Chapter 6

Financial Services Compensation Scheme Funding
6.1 Application

This chapter applies to:

1. every participant firm;
2. the FSCS; and
3. the Society.

6.1.1

(1) Firms which are not participant firms (such as certain types of incoming EEA firms, service companies and ICVCs) are not required to contribute towards the funding of the compensation scheme.

(2) The fees levied in relation to the carrying on of insurance market activities by members will be imposed on the Society rather than individually on each member (see FEES 6.3.24 R).

Purpose

The purpose of this chapter is to set out the requirements on participant firms to pay levies imposed by the FSCS to provide funding for its functions under COMP. The PRA Rulebook deals with funding for the FSCS’s functions for depositor protection and policyholder protection.

General structure

Section 213(3)(b) of the Act requires the appropriate regulator to make rules to enable the FSCS to impose levies on authorised persons, and on recognised investment exchanges that are operating a multilateral trading facility or operating an organised trading facility, 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.

Section 224F of the Act enables the appropriate regulator 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.
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.

In calculating a compensation costs levy, the FSCS may include up to the greater of one third of the compensation costs expected in the 36-month period following the 1 April of the financial year of the compensation scheme in relation to which the levy is imposed, or the compensation costs expected in the 12 months following that date.

The total amount of all management expenses levies attributable to a financial year and levied by the FSCS under this chapter or under the PRA Rulebook will be restricted to the amount set out on an annual basis in FEES 6 Annex 1 R.

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 six classes: the General Insurance Distribution Claims class; the Investment Intermediation Claims class; the Investment Provision Claims class; the Home Finance Intermediation Claims class; the Debt Management Claims class; and the deposit acceptors’ contribution class. The permissions held by a participant firm determine into which class, or classes, it falls.

The provisions on the allocation of levies to classes meet a requirement of section 213(5) of the Act that the FCA, 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 management expenses levy**

Section 223 of the Act (Management expenses) prevents the FSCS from recovering, through a levy, any management expenses attributable to a particular period in excess of the limit set in COMP as applicable to that period. ‘Management expenses’ are defined in section 223(3) to mean expenses incurred or expected to be incurred by the FSCS in connection with its functions under the Act, except:

1. expenses incurred in paying compensation;
2. expenses incurred as a result of the FSCS making the arrangements to secure continuity of insurance to make payments to or in respect of policyholders or to safeguard policyholders, under PRA rules made under sections 216(3) or (4) or 217(1) of the Act;
3. expenses incurred under section 214B or section 214D of the Act 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; and
(4) expenses incurred under Part XVA of the Act as a result of the FSCS being required by HM Treasury to act in relation to a relevant scheme.

6.1.10 A management expenses levy may consist of two elements. The first is a base costs levy, for 50% of 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 attributable to any specific class. The PRA allocates the other 50% of the base costs under its rules. Included in base costs are items such as the salary of the members of the board of the FSCS, the costs of the premises which the FSCS occupies, and its audit fees. It would also likely include the cost of any insurance cover secured by FSCS against the risk of it paying claims out in circumstances where the levy limit of the particular class to which the claim would otherwise be attributable has exceeded its levy limit for the year, as the insurance cover is likely to benefit all classes which may have costs allocated to them if the levy limit of another class is breached. The amount that each participant firm pays towards a base costs levy is calculated by reference to the regulatory costs paid by the firm. All participant firms are liable to contribute towards a base costs levy.

6.1.11A 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 are attributable to a class, and include the salary costs of certain staff of the FSCS and claims handling and legal and other professional fees. 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 class (but below the levy limit for that class for the year). When the FSCS imposes a specific costs levy, the levy is allocated to the class which gives rise to those costs up to the relevant levy limits. Specific costs attributable to certain classes, which exceed the class levy limits, may be allocated to the retail pool. The FSCS may include in a specific costs levy the 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 imposed on a class is calculated by reference to the amount of business conducted by the firm in that class, or categories within that class. Each class or category has a “tariff base” for this purpose, set out in FEES 6 Annex 3AR. Participant firms may be exempt from contributing to the specific costs levy.

6.1.12 [deleted]

6.1.13 The limit on the management expenses attributable to the forthcoming financial year of the compensation scheme will be consulted on in January each year.
The compensation costs levy

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 compensation scheme has incurred and has not yet raised through levies, any recoveries it has had 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. [deleted]
2. [deleted]
3. the compensation costs it expects to incur in the financial year of the compensation scheme in relation to which the levy is imposed; or, if greater
4. one third of the compensation costs it expects to incur in the 36 months following 1 April of the financial year of the compensation scheme in relation to which the levy is imposed (see FEES 6.3.1R (Imposing management expenses and compensation costs levies)).

Compensation costs are principally the costs incurred in paying compensation. Costs incurred:

1. [deleted]
2. [deleted]
3. [deleted]
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 gives rise to the costs up to relevant levy limits. Classes (other than the deposit acceptors’ contribution class) 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

If a participant firm is a member of more than one 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 in respect of each of the classes for that year. Each class has a levy limit which is the maximum amount of compensation costs and specific costs which may be allocated to a particular class in a financial year for the purposes of a levy.

The retail pool

The FCA has made rules providing that compensation costs and specific costs attributable to the classes (other than the deposit acceptors’ contribution class)
class), and which exceed the class levy limits, may be allocated to the retail pool. Levies allocated to the retail pool are then allocated amongst the other such classes, together with the deposit acceptors’ contribution class. The deposit acceptors’ contribution class may contribute to compensation costs levies or specific costs levies funded by the retail pool, but may not itself receive any such funding.

Incoming EEA firms

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 firm’s 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 class.
6.2 Exemption

6.2.1A

(1) Except as set out in (3), a participant firm which does not conduct business in respect of which the FSCS may pay compensation and has no reasonable likelihood of doing so is exempt from a specific costs levy, or a compensation costs levy, or both, provided that:

(a) it has notified the FSCS in writing that those conditions apply; and

(b) the conditions in fact continue to apply.

(2) The exemption takes effect from the date on which the notice was received by the FSCS, subject to FEES 6.2.6 R.

(3) The exemption in (1) does not apply in respect of a specific costs levy or compensation costs levy arising from the firm’s membership of any of the following:

(a) category 1.2 (General insurance provision) of class 1 (the General Insurance Distribution Claims class); or

(b) categories 2.2 (Life insurance provision), 2.3 (Investment provision) or 2.4 (Structured deposits provision) of class 2 (Investment Intermediation Claims class); or

(c) category 4.2 (Home finance provision) of class 4 (the Home Finance Intermediation Claims class); or

(d) category 5.2 (Consumer credit provision) of class 5 (the Debt Management Claims class); or

(e) the deposit acceptors’ contribution class.

6.2.2

FEES 6.2.1AR does not apply to a participant firm that may be subject to a claim under COMP 3.2.4 R.

6.2.3

A participant firm to which COMP 3.2.4R applies must report annual eligible income in accordance with FEES 6.5.13 R. Such a participant firm may take advantage of the option to report its annual income attributable to business in respect of which the FSCS may pay compensation.

6.2.4

A participant firm which is exempt under FEES 6.2.1AR must notify the FSCS in writing as soon as reasonably practicable if the conditions in FEES 6.2.1AR no longer apply.
6.2.5 A participant firm to which the conditions in FEES 6.2.1AR no longer apply will then become subject to FEES 6.3.

6.2.6 If a participant firm ceases to conduct business that could give rise to a protected claim by an eligible claimant and notifies the FSCS of this under FEES 6.2.1AR, it will be treated as a participant firm to which FEES 6.7.6 R applies until the end of the financial year of the compensation scheme in which the notice was given.

6.2.7 The financial year of the compensation scheme is the twelve months ending on 31 March. The effect of FEES 6.2.6 R and FEES 6.2.1AR is that if a firm fails to notify FSCS of an exemption under FEES 6.2.1AR by 31 March it will be treated as non-exempt for the whole of the next financial year.

6.2.8 For the purposes of FEES 6.2.1AR a participant firm will only be exempt from a specific costs levy or compensation costs levy for any given financial year if it met the conditions in FEES 6.2.1AR on 31 March of the immediately preceding financial year.
6.3 The FSCS's power to impose levies

Imposing management expenses and compensation costs levies

6.3.1 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. [deleted]

3. in the case of a compensation costs levy:

   a. the FSCS's expenditure in respect of compensation costs expected in the 12 months of the financial year of the compensation scheme in relation to which the levy is imposed; or, if greater

   b. one third of the FSCS's expenditure in respect of compensation costs expected in the 36 months following the 1 April in the financial year of the compensation scheme in relation to which the levy is imposed.

The calculation of levies will also take into account previous levies, where funds raised in anticipation of meeting liabilities prove either more or less than the amount actually required.

6.3.2 The FSCS will usually levy once in each financial year (the annual levy). 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 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 6.3.17 R (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 has committed itself in Memorandum of Understanding with the FCA to publish its policy in respect of levying.

6.3.4 G The discretion over levying in FEES 6 also gives the FSCS, if it thinks this appropriate, the ability to use third parties as its agents in raising and collecting the levies.

**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 financial year of the compensation scheme in relation to which the levy is imposed.

**Limits on compensation costs and specific costs levies on classes**

6.3.5 R The maximum aggregate amount of compensation costs and specific costs for which the FSCS can levy each class (including levies through the retail pool) in any one financial year of the compensation scheme is limited to the amounts set out in the table in FEES 6 Annex 2 R.

6.3.6 R [deleted]

6.3.7 R [deleted]

6.3.8 R [deleted]

6.3.9 R [deleted]

**Levy for compensation costs paid in error**

6.3.10 R The FSCS may include in a compensation costs levy the costs of compensation paid by the FSCS in error, provided that the payment was not made in bad faith.
<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.3.11</td>
<td>The FSCS must hold any amount collected from a specific costs levy or compensation costs levy to the credit of the classes in accordance with the allocation established under ■ FEES 6.4.6AR and ■ FEES 6.5.2-AR.</td>
</tr>
<tr>
<td>6.3.12</td>
<td>Any funds received by the FSCS by way of levy or otherwise for the purposes of the compensation scheme are to be managed as the FSCS considers appropriate, and in doing this the FSCS must act prudently.</td>
</tr>
<tr>
<td>6.3.13</td>
<td>Interest earned by the FSCS in the management of funds held to the credit of a class must be credited to that class, and must be set off against the management expenses or compensation costs allocated to that class.</td>
</tr>
</tbody>
</table>
| 6.3.14  | The FSCS must keep accounts which include:  
(1) the funds held to the credit of each class; and  
(2) the liabilities of that class. |
| 6.3.15  | [deleted] |
| 6.3.15A | [deleted] |
| 6.3.16  | [deleted] |
| 6.3.17  | (1) The FSCS may use any money held to the credit of one class (the creditor class) to pay compensation costs or specific costs 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:  
(a) the creditor class is reimbursed by the debtor class as soon as possible;  
(b) the debtor class pays interest at a rate equivalent to the Bank of England’s repo rate from time to time in force; and  
(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 on the creditor class under ■ FEES 6.3.1 R. |
| 6.3.18  | ■ FEES 6.3.17 R deals with how FSCS may use money available to it and does not affect the rules on levy allocation in ■ FEES 6.4, ■ 6.5 and ■ 6.5A. |
| 6.3.19  | Unless ■ FEES 6.3.20 R applies, any recoveries made by the FSCS in relation to protected claims must be credited to the classes to which the related compensation costs was attributable. |
6.3.20 R  (1) Where the FSCS makes recoveries in relation to protected claims where a related compensation costs levy would have been allocated to a class (class A) had the levy limit for class A not been reached and has been allocated to another class or 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) [deleted]

6.3.20A G  Recoveries under FEES 6.3.20 R are net of the costs of recovery.

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

Adjustments to calculation of levy shares

6.3.22 R  The FSCS may adjust the calculation of a participant firm’s share of any levy to take proper account of:
   (1) any excess, not already taken into account, between previous levies of that type imposed in relation to previous periods and the relevant costs actually incurred in that period; or
   (2) participant firms that are exempt from the levy under FEES 6.2; or
   (3) amounts that the FSCS has not been able to recover from participant firms as a result of FEES 6.3.5 R; or
   (4) amounts that the FSCS has not been able to recover from participant firms after having taken reasonable steps; or
   (5) FEES 2.3 (Relieving Provisions), FEES 6.5.9 R (New participant firms),
       FEES 6.3.23 R (Remission of levy or additional administrative fee) or
       FEES 6.6 (Incoming EEA firms); or
   (6) anything else that the FSCS believes on reasonable grounds should be taken into account.

6.3.22A R  The FSCS may not adjust the calculation of a participant firm’s share of any levy under FEES 6.3.22 R on the grounds that it would be inequitable for that firm to pay that share or part of it or on the grounds that it would be inequitable for the FSCS to retain that share or part of it.
The reason for FEES 6.3.22A R is that any such claim should be dealt with under FEES 2.3 (Relieving Provisions).

Firms acquiring businesses from other firms

(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 6.5.13 R is drawn up so far as concerns the 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 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 6.5.13 R. A is included in the classes applicable to the relevant business.

(3) This rule only applies with respect to those financial years of the compensation scheme for which A’s levies are calculated on the basis of a statement of business under FEES 6.5.13 R drawn up to a date, or as of a date, before the acquisition or change in legal status took place.

Remission of levy or additional administrative fee

If a participant firm’s share of a levy or an additional administrative fee under FEES 6.7.4 R would be so small that, in the opinion of the FSCS, the costs of collection would be disproportionate to the amount payable, the FSCS may treat the participant firm as if its share of the levy or additional administrative fee amounted to zero.

Levies on the Society of Lloyd’s

The FSCS may impose a levy on the Society to be calculated as the aggregate of the levies that would be imposed on each member if this chapter applied to members, as follows:

(1) a share of the base costs levy for each financial year; and

(2) a share of a specific costs levy or a compensation costs levy allocated to the insurers – life contribution class or insurers – general contribution class in the retail pool in accordance with this chapter.

The following core provisions of the Act apply to the carrying on of insurance market activities by members:
FEES 6 : Financial Services Compensation Scheme Funding

Section 6.3 : The FSCS’s power to impose levies

(1) Part 9A (Rules and guidance) for the purpose of applying the rules in FEES 6 and relevant interpretative provisions;

(2) Part XV (Financial Services Compensation Scheme).

[Note: section 316 of the Act]

6.3.26 The insurance market direction in FEES 6.3.25D is intended to advance the FCA’s consumer protection objective in section 1C of the Act by assisting the FSCS to impose a levy on the Society, calculated as the aggregate of the levies that would be imposed on members, in accordance with FEES 6.3.24R. As a result of section 317(2) of the Act, references to an authorised person in Part XV of the Act include a member.
6.4 Management expenses

Obligation on participant firm to pay

6.4.1 A participant firm must pay to the FSCS a share of each management expenses levy.

Limit on management expenses

6.4.2 The total of all management expenses levies (taken together with the management expenses levies under the PRA Rulebook) attributable to a particular period of the compensation scheme may not exceed the limit applicable to that period set out in FEES 6 Annex 1 R.

Participant firm’s share

6.4.3 A participant firm’s share of a management expenses levy consists of one or more of: (1) a share of a base costs levy and (2) a share of a specific costs levy.

6.4.4 The FSCS must ensure that each participant firm’s share of a management expenses levy separately identifies the firm’s share of the base costs levy and specific costs levy.

Base costs levy

6.4.5 Subject to FEES 6.3.22 R, the FSCS must calculate a participant firm’s share of a base costs levy by:

(1) for recognised investment exchanges, providing for £1,000 per RIE for each financial year of the compensation scheme (other than in the financial year in which the recognised investment exchange becomes a participant firm, when its share is nil);

(2) for other participant firms:

(a) 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 allocating 50% of those base costs (less any contribution to be made by recognised investment exchanges under (1)) as the sum to be levied on participants in all the activity groups listed in FEES 4 Annex 1AR;

(b) calculating the amount of the participant firm’s regulatory costs as a proportion of the total regulatory costs relating to all
participant firms (other than recognised investment exchanges) for the relevant financial year; and

(c) applying the proportion calculated in (b) to the sum in (a).

6.4.5A  G  [deleted]

6.4.5B  G  The FCA and the PRA each allocate 50% of the base costs in a given financial year of the compensation scheme in accordance with their respective rules.

Specific costs levy

6.4.6A  R  The FSCS must allocate, and calculate a participant firm’s share of, a specific costs levy in the same way as for a compensation costs levy (see §FEES 6.5).

(1) [deleted]

(2) [deleted]

6.4.7A  R  [deleted]

6.4.8  R  [deleted]
<table>
<thead>
<tr>
<th>Section 6.4</th>
<th>Event Type</th>
<th>Event Code</th>
<th>Details</th>
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<td>6.4.9</td>
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<tr>
<td>6.4.10</td>
<td>G</td>
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<td>6.4.10A</td>
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<td>6.4.10B</td>
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<td>6.4.12</td>
<td>R</td>
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</tbody>
</table>
6.4A Management expenses in respect of relevant schemes

Obligation on participant firm to pay

6.4A.1 A participant firm (but not a recognised investment exchange) must pay to the FSCS a share of each MERS levy.

Restriction on management expenses in respect of relevant schemes

6.4A.2 The FSCS can impose a MERS levy only if the FSCS has tried its best and has failed to obtain reimbursement of those expenses from the manager of the relevant compensation scheme.

Management expenses in respect of relevant schemes levy

6.4A.3 The FSCS must calculate a participant firm's share of a MERS levy on a reasonable basis.
6.5 Compensation costs

6.5.1 [deleted]

Allocation

The FSCS must allocate any compensation costs levy:

(1) first, to the relevant classes (other than the deposit acceptors’ contribution class) 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

(1A) next, amongst the categories (if any) within each class:

(a) in proportion to the categories’ unused levy limits as at the date of the levy;

(b) up to those levy limits, subject to the conditions in ■ FEES 6.5.2-AAR; and

(2) thereafter, where the levy limit for a class has been reached (whether as a result of compensation costs or specific costs or both), to the retail pool, in accordance with, and subject to, ■ FEES 6.5A and subject to the conditions in ■ FEES 6.5.2-AA.

Cap and clawback caused by other levies on insurers, investment providers and deposit takers

(1) This rule applies in relation to a relevant category or class in the table below.

<table>
<thead>
<tr>
<th>Relevant category or class</th>
<th>Relevant unused levy limit</th>
<th>Corresponding funding class</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category 1.2 (General insurance provision)</td>
<td>Levy limit of the corresponding funding class in the PRA Rulebook, minus any levy imposed: (a) on that class by the FSCS under the PRA’s rules; and (b) on the relevant category or class by the FSCS under the FCA’s rules;</td>
<td>Corresponding funding class in the PRA Rulebook</td>
</tr>
<tr>
<td>Relevant category or class</td>
<td>Relevant unused levy limit</td>
<td>Corresponding funding class</td>
</tr>
<tr>
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</tr>
<tr>
<td>Category 2.3 (Investment provision)</td>
<td>in the same financial year</td>
<td>Class 3 (Investment Provision Claims)</td>
</tr>
<tr>
<td></td>
<td>Levy limit for class 3 (Investment Provision Claims) minus any compensation costs levies or specific costs levies imposed by the FSCS in the same financial year</td>
<td></td>
</tr>
</tbody>
</table>

(2) An allocation under step (1A) or (2) of FEES 6.5.2-AR to a relevant category or class must be capped as necessary so as not at that time to exceed the relevant unused levy limit in the table in (1), with any outstanding amount reallocated starting with that step.

(3) If a relevant unused levy limit in the table in (1) is exceeded by a subsequent levy imposed on the corresponding funding class by the FSCS (under the PRA’s or FCA’s rules) in the same financial year, the FSCS must recover any previous contributions by the relevant category or class in the way set out in (4), but only to the extent necessary to correct that relevant unused levy limit excess.

(4) If (3) applies, then the FSCS must, as far as reasonably possible:

(a) in the case of a previous contribution by a relevant category under FEES 6.5.2-AR(1A):

   (i) impose a levy on the other categories in the class to which the relevant category belongs and thereafter to the other firms in the retail pool, applying FEES 6.5.2-AR(1A) and (2); and

   (ii) credit the recovered amount to the relevant category.

(b) in the case of a previous contribution by a relevant category or class to the retail pool under FEES 6.5.2-AR(2):

   (i) impose a levy on the other firms in the retail pool in accordance with, and subject to, FEES 6.5A; and

   (ii) credit the recovered amount to the relevant category or class.

(5) The FSCS may, before imposing a levy under (4), raise funds to correct the unused levy limit excess by commercial or other borrowing, or by utilising funds as set out in, and subject to, FEES 6.3.17R.

(1) This is an example of the effect of levies under the PRA’s rules on levies on category 1.2 (General insurance provision), as a result of FEES 6.5.2-AAR.

(2) The FSCS allocates a compensation costs levy and specific costs levy totalling £205 million to class 1 (General Insurance Distribution Claims) under FEES 6.5.2-AR (see FEES 6.4.6AR). For the purposes of this example, this is the first levy imposed by the FSCS in that financial year. As a result of FEES 6.5.2-AR(1A), £155 million is allocated to category 1.1 and £50 million to category 1.2.
(3) The FSCS next imposes a levy under the PRA’s rules on the funding class (general insurers) that corresponds to category 1.2. That levy is equal to the levy limit for that funding class (general insurers) in the PRA Rulebook.

(4) As a result of FEES 6.5.2-AAR(3) and (4), the FSCS must raise £50 million by imposing a levy on category 1.1 and credit those funds by way of repayment to category 1.2.

(5) The FSCS then allocates a further compensation costs levy and specific costs levy totalling £50 million to class 1 under FEES 6.5.2-AR. As a result of FEES 6.5.2-AR(2), the FSCS must allocate the whole amount of that further levy to category 1.1.

(6) Subsequently but in the same financial year, the FSCS incurs further compensation costs and specific costs attributable to class 1 and totalling £75 million. However, if £75 million were allocated to class 1, it would cause category 1.1 to exceed its levy limit of £310 million when combined with the £255 million that category 1.1 has already paid in that financial year. Accordingly, the FSCS imposes a further compensation costs levy and specific costs levy totalling £75 million and allocates it as follows:

(a) £55 million to category 1.1, bringing the total levies paid by that category in the financial year to its levy limit;

(b) £0 to category 1.2; and

(c) £20 million to the retail pool in accordance with FEES 6.5.2-AR(2).

6.5.2A 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 compensation cost levies; the allocation of a compensation costs levy occurs at the time that the FSCS imposes a levy.

6.5.2B [deleted]

6.5.2C [deleted]

6.5.3 If a participant firm which is in default has carried on a regulated activity other than in accordance with a permission, the FSCS must treat any compensation costs or specific costs arising out of that activity as if the relevant permission were held by the participant firm.

6.5.4 If the relevant person in default is an appointed representative, the FSCS must treat any compensation costs or specific costs arising out of a regulated activity for which his principal has not accepted responsibility to as if the principal had accepted responsibility.

Participant firm’s share of a levy

6.5.5 (1) A participant firm must pay to the FSCS a share of each compensation costs levy allocated to the classes and categories of which it is a member unless either the firm is exempt under FEES 6.2 (Exemption)
or the FSCS has chosen to exercise its discretion under FEES 6.3.23 R in respect of that firm.

(2) [deleted]

6.5.6A

The FSCS must calculate each participant firm’s share of a compensation costs levy (subject to FEES 6.3.22 R (Adjustments to calculation of levy shares)) by:

(1) identifying each of the relevant classes and categories to which each participant firm belongs, using the statement of business most recently supplied under FEES 6.5.13 R (1);

(2) identifying the compensation costs falling within FEES 6.3.1R allocated, in accordance with FEES 6.5.2-AR, to the classes and categories identified in (1);

(3) calculating, in relation to each relevant class and category, the participant firm’s tariff base (see FEES 6 Annex 3AR) as a proportion of the total tariff base of all participant firms in the class or category as the case may be;

(4) applying the proportion calculated in (3) to the figure in (2); and

(5) if more than one class or category is relevant, adding together the figure in (4) for each class or category.

6.5.6B

(1) This is an example of the calculation under FEES 6.5.6AR of a participant firm’s share of a compensation costs levy and a specific costs levy.

(2) A compensation costs levy and specific costs levy totalling £100,000 is allocated to class 1 (the General Insurance Distribution Claims class) under FEES 6.5.2-AR (see FEES 6.4.6AR). That levy of £100,000 is allocated to the categories within that class under FEES 6.5.2-AR(1A), with the result that £75,610 is allocated to category 1.1 and £24,390 is allocated to category 1.2.

(3) The reports under FEES 6.5.13R and under the PRA’s compensation rules show that there are 10 participant firms in category 1.1, each doing the same amount of business in that category; and five participant firms each doing the same amount of business in category 1.2. Two of the participant firms are in both categories.

(4) In this example, as a result of FEES 6.5.6AR, each participant firm in category 1.1 pays a levy of £7,561 and each participant firm in category 1.2 pays a levy of £4,878. The two participant firms that are in both categories will accordingly each pay a levy in respect of class 1 totalling £12,439.

Classes and tariff bases for compensation cost levies and specific costs levies

6.5.8

Guidance on parts of FEES 6 Annex 3AR can be found in FEES 6 Annex 4 G.
New participant firms

6.5.9
A firm or a recognised investment exchange which becomes a participant firm part way through a financial year of the compensation scheme will not be liable to pay a share of a compensation costs levy or specific costs levy made in that year.

[Note: since a firm that becomes a participant firm in the course of a financial year of the compensation scheme will already be obtaining a discount in relation to the base costs levy through the modified fee provisions of § FEES 4.2.7ER, no rule is necessary in § FEES 6 for discounts on the base costs levy.]

Compensation costs levy for newly authorised firms

6.5.9A [deleted]

6.5.9B [deleted]

6.5.9C
(1) This rule deals with the calculation of:

(a) a participant firm’s compensation costs levy in the financial year of the compensation scheme following the financial year of the compensation scheme in which it became a participant firm; or

(b) a participant firm’s compensation costs levy in the financial year of the compensation scheme in which it had its permission extended, and the following financial year of the compensation scheme; and

the tariff base for the classes that relate to the relevant permissions or extensions, as the case may be.

(2) Unless this rule says otherwise, the tariff base is calculated, where necessary, using the projected valuation of the business to which the tariff relates.

(3) The rest of this rule only applies to a firm that becomes a participant firm, or extends its permission, on or after 1 April 2009.

(a) If a participant firm’s tariff base is calculated using data from a period that begins on or after it became a participant firm or on or after the date that the participant firm receives its extension of permission, as the case may be, the participant firm must use that data.

(b) If a participant firm satisfies the following conditions it must calculate its tariff base under (c) for the financial year following the financial year of the compensation scheme in which it became a participant firm or receives its extension of permission:

(i) it became a participant firm or receives its extension of permission, as the case may be, between 1 April and 31 December inclusive; and

(ii) its tariff base, but for this rule, is calculated by reference to the financial year ended in the calendar year ending 31 December or the twelve months ending 31 December before the financial year of the compensation scheme.
(c) If a participant firm satisfies the conditions in (b) it must calculate its tariff base as follows:

(i) it must use actual data in relation to the business to which the tariff relates rather than projected valuations;

(ii) the tariff is calculated by reference to the period beginning on the date it became a participant firm or had its permission extended, and ending on the 31 December before the start of the financial year of the compensation scheme; and

(iii) the figures are annualised by increasing them by the same proportion as the period of 12 months bears to the period starting from when the participant firm became a participant firm, or had its permission extended, to the 31 December, as the case may be.

(d) Where a participant firm is required to use the method in (c) it must notify the FSCS of its intention to do so by the date specified in FEES 6.5.13R (Reporting requirements).

(e) Where a participant firm is required to use actual data under this rule, FEES 6 Annex 3AR is disapplied, to the extent it is incompatible, in relation to the calculation of that participant firm’s valuation date in its second financial year.

[Note: FEES 6.5.9CR was previously in FEES 6.4.10AR.]

### Application of FEES 6.5.9CR

The table below sets out the period within which a participant firm’s tariff base is calculated (“the data period”) for second year levies calculated under FEES 6.5.9CR. The example is based on a participant firm that extends its permission on 1 November 2009 and has a financial year ending 31 March.

References in this table to dates or months are references to the latest one occurring before the start of the financial year of the compensation scheme unless otherwise stated.

<table>
<thead>
<tr>
<th>Type of permission acquired on 1 November</th>
<th>Tariff base</th>
<th>Valuation date but for FEES 6.5.9CR</th>
<th>Data period under FEES 6.5.9CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dealing in investments as agent in relation to General Insurance Distribution</td>
<td>Annual eligible income</td>
<td>Financial year ended 31 March 2009 – so projected valuations will be used.</td>
<td>1 November to 31 December 2009</td>
</tr>
</tbody>
</table>

[Note: FEES 6.5.9DR was previously in FEES 6.4.10BG.]

### Membership of several classes

6.5.10 R [deleted]

6.5.11 R [deleted]

6.5.12 G A participant firm may belong to more than one class.
6.5.13 **R**

(1) Unless exempt under **FEES 6.2.1A R**, 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 FCA) with a statement of:

(a) classes and categories 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 3AR** (Financial Services Compensation Scheme - classes)) ending before the relevant year in relation to each of those classes and categories.

(2) In this rule the relevant year means the year in which the month of February referred to in (1) falls.

(3) [deleted]

(4) [deleted]

6.5.13A **G**

For example, when the tariff base for a particular class is based on a firm's annual eligible income the valuation period for that class is the firm's last financial year ending in the year to 31 December preceding the financial year of the compensation scheme for which the calculation is being made.

6.5.14 **R**

If the information in **FEES 6.5.13 R** has been provided to the FCA under other rule obligations, or in accordance with the PRA Rulebook, a participant firm will be deemed to have complied with **FEES 6.5.13 R**.

6.5.14A **G**

The FSCS may use information provided in accordance with the PRA Rulebook or the FCA's rules even where that information is provided other than by the end of February each year.

6.5.14B **R**

The FSCS may use information provided in accordance with the PRA Rulebook or the FCA's rules that relates to a previous period, if that information has not yet been provided in respect of the financial year of the compensation scheme in which a levy is being imposed, applying **FEES 6.5.16R(2)**.

6.5.16 **R**

If a participant firm does not submit a complete statement by the date on which it is due in accordance with **FEES 6.5.13 R** and any prescribed submission procedures:

(1) the firm must pay an administrative fee of £250 (but not if it is already subject to an administrative fee under **FEES 4 Annex 2A R**, Part 1 or **FEES 5.4.1 R** for the same financial year); and

(2) the compensation costs levy and any specific costs levy will be calculated using (where relevant) the valuation or valuations of business applicable to the previous period, multiplied by the factor of 1.10 (or, if it has become a participant firm part way through a
financial year, on the basis of the information provided to the FCA for the purposes of FEES 4.4.2 R) or on any other reasonable basis, making such adjustments as seem appropriate in subsequent levies once the true figures are known.
6.5A The retail pool

Allocation of compensation costs levies and specific costs levies through the retail pool

The FSCS must allocate a compensation costs levy or specific costs levy, which has been allocated to the retail pool (under FEES 6.5.2-AR(2) or FEES 6.4.6AR):

1. to classes whose levy limit has not been reached as at the date of the levy;
2. in proportion to the relative sizes of the levy limits of the classes in (1) and up to those levy limits; and
3. in accordance with the table in FEES 6 Annex 2R; and
4. a class's share of a levy allocated to the retail pool must be distributed amongst any categories within that class in proportion to the unused levy limits for those categories and up to those levy limits: see FEES 6 Annex 2R.

How levy limits affect allocation to classes in the retail pool

The calculation of the relative sizes of the levy limit (for the purpose of FEES 6.5A.1 R) is based on the original levy limits for the classes (as set out in FEES 6 Annex 2R) and not the remaining capacity in each class.

When the FSCS allocates excess compensation costs levies or specific costs levies under FEES 6.5A.1 R or any levy imposed under FEES 6.5A.2 R (3)(a), a class to which part of the excess is allocated (a "receiving class") may, as a result of that allocation, itself reach its limit. In that case, the FSCS must apply FEES 6.5A.1 R or FEES 6.5A.2 R so that any resulting excess levy beyond the limit of the receiving class is allocated amongst the remaining classes whose limits have not been reached, to the exclusion of the receiving class. This process is repeated until the compensation costs levy or specific costs levy has been met in full or the limits of all classes have been exhausted.
Section 6.5A: The retail pool

6.5A.7 [deleted]
6.6 Incoming EEA firms

6.6.1 If an incoming EEA firm, which is an IDD insurance intermediary, an MCD mortgage credit intermediary or a MiFID investment firm, is a participant firm, the FSCS must give the firm such discount (if any) as is appropriate on the share of any levy it would otherwise be required to pay, taking account of the nature of the levy and the extent of the compensation coverage provided by the firm’s Home State scheme.
6.7 Payment of levies

Payments on account by certain firms

Where a participant firm must pay its periodic fees for a fee year in accordance with FEES 4.3.6R(1C) to (1E), it must pay its share of any annual levy imposed by the FSCS for the financial year of the compensation scheme as follows:

1. by 1 April an amount equal to 50%, or such lower percentage as the FSCS may determine, of the participant firm’s share of the annual levy payable for the previous financial year of the compensation scheme; and

2. by 1 September the balance of the annual levy due from the participant firm for the current financial year of the compensation scheme.

Payments of levy by other firms

A participant firm that is not within FEES 6.7.-1R, must pay its share of any levy made by the FSCS in one payment.

Payments of interim levies

A participant firm’s share of any interim levy is due on, and payable within 30 days of, the date when the invoice is issued.

Method of payment

A participant firm liable to pay its share of the levy under FEES 6.7.-1R, 6.7.1R and 6.7.3R must do so using one of the methods set out in FEES 4.2.4 R save that no additional amount or discount is applicable.
Firms ceasing to be a participant firm

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

(1) it will remain liable for any unpaid levies which the FSCS has already made on the firm; and

(2) the FSCS may make one or more levies upon it (which may be before or after the firm has ceased to be a participant firm or carry out activities within one or more 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 carrying out activities within that class in the financial year it ceased to be a participant firm or carry out activities within that class.

(3) [deleted]

(4) [deleted]

(5) [deleted]
## Financial Services Compensation Scheme - Management Expenses Levy Limit

This table belongs to FEES 6.4.2 R

<table>
<thead>
<tr>
<th>Period</th>
<th>Limit on total of all management expenses levies attributable to that period (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 December 2001 to 1 April 2002</td>
<td>£4,209,000</td>
</tr>
<tr>
<td>1 April 2002 to 31 March 2003</td>
<td>£13,228,000</td>
</tr>
<tr>
<td>1 April 2003 to 31 March 2004</td>
<td>£13,319,000</td>
</tr>
<tr>
<td>1 April 2004 to 31 March 2005</td>
<td>£17,590,000</td>
</tr>
<tr>
<td>1 April 2005 to 31 March 2006</td>
<td>£27,030,000</td>
</tr>
<tr>
<td>1 April 2006 to 31 March 2007</td>
<td>£37,060,000</td>
</tr>
<tr>
<td>1 April 2007 to 31 March 2008</td>
<td>£37,520,000</td>
</tr>
<tr>
<td>1 April 2008 to 31 March 2009</td>
<td>£1,000,000,000 provided that £600,000,000 may be recovered in respect of specific costs relating to the declaration by the FSA on 27 September 2008 that Bradford &amp; Bingley plc is in default only.</td>
</tr>
<tr>
<td>1 April 2009 to 31 March 2010</td>
<td>£1,000,000,000</td>
</tr>
<tr>
<td>1 April 2010 to 31 March 2011</td>
<td>£1,000,000,000</td>
</tr>
<tr>
<td>1 April 2011 to 31 March 2012</td>
<td>£1,000,000,000</td>
</tr>
<tr>
<td>1 April 2012 to 31 March 2013</td>
<td>£1,000,000,000</td>
</tr>
<tr>
<td>1 April 2013 to 31 March 2014</td>
<td>£94,400,000</td>
</tr>
<tr>
<td>1 April 2014 to 31 March 2015</td>
<td>£80,000,000</td>
</tr>
<tr>
<td>1 April 2015 to 31 March 2016</td>
<td>£74,429,000</td>
</tr>
<tr>
<td>1 April 2016 to 31 March 2017</td>
<td>£72,694,000</td>
</tr>
<tr>
<td>1 April 2017 to 31 March 2018</td>
<td>£74,540,000</td>
</tr>
<tr>
<td>1 April 2018 to 31 March 2019</td>
<td>£77,661,000</td>
</tr>
<tr>
<td>Period</td>
<td>Limit on total of all management expenses levies attributable to that period (£)</td>
</tr>
<tr>
<td>---------------------------</td>
<td>---------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>1 April 2019 to 31 March 2020</td>
<td>£79,555,000</td>
</tr>
</tbody>
</table>
Financial Services Compensation Scheme - annual levy limits

This table belongs to FEES 6.3.5 R

<table>
<thead>
<tr>
<th>Class</th>
<th>Category</th>
<th>Levy Limit (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class 1: General Insurance Distribution Claims</td>
<td>1.1: General insurance distribution</td>
<td>310</td>
</tr>
<tr>
<td></td>
<td>1.2: General insurance provision</td>
<td>100 (subject to FEES 6.5.2-AAR)</td>
</tr>
<tr>
<td></td>
<td><strong>Total:</strong> 410 <strong>Total:</strong> 410</td>
<td></td>
</tr>
<tr>
<td>Class 2: Investment Intermediation Claims</td>
<td>2.1: Life distribution and investment intermediation</td>
<td>240</td>
</tr>
<tr>
<td></td>
<td>2.2: Life insurance provision</td>
<td>35 (subject to FEES 6.5.2-AAR)</td>
</tr>
<tr>
<td></td>
<td>2.3: Investment provision</td>
<td>50 (subject to FEES 6.5.2-AAR)</td>
</tr>
<tr>
<td></td>
<td>2.4: Structured deposits provision</td>
<td>5 (subject to FEES 6.5.2-AAR)</td>
</tr>
<tr>
<td></td>
<td><strong>Total:</strong> 330 <strong>Total:</strong> 330</td>
<td></td>
</tr>
<tr>
<td>Class 3: Investment Provision Claims</td>
<td></td>
<td>200</td>
</tr>
<tr>
<td>Class 4: Home Finance Intermediation Claims</td>
<td>4.1: Home finance intermediation</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td>4.2: Home finance provision</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td><strong>Total:</strong> 55 <strong>Total:</strong> 55</td>
<td></td>
</tr>
<tr>
<td>Class 5: Debt Management Claims</td>
<td>5.1: Debt management claims</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>5.2: Consumer credit provision</td>
<td>105 (subject to FEES 6.5.2-AAR)</td>
</tr>
</tbody>
</table>
### Financial Services Compensation Scheme - classes and categories

This table belongs to FEES 6.5.6A R

<table>
<thead>
<tr>
<th>Class 1</th>
<th>General Insurance Distribution Claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category 1.1</td>
<td>Firms with permission for: General insurance distribution any of the following in respect of <em>general insurance contracts</em> or <em>pure protection contracts</em>: dealing in investments as agent; arranging (bringing about) deals in investments; making arrangements with a view to transactions in investments; assisting in the administration and performance of a contract of insurance; advising on investments; agreeing to carry on a regulated activity which is within any of the above.</td>
</tr>
<tr>
<td>Category 1.2</td>
<td>Firms with permission for: General insurance provision effecting contracts of insurance; and/or carrying out contracts of insurance; that are <em>general insurance contracts</em>.</td>
</tr>
<tr>
<td>Also includes:</td>
<td>Tariff base for category 1.1</td>
</tr>
<tr>
<td>Category 1.1: annual eligible income</td>
<td>where annual income is calculated as the sum of ( (a) ) and ( (b) ):</td>
</tr>
<tr>
<td>(a) the net amount retained (Note 3) by the <em>firm</em> (Note 5) of all brokerages, fees, commissions and other related income (for example, administration charges, overrides and profit shares) due to the <em>firm</em> in respect of or in relation to category 1.1 activities, including any income received from an <em>insurer</em>; and</td>
<td></td>
</tr>
<tr>
<td>(b) if the <em>firm</em> is an <em>insurer</em>, in relation to category 1.1 activities (Note 4), the amount of <em>premiums</em> receivable on its <em>contracts of insurance</em> multiplied by 0.07, excluding those <em>contracts of insurance</em> which result from category 1.1 carried out by another <em>firm</em>, where a payment has been made by the <em>insurer</em> to that other <em>firm</em> and that payment is of a type that falls under ( (a) ).</td>
<td></td>
</tr>
<tr>
<td>Notes relating to the calculation of the tariff base for category 1.1:</td>
<td></td>
</tr>
<tr>
<td>(1) [deleted]</td>
<td></td>
</tr>
<tr>
<td>(2) [deleted]</td>
<td></td>
</tr>
<tr>
<td>(3) Net amount retained means all the commission, fees, etc. in respect of category 1.1 activities that the <em>firm</em> has not rebated to customers or passed on to other <em>firms</em> (for example, where there is a commission chain). Items</td>
<td></td>
</tr>
</tbody>
</table>
## Class 1 General Insurance Distribution Claims

such as general business expenses (for example, employees' salaries and overheads) must not be deducted.

(4) Category 1.1 activities mean activities that fall within Category 1.1. They also include activities that now fall within Category 1.1 but that were not *regulated activities* when they were carried out.

(5) A reference to a *firm* also includes a reference to any *person* who carried out activities that would now fall into Category 1.1 but which were not at the time *regulated activities*.

**Tariff base for category 1.2**

For the Society, the aggregate of the tariff base for Insurance Class B1 in the Policyholder Protection part of the *PRA Rulebook* that would apply to each *member* if:

(a) that tariff base applied to each *member* in respect of their *insurance business* in relation to *general insurance contracts*; and

(b) all references to “firm” or “participant firm” in the Policyholder Protection part of the *PRA Rulebook* were read as referring to the *member*.

For all other *participant firms*, the tariff base for Insurance Class B1 in the Policyholder Protection part of the *PRA Rulebook*.

---

## Class 2 Investment Intermediation Claims

**Category 2.1**

**Firms with permission for:**

Life distribution and investment intermediation *intermediation of structured deposits* (except for managing investments in relation to structured deposits) and/or any of the following in relation to *long-term insurance contracts* (other than *pure protection contracts*) or rights under a *stakeholder pension scheme* or a *personal pension scheme*:

- dealing in investments as agent;
- arranging (bringing about) deals in investments;
- making arrangements with a view to transactions in investments;
- assisting in the administration and performance of a contract of insurance;
- advising on investments;
- advising on pension transfers and pension opt-outs;
- basic advice;

agreeing to carry on a regulated activity which is within any of the above; and/or

any of the following in relation to *designated investment business* BUT excluding activities that relate to *long-term insurance contracts* or rights under a *stakeholder pension scheme* or a *personal pension scheme*:

- dealing in investments as principal;
- dealing in investments as agent;
### Class 2 Investment Intermediation Claims

- **MiFID business bidding;**
- **arranging (bringing about) deals in investments;**
- **making arrangements with a view to transactions in investments;**
- **advising on investments;**
- **basic advice;**
- **safeguarding and administering investments;**
- **arranging safeguarding and administering of assets;**
- **operating a multilateral trading facility;**
- **agreeing to carry on a regulated activity which is within any of the above.**

#### Recognised investment exchanges

**Recognised investment exchanges** that are operating a multilateral trading facility or operating an organised trading facility.

#### Category 2.2

**Life insurance provision**

**Firms with permission for:**

- **effecting contracts of insurance; and/or**
- **carrying out contracts of insurance;**
- **that are long-term insurance contracts (including pure protection contracts); and/or**
- **entering as provider into a funeral plan contract.**

**Also includes:**

- the Society

#### Category 2.3

**Investment provision**

**Firms with permission for:**

- any of the following:
  - managing investments;
  - managing an AIF;
  - managing a UCITS;
  - acting as trustee or depositary of an AIF;
  - acting as trustee or depositary of a UCITS;
  - establishing, operating or winding up a collective investment scheme;
  - establishing, operating or winding up a stakeholder pension scheme;
  - establishing, operating or winding up a personal pension scheme;
  - agreeing to carry on a regulated activity which is within any of the above.

#### Category 2.4

**Structured deposits provision**

**Firms with permission for:**

- **accepting deposits and/or operating a dormant account fund. BUT does not include any fee payer who either effects or carries out contracts of insurance.**

#### Tariff base for category 2.1

In respect of **direct sales of structured deposits:**

the tariff base for Class A (DGS members) set out in the Depositor Protection part of the PRA Rulebook, but only to the extent that it:
Class 2 Investment Intermediation Claims

(a) relates to *structured deposits* accepted in 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 category; and

(b) multiplied by 0.07.

Except in respect of direct sales of *structured deposits*: *annual eligible income* where annual income is calculated as the sum of (a) and (b):

(a) the net amount retained (Note 4) by the firm of all brokerages, fees, commissions and other related income (for example, administration charges, overrides and profit shares) due to the firm in respect of or in relation to category 2.1 activities (Note 5) including (in relation to a firm carrying out life distribution or pensions intermediation) any income received from an insurer, and

(b) if the firm is a life and pensions firm (Note 2) carrying out life distribution or pensions intermediation, in relation to category 2.1 activities, the amount of premiums or commission receivable on its life and pensions contracts (Note 1) multiplied by 0.07, excluding those life and pensions contracts which result from category 2.1 activities carried out by another firm, where a payment has been made by the life and pensions firm to that other firm and that payment is of a type that falls under (a).

Notes relating to the calculation of the tariff base for category 2.1:

(1) Life and pensions contracts mean *long-term insurance contracts* (but not including *pure protection contracts*) and rights under a *stakeholder pension scheme* or a *personal pension scheme*.

(2) Life and pensions firm means an insurer. It also means a firm that provides stakeholder pension schemes or personal pension schemes if those activities fall into class 3.

(3) Box management profits are excluded from the calculation of annual income.

(4) Net amount retained means all the commission, fees, etc. in respect of category 2.1 activities that the firm has not 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) must not be deducted.

(5) Category 2.1 activities mean activities that fall within category 2.1.

(6) In relation to a firm carrying out life distribution or pensions intermediation:

(a) category 2.1 activities also include activities that now fall within category 2.1 but that were
<table>
<thead>
<tr>
<th>Class 2</th>
<th>Investment Intermediation Claims</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>not regulated activities when they were carried out; and</td>
</tr>
<tr>
<td></td>
<td>(b) a reference to a firm also includes a reference to any person who carried out activities that would now fall into category 2.1 but which were not at the time regulated activities.</td>
</tr>
</tbody>
</table>

**Tariff base for category 2.2**

For the Society, the aggregate of the tariff base for Insurance Class C1 in the Policyholder Protection part of the PRA Rulebook that would apply to each member if:

(a) that tariff base applied to each member in respect of their insurance business in relation to long-term insurance contracts (including pure protection contracts); and

(b) all references to “firm” or “participant firm” in the Policyholder Protection part of the PRA Rulebook were read as referring to the member.

For all other participant firms, the tariff base for Insurance Class C1 in the Policyholder Protection part of the PRA Rulebook.

**Tariff base for category 2.3**

The tariff base for class 3 (Investment Provision Claims).

**Tariff base for category 2.4**

The tariff base for Class A (DGS members) in the Depositor Protection part of the PRA Rulebook but only to the extent that it relates to deposits that are structured deposits.

<table>
<thead>
<tr>
<th>Class 3</th>
<th>Investment Provision Claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firms with permission for:</td>
<td>any of the following:</td>
</tr>
<tr>
<td></td>
<td>managing investments;</td>
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<td></td>
<td>managing an AIF;</td>
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<td>managing a UCITS;</td>
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<td></td>
<td>acting as trustee or depositary of an AIF;</td>
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<td></td>
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<td>establishing, operating or winding up a collective investment scheme;</td>
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<td>establishing, operating or winding up a stakeholder pension scheme;</td>
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<td></td>
<td>establishing, operating or winding up a personal pension scheme;</td>
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<tr>
<td></td>
<td>agreeing to carry on a regulated activity which is within any of the above.</td>
</tr>
</tbody>
</table>

**Tariff base**

Annual eligible income where annual income is equal to the net amount retained by the firm of all income due to the firm in respect of or in relation to activities falling within class D3.

Notes on annual eligible income for class 3

(1) For the purposes of calculating annual income, net amount retained means all the commission, fees, etc. in respect of activities falling within class 3, that the firm has not rebated to
### Class 3 
**Investment Provision Claims**

| **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) must not be deducted.  
(2) [deleted]  
(3) Box management profits are excluded from the calculation of annual income. |

### Class 4 
**Home Finance Intermediation Claims**

| **Category 4.1** | Home finance intermediation | any of the following activities:  
arranging (bringing about) a home finance transaction;  
making arrangements with a view to a home finance transaction;  
advising on a home finance transaction;  
the activities of a home finance provider which would be arranging but for article 28A of the Regulated Activities Order (Arranging contracts or plans to which the arranger is a party);  
agreeing to carry on a regulated activity which is within any of the above. |
|---|---|---|
| **Category 4.2** | Home finance provision | any of the activities below:  
entering into a home finance transaction;  
administering a home finance transaction;  
agreeing to carry on a regulated activity which is within any of the above. |
| **Tariff base for category 4.1** | Annual eligible income calculated in accordance with the fee-block A18 in part 2 of FEES 4 Annex 1AR. |
| **Tariff base for category 4.2** | The number of home finance transactions, calculated in accordance with the tariff base for fee-block A2 in part 2 of FEES 4 Annex 1AR. |

### Class 5 
**Debt Management Claims**

| **Category 5.1** | Debt management | any of the following except if held under a limited permission:  
debt adjusting; and/or  
debt counselling;  
in each case in relation to protected debt management business except where these activities are carried on by a not-for-profit debt advice body. |
| **Category 5.2** | Consumer credit provision | any of the following, except if held under a limited permission: |
### Class 5

**Debt Management Claims**

- entering into a regulated credit agreement as lender;
- exercising, or having the right to exercise, the lender’s rights and duties under a regulated credit agreement.

#### Tariff base for category 5.1

Annual debts under management being the annual total value of the participant firm’s relevant debts under management.

#### Tariff base for category 5.2

Annual lending being the annual total amount provided under all regulated credit agreements in respect of which the participant firm is the lender, or exercises, or has the right to exercise, the lender’s rights and duties under such agreements.

### Class 6

**Deposit acceptors’ contribution**

- Firms with permission for: accepting deposits and/or operating a dormant account fund. BUT does not include any fee payer who either effects or carries out contracts of insurance.

#### Tariff base

The tariff base for Class A (DGS members) in the Depositor Protection part of the PRA Rulebook.

### Notes for all classes

1. Any reference in this annex to a specified investment includes a reference to rights to or interests in investments in that specified investment.
2. In calculating annual eligible income a firm must apportion income between different classes and between income that falls within the definition of annual eligible income and income that does not in a reasonable and consistent way and on the basis of clear policies.
3. The question of whether a person is an eligible claimant or not or whether business is compensatable business or not must be judged at whichever of the following dates the firm chooses:
   - (a) (for a person who has become a new client during the period by reference to which the firm’s tariff base is being calculated) the date on which the person becomes a client;
   - (b) (for a person who has ceased to be a client during that period) the date on which the person ceases to be a client; or
   - (c) (in any other case) the date to which the most recent information supplied by the firm under FEES 6.5.13 R is prepared.
Guidance on the calculation of tariff bases

This table belongs to FEES 6.5.8 G

<table>
<thead>
<tr>
<th>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</th>
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<tbody>
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<td>-1.1 G</td>
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<td>1.2 G</td>
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<td>1.3 G</td>
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<tr>
<td>Calculation of annual eligible income for firms in category 2.3 and class 3 and who carry out activities within FCA fee block A9</td>
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<tr>
<td>2.1 G</td>
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<td>2.2 G</td>
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</tbody>
</table>

Calculation of annual eligible income for a firm in categories 1.1 or 2.1
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.
Classes participating in the retail pool and applicable limits [deleted]