Chapter 6

Financial Services Compensation Scheme Funding

Guidance on the calculation of tariff bases

This table belongs to FEES 6.5.8 G

		Calculation of annual eligible income for firms in category 2.3 and class 3 who carry out discretionary fund management and are in *FCA* fee block A7
-1.1	G	The tariff base for *category* 2.3 and *class* 3 is calculated by taking gross income falling into *category* 2.3 and *class* 3 and then deducting commission, fees and similar amounts rebated to customers or passed on to other *firms* (for example, where there is a commission chain). Items such as general business expenses (for example employees' salaries and overheads) should not be deducted. The calculation may be further adjusted so as to include only income that is attributable to business in respect of which the *FSCS* may pay compensation, unless the *firm* chooses to include all its annual income.
1.1	G	Gross income for the activity of *managing investments* is the sum of the following: (1) the amount of the annual charge on all assets in portfolios which the *firm* manages on a discretionary basis received or receivable in the latest accounting period (this is calculated as a percentage of funds invested, typically 1% p.a.); plus (2) the front-end or exit charge levied on sales or redemptions of assets in portfolios which the *firm* manages on a discretionary basis (typically 4-5% of sales/redemptions) in that same accounting period; plus (3) the amount of performance management fees from the management of assets in portfolios which the *firm* manages on a discretionary basis received or receivable in that same accounting period; plus (4) any other income directly attributable to the management of assets in portfolios which the *firm* manages on a discretionary basis in that same accounting period, including commission and interest received.
1.2	G	*Annual eligible income* should exclude income received or receivable from assets managed on a non-discretionary basis, being assets that the *firm* 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 *category* 2.1 (the life distribution and investment intermediation *category*).
1.3	G	A *firm* should make appropriate arrangements to ensure that income is not double counted in relation to the activities it undertakes (for example, where it operates and manages a *personal pension scheme* or *collective investment scheme*).
		Calculation of annual eligible income for firms in category 2.3 and class 3 and who carry out activities within FCA fee block A9
2.1	G	The calculation of income in respect of activities falling into *category* 2.3 or *class* 3, and *FCA* fee block A9 should be based on the tariff base provisions for that fee block (in Part 3 of FEES 4 Annex 1A R). It may be adjusted so as to include only income that is attributable to business in respect of which the *FSCS* may pay compensation, unless the *firm* chooses to include all its annual income.
2.2	G	Although the calculation should be based on the one for fee block A9, the calculation is not the same. *FCA* fee block A9 is based on gross income. *Category* 2.3 and *class* 3 are is based on net income retained.
	Calculation of annual eligible income for a firm in categories 1.1 or 2.1	

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		Calculation of annual eligible income for firms in category 2.3 and class 3 who carry out discretionary fund management and are in *FCA* fee block A7
3.1	G	The amount of *annual eligible income* should include the amount of any trail or renewable commission due to the *firm*. Trail commission is received as a small percentage of the value of a policy on an ongoing basis. Renewable commission is received from a very small percentage of the value of a policy from ongoing premiums often received once the initial commission period is over.
	Difficulties in calculating annual eligible income	
4.1	G	The purpose of Note 2 in the section of notes at the end of FEES 6 Annex 3AR (Financial Services Compensation Scheme - classes) is to deal with the practical difficulties of allocating income correctly between different *classes* and in deciding whether income falls outside FEES 6 Annex 3AR altogether. Note 2 requires a *firm* to carry out the necessary apportionment on a reasonable and consistent basis.
4.2	G	The following provides some *guidance* as to how *firms* may approach the allocation of *annual eligible income*.
4.3	G	Where a *firm* cannot separate its income on the basis of activities, such as a fund manager which acts on a discretionary and non-discretionary basis for the same *client* and who only sends out a single invoice, the *firm* may apportion the income in another way. For instance, a *firm* may calculate that the business it undertook for a *client* was split 90% on a discretionary basis and 10% on a non-discretionary basis calculated by reference to funds under management. The *firm* may split the income accordingly.
4.4	G	A *firm* may allocate trail or renewable commission on the basis of the type of *firm* it receives it from. For instance, if it comes from a life provider the *firm* may consider it as life and pensions mediation income. If it comes from a fund manager the *firm* may treat it as investment mediation income.
4.5	G	If a *firm* receives *annual eligible income* from a platform based business it may report *annual eligible income* in line with the proportionate split of business that the *firm* otherwise undertakes. For instance, if a *firm* receives 70% of its other commission from life and pensions mediation business and 30% from investment mediation business, then it may divide what it receives in relation to the platform business on the same basis.
4.5A	G	*Firms* should have regard to the ability of the *FSCS* to pay compensation to members of pension schemes and to *participants* in *collective investment schemes* (see COMP 12A (Special cases)) when calculating their *annual eligible income*.
4.6	G	Unless a *firm* chooses to include all relevant annual income, *annual eligible income* excludes business that is not compensatable under the *compensation scheme*. This can create difficulties because, for example, a *person* may move between being and not being an *eligible claimant* over time. The purpose of Note 3 in the section of notes at the end of FEES 6 Annex 3AR is to deal with that difficulty by fixing a date for deciding this.