

...

6.5 Compensation costs

- 6.5.1 R ~~The *compensation costs levy* is made up of *compensation costs* incurred by the *FSCS*, together with any *compensation costs* expected to be incurred in the 12 *months* following the levy date, and which in each case have not already been subject to a levy. [deleted]~~
- 6.5.2 R The *FSCS* must allocate any *compensation costs levy* ~~to the *sub-classes* in proportion to the amount of *compensation costs* arising from, or expected to arise from, claims in respect of the different activities represented by those *sub-classes* up to the *levy limit* of each relevant *sub-class* and thereafter in the following order:~~
- (1) ~~any excess must be allocated to the other *sub-class* in the same *class* up to the *levy limit* of that other *sub-class* (except in the deposit *class*, for which there is only one *sub-class*); and any excess must be allocated to the other *sub-class* in the same *class* up to the *levy limit*~~

of that other *sub-class* (except in the *deposit class*, for which there is only one *sub-class*) first, to the *classes* in proportion to the amount of *compensation costs* arising from, or expected to arise from, claims in respect of the different activities for which *firms* in those *classes* have *permission* up to the *levy limit* of each relevant *class*; and

- (2) ~~any excess above the *levy limit* of the *class* must be allocated to each other *sub-class*, other than the home finance provision *sub-class* E1, whose *levy limit* has not been reached (the 'general retail pool'), in proportion to the relative sizes of the *levy limits* of those remaining *sub-classes* in the general retail pool thereafter, where the *levy limit* has been reached (whether as a result of *compensation costs* or *specific costs* or both) for a *class* whose attributable costs may be allocated to the *retail pool*, to the *retail pool* in accordance with FEES 6.5A.~~

- 6.5.2A G The use made by FSCS of borrowing facilities to provide liquidity until the next levy does not affect the attribution of *compensation costs*, nor the allocation of costs incurred or anticipated *compensation cost levies*; the allocation of a *compensation costs levy* occurs at the time that the FSCS imposes a levy.
- 6.5.2B G The calculation of the relative sizes of the *levy limits* for the purpose of ~~FEES 6.5.2R(2) (including any allocations caused by the exhaustion of a receiving *sub-class*) is based on the original *levy limit* for the *sub-classes* (as set out in FEES 6 Annex 2R) and not the remaining capacity in each *sub-class*. [deleted]~~
- 6.5.2C G ~~When FSCS allocates excess *compensation costs levies* otherwise attributable to a *class* which has reached its *levy limit*, in accordance with FEES 6.5.2R(2), a *sub-class* to which any excess has been allocated (the 'receiving *sub-class*') may, as a result of that allocation, itself reach its *levy limit*. In that case, the effect of FEES 6.5.2R is that any resulting excess levy beyond the *levy limit* of the receiving *sub-class* is to be allocated amongst the remaining *sub-classes* whose *levy limits* have not been reached, to the exclusion of the receiving *sub-class*. This process is repeated until the *compensation costs levy* has been met in full or the general retail pool has been exhausted. [deleted]~~
- 6.5.3 R If a *participant firm* which is in default has carried on a *regulated activity* other than in accordance with a *permission*, the FSCS must ~~allocate~~ treat any *compensation costs* or *specific costs* arising out of that activity to the relevant *sub-class* which covers that activity or if a *levy limit* of the relevant *sub-class* or *class* has been exceeded, FSCS must allocate any *compensation costs levy* on the same basis as set out in FEES 6.5.2R as if the relevant *permission* were held by the *participant firm*.
- 6.5.4 R If the relevant *person* in default is an *appointed representative*, the FSCS must ~~allocate~~ treat any *compensation costs* or *specific costs* arising out of a *regulated activity* for which his *principal* has not accepted responsibility to the relevant *sub-class* for that activity or if a *levy limit* of the relevant *sub-*

~~class or class has been exceeded, FSCS must allocate any compensation costs levy on the same basis as set out in FEES 6.5.2R as if the principal had accepted responsibility.~~

- 6.5.5 R (1) A *participant firm* must pay to the FSCS a share of each *compensation costs levy* allocated to the classes of which it is a member unless either the *firm* is exempt under FEES 2 (Exemption) or the FSCS has chosen to exercise its discretion under FEES 6.3.23R in respect of that *firm*.
- (2) ~~If a levy relates solely to costs allocated in excess of a particular levy limit (1) does not apply to a participant firm member of the sub-class or class whose levy limit has been exceeded. [deleted]~~
- 6.5.6 R The FSCS must calculate each *participant firm's* share of a *compensation costs levy* (subject to FEES 6.3.22R (Adjustments to calculation of levy shares)) by:
- (1) identifying each of the ~~sub-classes~~ to which each *participant firm* belongs, using the statement of business most recently supplied under FEES 6.5.13R(1);
 - (2) identifying the *compensation costs* falling within FEES 6.5.1R allocated, in accordance with FEES 6.5.2R, to the ~~sub-classes~~ identified in (1);
 - (3) calculating, in relation to each relevant ~~sub-class~~, the *participant firm's* tariff base as a proportion of the total tariff base of all *participant firms* in the ~~sub-class~~, using the statement of business most recently supplied under FEES 6.5.13R;
 - (4) applying the proportion calculated in (3) to the figure in (2); and
 - (5) if more than one ~~class or sub-class~~ is relevant, adding together the figure in (4) for each ~~sub-class~~.

~~Sub-classes~~ Classes and tariff bases for compensation cost levies and specific costs levies

- 6.5.7 R When calculating a *participant firm's* share of a *compensation costs levy* or *specific costs levy* allocated to each ~~sub-class~~ the FSCS must use the ~~sub-classes~~ and tariff bases as set out in the table in FEES 6 Annex 3R.

...

...

Membership of several classes ~~or sub-classes~~

...

- 6.5.12 G A *participant firm* may belong to more than one ~~class, and more than one~~

~~sub-class within the same class.~~

Reporting requirements

- 6.5.13 R (1) Unless exempt under *FEES* 6.2.1R, a *participant firm* must provide the *FSCS* by the end of February each year (or, if it has become a *participant firm* part way through the financial year, by the date requested by the *FSA*) with a statement of:
- (a) ~~sub-classes~~ to which it belongs; and
 - (b) the total amount of business (measured in accordance with the appropriate tariff base or tariff bases) which it conducted, in respect of the most recent valuation period (as specified by *FEES* 6 Annex 3R (Financial Services Compensation Scheme - classes and sub-classes)) ending before the relevant year in relation to each of those ~~sub-classes~~.

...

- (3) ~~This rule does not apply in relation to the home finance provision sub-class E1. Therefore any reference in the Handbook to information that is or must be supplied under this rule must be read, in the case of sub-class E1, as if it referred to the corresponding provisions relating to FSA periodic fees. [deleted]~~

- 6.5.13A G For example, when the tariff base for a particular ~~sub-class~~ is based on a *firm's annual eligible income* the valuation period for that ~~sub-class~~ is the *firm's* last financial year ending in the year to 31 December preceding the financial year of the *FSCS* for which the calculation is being made. In the case of a *firm* in ~~sub-class~~ A1 (Deposits) its valuation period will be 31 December.

...

6.5A **The retail pool** [to follow]

...

6.7 **Payment of levies**

...

- 6.7.6 R If a *firm* ceases to be a *participant firm* or carry out activities within one or more ~~sub-classes~~ part way through a financial year of the *compensation scheme*:

...

- (2) the *FSCS* may make one or more levies upon it (which may be before or after the ~~firm~~ *firm* has ceased to be a *participant firm* or carry out activities within one or more ~~sub-classes~~, but must be

before it ceases to be an *authorised person*) for the costs which it would have been liable to pay had the FSCS made a levy on all *participant firms* or ~~firms~~ *firms* carrying out activities within that *sub-class* in the financial year it ceased to be a *participant firm* or carry out activities within that *sub-class*.

...

...

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 2012 to 31 March 2013	£1,000,000,000
<u>1 April 2013 to 31 March 2014</u>	<u>£[insert figure]</u>

...

6 Annex 2 R Financial Services Compensation Scheme – annual levy limits

This table belongs to FEES 6.3.5R and FEES TP 2.5.2R		
Class	Sub-class	Levy Limit (£ million)
Deposit		
	Deposit	1,840
Life and Pensions		
	Life and Pensions Provision	690
	Life and Pensions Intermediation	100
General insurance		
	General Insurance Provision	775
	General Insurance Intermediation	195

Investment		
	Fund management	270
	Investment Intermediation	100
Home Finance		
	Home Finance Provision	70
	Home Finance Intermediation	60

<u>Class</u>	<u>Levy Limit (£ million)</u>
A: Deposits	1,500
B1: General insurance provision	600
B2: General insurance intermediation	300
C1: Life and pensions provision	690
C2: Life and pensions intermediation	100
D1: Investment provision	200
D2: Investment intermediation	150
E2: Home finance intermediation	40

6 Annex 3R Financial Services Compensation Scheme - classes and sub-classes

This table belongs to FEES 6.5.7 R and ~~FEES TP 2.5.2R~~

Class A	<u>Deposit Deposits</u>
Legal basis for activity in class A <u>Firms with permission for:</u>	...
...	

Class B	General Insurance
Sub-class <u>Class B1</u>	General Insurance Provision

Legal basis for activity in sub-class B1 <u>Firms with permission for:</u>	...
Sub-class <u>Class B2</u>	General Insurance Intermediation
Legal basis for activity in sub-class B2 <u>Firms with permission for:</u>	...
Tariff base	<p data-bbox="603 571 890 604">Sub-class <u>Class B1</u>:...</p> <p data-bbox="603 638 1393 779">Sub-class <u>Class B2</u>: <i>annual eligible income</i> where <i>annual eligible income</i> means annual income adjusted in accordance with this table. Annual income is calculated as the sum of (a) and (b):</p> <p data-bbox="603 817 1401 996">(a) the net amount retained by the <i>firm</i> of all brokerages, fees, commissions and other related income (for example, administration charges, overrides and profit shares) due to the <i>firm</i> in respect of or in relation to sub-class B2 activities, including any income received from an <i>insurer</i>; and</p> <p data-bbox="603 1034 1393 1281">(b) if the <i>firm</i> is an <i>insurer</i>, in relation to sub-class B2 activities, the amount of <i>premiums</i> receivable on its <i>contracts of insurance</i> multiplied by 0.07, excluding those <i>contracts of insurance</i> which result from sub-class B2 activities carried out by another <i>firm</i>, where a payment has been made by the <i>insurer</i> to that other <i>firm</i> and that payment is of a type that falls under (a).</p> <p data-bbox="603 1321 1345 1388">Notes relating to the calculation of the tariff base for sub-class <u>class B2</u>:</p> <p data-bbox="603 1440 635 1462">...</p> <p data-bbox="603 1496 1385 1601">(3) Net amount retained means all the commission, fees, etc. in respect of sub-class B2 activities that the <i>firm</i> has not rebated to customers or passed on to other <i>firms</i> ...</p> <p data-bbox="603 1639 1401 1780">(4) Sub-class <u>Class B2</u> activities mean activities that fall within sub-class B2. They also include activities that now fall within sub-class B2 but that were not <i>regulated activities</i> when they were carried out.</p> <p data-bbox="603 1818 1345 1953">(5) A reference to a <i>firm</i> also includes a reference to any <i>person</i> who carried out activities that would now fall into sub-class B2 but which were not at the time <i>regulated activities</i>.</p>

Class C	Life and Pensions
Sub-class <u>Class C1</u>	Life and Pensions Provision
<u>Legal basis for activity in sub-class C1 Firms with permission for:</u>	...
Sub-class <u>Class C2</u>	Life and Pensions Intermediation
<u>Legal basis for activity in sub-class C2 Firms with permission for:</u>	...
Tariff base	<p>Sub-class <u>Class C1</u>:...</p> <p>(1) Eligible mathematical reserves are calculated in accordance with the method for calculating mathematical reserves in fee block A4 in part 2 of <i>FEES 4 Annex 1 R</i> with the following adjustments.</p> <p>...</p> <p>(7) The provisions relating to pension fund management business in Part 2 of <i>FEES 4 Annex 1 R</i> do not apply. A <i>firm</i> undertaking such business that does not carry out any other activities within sub-class C1 (ignoring any activities that would have a wholly insignificant effect on the calculation of its tariff base for sub-class C1) must use its Long-term insurance capital requirement instead of gross technical liabilities. ...</p> <p>...</p> <p>Sub-class <i>C2</i>: <i>annual eligible income</i> where <i>annual eligible income</i> means annual income adjusted in accordance with this table. Annual income is calculated as the sum of (a) and (b):</p> <p>(a) the net amount retained by the <i>firm</i> of all brokerages, fees, commissions and other related income (for example, administration charges, overrides and profit shares) due to the <i>firm</i> in respect of or in relation to sub-class C2 activities including any income received from an <i>insurer</i>, and;</p> <p>(b) if the <i>firm</i> is a life and pensions <i>firm</i>, in relation to sub-class C2 activities, the amount of <i>premiums</i> or commission receivable on its life and pensions contracts multiplied by 0.07, excluding those life and pensions contracts which result from sub-class C2 activities carried out by another <i>firm</i>...</p>

	<p>Notes relating to the calculation of the tariff base for <i>sub-class C2</i>:</p> <p>...</p> <p>(2) Life and pensions <i>firm</i> means an <i>insurer</i>. It also means a <i>firm</i> that provides <i>stakeholder pension schemes</i> or <i>personal pension schemes</i> if those activities fall into <i>sub-class D1</i>.</p> <p>...</p> <p>(4) Net amount retained means all the commission, fees, etc. in respect of <i>sub-class C2</i> activities...</p> <p>(5) Sub-class <u>Class C2</u> activities mean activities that fall within <i>sub-class C2</i>. They also include activities that now fall within <i>sub-class C2</i> but that were not <i>regulated activities</i> when they were carried out.</p> <p>(6) A reference to a <i>firm</i> also includes a reference to any <i>person</i> who carried out activities that would now fall into <i>sub-class C2</i> but which were not at the time <i>regulated activities</i>.</p>
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Class D	Investment
Sub-class <u>Class D1</u>	Fund management <u>Investment provision</u>
Legal basis for activity in sub-class D1 <u>Firms with permission for:</u>	...
Sub-class <u>Class D2</u>	Investment Intermediation
Legal basis for activity in sub-class D2 <u>Firms with permission for:</u>	...
Tariff base	Sub-class <u>Class D1</u> : <i>annual eligible income</i> where <i>annual eligible income</i> means annual income adjusted in accordance with this table. Annual income is equal to the net amount retained by the <i>firm</i> of all income due to the <i>firm</i> in respect of or in relation to activities falling within <i>sub-class D1</i> .
	Sub-class <u>Class D2</u> : <i>annual eligible income</i> where <i>annual eligible income</i> means annual income adjusted in accordance with this table. Annual income is equal to the net amount retained by the <i>firm</i> of all income due to the <i>firm</i> in respect of or in relation to activities falling within <i>sub-class D2</i> .

	Notes on <i>annual eligible income</i> for <i>sub-classes</i> D1 and D2:
	(1) For the purposes of calculating annual income, net amount retained means all the commission, fees, etc. in respect of activities falling within <i>sub-class</i> D1 or D2...
...	

Class E	Home Finance
Sub-class E1	Home Finance Provision
Legal basis for activity in sub-class E1	Any of the activities below:
	<i>entering into a home finance transaction;</i>
	<i>administering a home finance transaction;</i>
	<i>agreeing to carry on a regulated activity which is within any of the above.</i>
Sub-class <u>Class</u> E2	Home Finance Intermediation
Legal basis for activity in sub-class E2 <u>Firms with permission for:</u>	...
Tariff base	Sub-class E1: FSA periodic fees
	Sub-class: <u>Class</u> E2: ...

Notes	
...	
(2)	In calculating <i>annual eligible income</i> a <i>firm</i> must apportion income between different <i>sub-classes</i> ...
...	

6 Annex 4G **Guidance on the calculation of tariff bases**

This table belongs to FEES 6.5.8G

	Calculation of annual eligible income for firms in <i>sub-class</i> D1 who carry out discretionary fund management and are in FSA fee block A7
--	--

-1.1	G	The tariff base for <i>sub-class</i> D1 is calculated by taking gross income falling into <i>sub-class</i> D1 and then deducting commission, fees and similar amounts rebated to customers or passed on to other <i>firms</i> (for example, where there is a commission chain). ...
...		
1.2	G	<i>Annual eligible income</i> should exclude
		income received or receivable from assets managed on a non-discretionary basis, being assets that the <i>firm</i> has a contractual duty to keep under continuous review but in respect of which prior specific consent of the client must be obtained for proposed transactions, as this activity is covered in <i>sub-class</i> D2 (the investment intermediation <i>sub-class</i>).
...		
		Calculation of annual eligible income for firms in sub-class D1 and who carry out activities within FSA <u>FSA</u> fee block A9
2.1	G	The calculation of income in respect of activities falling into <i>sub-class</i> D1 and <i>FSA</i> fee block A9 should be based on the tariff base provisions for that fee block (in Part 2 of <i>FEES</i> 4 Annex 1R). ...
2.2	G	Although the calculation should be based on the one for fee block A9, the calculation is not the same. <i>FSA</i> fee block A9 is based on gross income. <i>Sub-class</i> <u>Class</u> D1 is based on net income retained.
		Calculation of annual eligible income for a firm in sub-class B2 or sub-class C2
...		
		Difficulties in calculating annual eligible income
4.1	G	The purpose of Note 2 in the section of notes at the end of <i>FEES</i> 6 Annex 3R (Financial Services Compensation Scheme - classes and sub-classes) is to deal with the practical difficulties of allocating income correctly between different <i>sub-classes</i> and in deciding whether income falls outside <i>FEES</i> 6 Annex 3R altogether. ...
...		
		Gross technical liabilities and mathematical reserves for non-directive friendly societies
...		
5.2	G	The figures for gross technical liabilities and mathematical reserves of a <i>non-directive friendly society</i> for the purpose of calculating its tariff base in <i>sub-class</i> B1 (General Insurance Provision) and C1 (Life and Pensions Provision) are based on a valuation. ...

Insert the following after FEES TP 6. The text is not underlined.

TP 7 Transitional provisions relating to changes to the FSCS levy arrangements taking effect in 2013/14

- 7.1 R As at 31 March 2013, the *FSCS* must:
- (1) allocate any surplus or deficit in the balance of an activity group in respect of *base costs*, as listed in *FEES* 4 Annex 1R, to the account of that activity group as at 1 April 2013; and
 - (2) take that surplus or deficit (so allocated) into account when calculating the amount to be levied under *FEES* 6.4.5R in respect of the financial year commencing on 1 April 2013.

Part 2: Comes into force on 1 April 2014

6 Financial Services Compensation Scheme Funding

6.1 Application

...

General structure

...

- 6.1.6 G In calculating a *compensation costs levy*, the *FSCS*:
- (1) for claims for protected deposits, may include *compensation costs* expected in the 12-month period following the date of the levy. ~~The total amount of all *management expenses levies* attributable to a financial year will be restricted to the amount set out on an annual basis in *FEES* 6 Annex 1R.~~ and
 - (2) for other protected claims, may include up to the greater of one third of the *compensation costs* expected in the 36-month period following the date of the levy, or the *compensation costs* expected in the 12 months following that date.

- 6.1.6A G The total amount of all *management expenses levies* attributable to a financial year will be restricted to the amount set out on an annual basis in *FEES* 6 Annex 1R.

...

The compensation costs levy

- 6.1.14 G In imposing a *compensation costs levy* in each financial year of the *compensation scheme* the *FSCS* will take into account the *compensation costs* which the *FSCS* has incurred and has not yet raised through levies, any recoveries it has made using the rights that have been assigned to it or

to which it is subrogated and a further amount calculated taking into account:

- (1) for claims for protected deposits, those *compensation costs* it expects to incur (including in respect of defaults yet to be declared) ~~over~~ in the 12 months following the date of the levy; and
- (2) for other protected claims:
 - (a) the compensation costs it expects to incur in the 12 months following the date of the levy; or, if greater
 - (b) one third of the compensation costs it expects to incur in the 36 months following the date of the levy (see FEES 6.3.1R (Imposing management expenses and compensation costs levies)).

...

6.3 The FSCS's powers to impose levies

Imposing management expenses and compensation costs levies

- 6.3.1 R The *FSCS* may at any time impose a *management expenses levy* or a *compensation costs levy*, provided that the *FSCS* has reasonable grounds for believing that the funds available to it to meet relevant expenses are, or will be, insufficient, taking into account expenditure already incurred, actual and expected recoveries and:
- (1) in the case of a *management expenses levy*, the level of the *FSCS's* expected expenditure in respect of those expenses in the financial year of the *compensation scheme* in relation to which the levy is imposed; ~~and~~
 - (2) in the case of a *compensation costs levy relating to claims for protected deposits*, the level of the *FSCS's* expected expenditure in respect of *compensation costs* in the 12 months following the levy; and
 - (3) in the case of a compensation costs levy relating to other protected claims,
 - (a) the *FSCS's* expenditure in respect of compensation costs expected in the 12 months following the levy; or, if greater
 - (b) one third of the *FSCS's* expenditure in respect of compensation costs expected in the 36 months following the levy.
- 6.3.2A G The *FSCS* will usually levy once in each financial year (and in respect of *compensation costs*, for expenditure expected in the period of 12 months or, if greater, one third of the expenditure expected in the period of 36

months following 1 July in that year)...

Annex C

Amendments to the Supervision manual (SUP)

In this Annex, striking through indicates deleted text

16 Annex 18AR Retail Mediation Activities Return ('RMAR')

...

SECTION J: data required for calculation of fees

Part 1

	FSA Annual Regulated Income (£s)	FOS Relevant Annual Income (£s)	FSCS Annual Eligible Income (£s)
Home Finance Mediation	see <i>FEES</i> 4 Annex 1R Part 2 fee block A18	<i>FEES</i> 5 Annex 1R industry block 16	<i>FEES</i> 6 Annex 3R sub -class E2
Non-investment insurance mediation	see <i>FEES</i> 4 Annex 1R Part 2 fee block A19	<i>FEES</i> 5 Annex 1R industry block 17	<i>FEES</i> 6 Annex 3R sub -class B2
Life and pension intermediation	n/a	n/a	<i>FEES</i> 6 Annex 3R sub -class C2
Investment intermediation	n/a	n/a	<i>FEES</i> 6 Annex 3R sub -class D2
...			

...

16 Annex 18BG

NOTES FOR COMPLETION OF

THE RETAIL MEDIATION ACTIVITIES RETURN ('RMAR')

...

Section J: data required for calculation of fees

...

Data for fees calculations	<i>Firms</i> will need to report data for the purpose of calculating <i>FSA</i> , <i>FOS</i> and <i>FSCS</i> levies.
...	
FSCS	The relevant information required is the tariff data set out

	in sub -classes B2, C2, D2, and E2, <i>FEES</i> 6 Annex 3R. Note that <i>firms</i> are required to report tariff data information relating to all business falling within sub -classes B2, C2, D2 and E2, <i>FEES</i> 6 Annex 3R.
--	--

...

Annex D

Amendments to the Dispute Resolution: Complaints sourcebook (DISP)

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

1 Annex 1AG Recommended metrics

This table belongs to DISP 1.10A.8G

Type of business	Contextualised new complaint numbers	Recommended metrics
...		
Investment (fund management <u>provision</u>)	<i>Complaints</i> per £1m of annual eligible income	The <i>firm's</i> annual eligible income as defined in sub- class D1 of <i>FEES</i> 6 Annex 3R
Investment (intermediation)	<i>Complaints</i> per £1m of annual eligible income	The <i>firm's</i> annual eligible income as defined in sub- class D2 of <i>FEES</i> 6 Annex 3R
...		
Decumulation, life and pensions (intermediation)	<i>Complaints</i> per £1m of annual eligible income	The <i>firm's</i> annual eligible income as defined in sub- class C2 of <i>FEES</i> 6 Annex 3R
...		

Annex E**Amendments to the Compensation sourcebook (COMP)**

In this Annex, striking through indicates deleted text.

- 14.5.1 R Where an *EEA UCITS management company* provides *collective portfolio management* services for a *UCITS scheme* from a *branch* in the *United Kingdom*, or under the freedom to provide *cross border services*, the *FSCS* must allocate the *firm* to the ~~*sub-class*~~ or ~~*sub-classes*~~ which seems to the *FSCS* to be most appropriate, taking into account the nature of the *firm's* business activities