

## Chapter 6

# Financial Services Compensation Scheme Funding

**6.1 Application**

**6.1.1** **R** This chapter applies to:

- (1) every *participant firm*;
- (2) the *FSCS*; and
- (3) the *Society*.

**6.1.2** **G** (1) Firms which are not *participant firms* (such as certain types of service companies, ICVCs and, for the purposes of **FEES 6**, *pre-IP completion day incoming EEA firms*) 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**

**6.1.3** **G** 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**

**6.1.4** **G** 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.

**6.1.4A** **G** 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*.

**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 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.

**6.1.6A** **G** 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.

**6.1.7A** **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 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.

**6.1.8** **G** 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**

**6.1.9** **G** 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), 217(1) or 217(6) 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** **G** 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** **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 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** **G** [deleted]

**6.1.13** **G** 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**

- 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 *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)).

- 6.1.15 **G** *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**

- 6.1.16 **G** 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**

- 6.1.16A **G** The *FCA* has made *rules* providing that *compensation costs* and *specific costs* attributable to the *classes* (other than the *deposit acceptors' contribution*

*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.

6.1.17

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[deleted]

## 6.2 Exemption

- 6.2.1A** **R** (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** **R** **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** **G** 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** **R** 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 **G** 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 **R**
- (1) 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 6.7.6R applies until the end of the *financial year* of the *compensation scheme* in which the notice was given.
  - (2) Where the *FCA* grants a *person's* application for annulment of a cancellation or variation of *Part 4A permission* under Schedule 6A to the *Act* and when the *Part 4A permission* was cancelled or varied the *person* ceased to conduct business that could give rise to a *protected claim* by an *eligible claimant*, it will be treated as a *participant firm* to which ■ FEES 6.7.6R applies until the end of the *financial year* of the *compensation scheme* in which the *person's Part 4A permission* was cancelled or varied (but for the annulment).
- 6.2.7 **G** 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 **R** 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*.
- 6.2.8A **R** Where the *FCA* grants a *person's* application for annulment of a cancellation or variation of *Part 4A permission* under Schedule 6A to the *Act* and when the *person's Part 4A permission* was cancelled or varied the *person* was exempt by virtue of ■ FEES 6.2.1AR, the *person* remains exempt provided that the conditions in that *rule* (apart from notification to the *FCA*) apply for the *financial year* of the *compensation scheme* in question.



## 6.3 The FSCS's power 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) [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.

6.3.2

**G**

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.

6.3.2A

**G**

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.

**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* in accordance with the allocation established under ■ FEES 6.4.6AR and ■ FEES 6.5.2-AR.
  
- 6.3.12 **R** 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.
  
- 6.3.13 **R** 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*.
  
- 6.3.14 **R** 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 **R** [deleted]
  
- 6.3.15A **G** [deleted]
  
- 6.3.16 **G** [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* 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 **G** ■ 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 **R** 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) or **FEES 6.3.23 R** (Remission of levy or additional administrative fee); 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.

**6.3.22B** **G** 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**

**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 6.5.13 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**

**6.3.23** **R** 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**

**6.3.24** **R** 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.

**6.3.25** **D** The following *core provisions* of the *Act* apply to the carrying on of *insurance market activities* by *members*:

- (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

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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*.

### Effect of annulment of cancellation or variation of permission under Schedule 6A on levies

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6.3.27

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Schedule 6A to the Act sets out a procedure to enable the FCA to cancel or vary the *Part 4A permission* of a *person* who it appears to the FCA is not carrying on a *regulated activity*. Paragraph 5 of that schedule sets out a procedure for annulment of cancellation or variation of *Part 4A permission* in specified circumstances. Where the FCA grants an application for annulment, paragraph 6 of Schedule 6A sets out its effect. In particular, the cancellation or variation of *Part 4A permission* is treated as if it had never taken place. As a result of the effect of annulment under Schedule 6A, any levy provided for under this chapter applicable to the *person*, in relation to the period during which the *person's Part 4A permission* was cancelled or varied, applies to the *person*, unless the exemption in ■ FEES 6.2.1AR applies.



## 6.4 Management expenses

### Obligation on participant firm to pay

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

### Limit on management expenses

- 6.4.2 **R** 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 **R** 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 **R** 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 **R** 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]



- 6.4.9 G [deleted]
  
- 6.4.10 G [deleted]
  
- 6.4.10A R [deleted]
  
- 6.4.10B G [deleted]
  
- 6.4.11 R [deleted]
  
- 6.4.12 R [deleted]



**6.4A Management expenses in respect  
of relevant schemes**

**Obligation on participant firm to pay**

**6.4A.1** **R** 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** **R** 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** **R** The *FSCS* must calculate a *participant firm's* share of a *MERS levy* on a reasonable basis.



## 6.5 Compensation costs

6.5.1 **R** [deleted]

### Allocation

6.5.2-A **R** 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

6.5.2-AA **R** (1) This *rule* applies in relation to a relevant *category* or *class* in the table below.

Relevant category or class	Relevant unused levy limit	Corresponding funding class
<i>Category 1.2</i> (General insurance provision)	Levy limit of the corresponding funding class in the <i>PRA Rulebook</i> , minus any levy imposed:	Corresponding funding class in the <i>PRA Rulebook</i>
<i>Category 2.2</i> (Life insurance provision)		
<i>Category 2.4</i> (Structured deposits provision)	(a) on that class by the FSCS under the <i>PRA's rules</i> ; and	
<i>Deposit acceptors' contribution class</i>	(b) on the relevant <i>category</i> or <i>class</i> by the FSCS under the <i>FCA's rules</i> ;	

Relevant category or class	Relevant unused levy limit	Corresponding funding class
Category 2.3 (Investment provision)	in the same <i>financial year</i>  Levy limit for class 3 (Investment Provision Claims) minus any <i>compensation costs levies</i> or <i>specific costs levies</i> imposed by the <i>FSCS</i> in the same <i>financial year</i>	Class 3 (Investment Provision Claims)

- (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.

6.5.2-AB G

- (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-AAR(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 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 *compensation cost levies*; the allocation of a *compensation costs levy* occurs at the time that the FSCS imposes a levy.

6.5.2B G [deleted]

6.5.2C G [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 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 R 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 R (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

R

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

G

- (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.

### Allocation

6.5.6C

R

When identifying the relevant *classes* to which a *TP firm* belongs, the *FSCS* must identify the activity (or activities) in ■ FEES 6 Annex 3AR that most closely matches that for which the *TP firm* is treated as having *Part 4A permission*.

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

6.5.8 **G** Guidance on parts of ■ FEES 6 Annex 3AR can be found in ■ FEES 6 Annex 4 G.

**New participant firms**

6.5.9 **R** 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 **R** [deleted]

6.5.9B **G** [deleted]

6.5.9C **R**

- (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 disappplied, 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**

6.5.9D

**G**

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.

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

[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*.

### Reporting requirements

- 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) Where the *FCA* grants a *person's* application for annulment of a cancellation or variation of *Part 4A permission* under Schedule 6A to the *Act* and on the date the annulment takes effect the time for providing the statement in (1) has passed, then the requirement to have provided the statement does not apply, but a *person* must comply with (1) and (2), by providing the statement to the *FCA* on the date on which the *person's* annulment takes effect.
  - (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.

6.5.17

R

[deleted]



## 6.5A The retail pool

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

- 6.5A.1** **R** 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.
- 6.5A.2** **R** [deleted]
- 6.5A.3** **G** [deleted]
- 6.5A.4** **R** **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.1R(2)) 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*.
- 6.5A.5** **R** 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.
- 6.5A.6** **R** [deleted]

6.5A.7

**R**

[deleted]

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		<b>6.6</b>	<b>Incoming EEA firms [deleted]</b>
<b>6.6.1</b>	<b>R</b>		[deleted]

## 6.7 Payment of levies

### Payments on account by certain firms

6.7.-1

R

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*.

6.7.-1A

R

Where the *FCA* grants the *person's* application for annulment of a cancellation or variation of *Part 4A permission* under Schedule 6A to the *Act* and the *person* falls within ■ FEES 6.7.-1R and:

- (1) the annulment takes effect after 1 April, then the date for payment referred to in ■ FEES 6.7.-1R(1) does not apply, but the *person* must, where the annulment takes effect after 1 April but before 1 September, pay:
  - (a) on the date on which the annulment takes effect, 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
  - (b) by 1 September, the balance of the *annual levy* due from the *participant firm* for the current *financial year* of the *compensation scheme* year; or
- (2) the annulment takes effect after 1 September, then the date for payment referred to in ■ FEES 6.7.-1R(2) does not apply, but the *person* must pay the total amount due on the date on which the annulment takes effect.

### Payments of levy by other firms

6.7.1

R

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.

- 6.7.2 **G** .[deleted]
- 6.7.3 **R** A *participant firm's* share of a levy to which **■ FEES 6.7.1R** applies is due on, and payable within 30 days of, the date when the invoice is issued.
- Payments of interim levies** .....
- 6.7.3A **R** 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.
- 6.7.4 **R** .[deleted]
- Method of payment** .....
- 6.7.5 **R** 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** .....
- 6.7.6 **R** 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]
- 6.7.7 **R** **■ FEES 6.7.6R** does not apply in relation to a *person* to whom the *FCA* grants an annulment of a cancellation or variation of *Part 4A permission* under Schedule 6A to the *Act*.
- 6.7.8 **G** The effect of annulment of a cancellation or variation of *Part 4A permission* under Schedule 6A to the *Act* is that the cancellation or variation of *Part 4A permission* is treated as if it had not taken place and the *person* is liable for any levies which relate to the period prior to the annulment. See further guidance in **■ FEES 4.3.19G**.





## Financial Services Compensation Scheme - Management Expenses Levy Limit

This table belongs to FEES 6.4.2 R

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

This table belongs to FEES 6.4.2 R

Period	Limit on total of all management expenses levies attributable to that period (£)
1 April 2020 to 31 March 2021	£83,167,893
1 April 2021 to 31 March 2022	£105,599,319

## Financial Services Compensation Scheme - annual levy limits

This table belongs to ■ FEES 6.3.5 R

Class	Category	Levy Limit (£ million)
Class 1: General Insurance Distribution Claims	1.1: General insurance distribution	310
	1.2: General insurance provision	100 (subject to FEES 6.5.2-AAR)
	<b>Total:</b>	<b>410</b>
Class 2: Investment Intermediation Claims	2.1: Life distribution and investment intermediation	240
	2.2: Life insurance provision	35 (subject to FEES 6.5.2-AAR)
	2.3: Investment provision	50 (subject to FEES 6.5.2-AAR)
	2.4: Structured deposits provision	5 (subject to FEES 6.5.2-AAR)
	<b>Total:</b>	<b>330</b>
Class 3: Investment Provision Claims		200
Class 4: Home Finance Intermediation Claims	4.1: Home finance intermediation	40
	4.2: Home finance provision	15
	<b>Total:</b>	<b>55</b>
Class 5: Debt Management Claims	5.1: Debt management claims	20
	5.2: Consumer credit provision	
Class 6: Deposit acceptors' contribution		105 (subject to FEES 6.5.2-AAR)



## Financial Services Compensation Scheme - classes and categories

This table belongs to

[deleted]

Class 1	General Insurance Distribution Claims
<b>Category 1.1</b>	General insurance distribution
<b>Firms with permission for:</b>	any of the following in respect of <i>general insurance contracts</i> or <i>pure protection contracts</i> : <i>dealing in investments as agent;</i> <i>arranging (bringing about) deals in investments;</i> <i>making arrangements with a view to transactions in investments;</i> <i>assisting in the administration and performance of a contract of insurance;</i> <i>advising on investments;</i> <i>agreeing to carry on a regulated activity which is within any of the above.</i>
<b>Category 1.2</b>	General insurance provision
<b>Firms with permission for:</b>	<i>effecting contracts of insurance; and/or</i> <i>carrying out contracts of insurance;</i> that are <i>general insurance contracts</i> .
<b>Also includes:</b>	the <i>Society</i>
<b>Tariff base for category 1.1</b>	Category 1.1: <i>annual eligible income</i> where annual income is calculated as the sum of (a) and (b):  (a) the net amount retained (Note 3) by the <i>firm</i> (Note 5) 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 <i>category 1.1</i> activities, including any income received from an <i>insurer</i> ; and  (b) if the <i>firm</i> is an <i>insurer</i> , in relation to <i>category 1.1</i> activities (Note 4), 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 <i>category 1.1</i> 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).  Notes relating to the calculation of the tariff base for <i>category 1.1</i> :  (1) [deleted]  (2) [deleted]  (3) Net amount retained means all the commission, fees, etc. in respect of <i>category 1.1</i> activities that the <i>firm</i> has not rebated to customers or passed on to other <i>firms</i> (for example, where there is a commission chain). Items

Class 1	General Insurance Distribution Claims
<p><b>Tariff base for category 1.2</b></p>	<p>such as general business expenses (for example, employees' salaries and overheads) must not be deducted.</p> <p>(4) <i>Category 1.1</i> activities mean activities that fall within <i>Category 1.1</i>. They also include activities that now fall within <i>Category 1.1</i> but that were not <i>regulated activities</i> when they were carried out.</p> <p>(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 <i>Category 1.1</i> but which were not at the time <i>regulated activities</i>.</p> <p>For the <i>Society</i>, the aggregate of the tariff base for Insurance Class B1 in the Policyholder Protection part of the <i>PRA Rulebook</i> that would apply to each <i>member</i> if:</p> <p>(a) that tariff base applied to each <i>member</i> in respect of their <i>insurance business</i> in relation to <i>general insurance contracts</i>; and</p> <p>(b) all references to "firm" or "participant firm" in the Policyholder Protection part of the <i>PRA Rulebook</i> were read as referring to the <i>member</i>.</p> <p>For all other <i>participant firms</i>, the tariff base for Insurance Class B1 in the Policyholder Protection part of the <i>PRA Rulebook</i>.</p>

Class 2	Investment Intermediation Claims
<p><b>Category 2.1</b></p> <p><b>Firms with permission for:</b></p>	<p>Life distribution and investment intermediation <i>intermediation of structured deposits</i> (except for <i>managing investments</i> in relation to <i>structured deposits</i>) and/or any of the following in relation to <i>long-term insurance contracts</i> (other than <i>pure protection contracts</i>) or rights under a <i>stakeholder pension scheme</i> or a <i>personal pension scheme</i>:</p> <p>any of the following in relation to <i>long-term insurance contracts</i> (other than <i>pure protection contracts</i>) and/or rights under a <i>stakeholder pension scheme</i> or a <i>personal pension scheme</i>:</p> <p><i>dealing in investments as agent</i>;</p> <p><i>arranging (bringing about) deals in investments</i>;</p> <p><i>making arrangements with a view to transactions in investments</i>;</p> <p><i>assisting in the administration and performance of a contract of insurance</i>;</p> <p><i>advising on investments</i>;</p> <p><i>advising on pension transfers and pension opt-outs</i>;</p> <p><i>basic advice</i>;</p> <p><i>agreeing to carry on a regulated activity</i> which is within any of the above; and/or</p> <p>any of the following in relation to <i>designated investment business</i> BUT excluding activities that relate to <i>long-term insurance contracts</i> or rights under a <i>stakeholder pension scheme</i> or a <i>personal pension scheme</i>:</p> <p><i>dealing in investments as principal</i>;</p> <p><i>dealing in investments as agent</i>;</p>

Class 2	Investment Intermediation Claims
	<p><i>MiFID business bidding;</i>  <i>arranging (bringing about) deals in investments;</i>  <i>making arrangements with a view to transactions in investments;</i>  <i>advising on investments;</i>  <i>basic advice;</i>  <i>safeguarding and administering investments;</i>  <i>arranging safeguarding and administering of assets;</i>  <i>operating a multilateral trading facility;</i>  <i>agreeing to carry on a regulated activity which is within any of the above.</i></p>
<p><b>Recognised investment exchanges</b></p>	<p><i>Recognised investment exchanges that are operating a multilateral trading facility or operating an organised trading facility</i></p>
<p><b>Category 2.2</b>  <b>Firms with permission for:</b></p>	<p>Life insurance provision  <i>effecting contracts of insurance; and/or</i>  <i>carrying out contracts of insurance;</i>  <i>that are long-term insurance contracts (including pure protection contracts); and/or</i>  <i>entering as provider into a funeral plan contract.</i></p>
<p><b>Also includes:</b>  <b>Category 2.3</b>  <b>Firms with permission for:</b></p>	<p>the Society  Investment provision  any of the following:  <i>managing investments;</i>  <i>managing an AIF;</i>  <i>managing a UK UCITS;</i>  <i>acting as trustee or depositary of an AIF;</i>  <i>acting as trustee or depositary of a UK UCITS;</i>  <i>establishing, operating or winding up a collective investment scheme;</i>  <i>establishing, operating or winding up a stakeholder pension scheme;</i>  <i>establishing, operating or winding up a personal pension scheme;</i>  <i>agreeing to carry on a regulated activity which is within any of the above.</i></p>
<p><b>Category 2.4</b>  <b>Firms with permission for:</b></p>	<p><b>Structured deposits provision</b>  <i>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.</i></p>
<p><b>Tariff base for category 2.1</b></p>	<p>In respect of <i>direct sales of structured deposits</i>: the tariff base for Class A (DGS members) set out in the Depositor Protection part of the <i>PRA Rule-book</i>, but only to the extent that it:</p>

Class 2	Investment Intermediation Claims
	<p>(a) relates to <i>structured deposits</i> accepted in the <i>firm's</i> 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 <i>category</i>; and</p> <p>(b) multiplied by 0.07.</p> <p>Except in respect of <i>direct sales of structured deposits: annual eligible income</i> where annual income is calculated as the sum of (a) and (b):</p> <p>(a) the net amount retained (Note 4) 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 <i>category 2.1</i> activities (Note 5) including (in relation to a <i>firm</i> carrying out life distribution or pensions intermediation) 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> (Note 2) carrying out life distribution or pensions intermediation, in relation to <i>category 2.1</i> activities, the amount of <i>premiums</i> or commission receivable on its life and pensions contracts (Note 1) multiplied by 0.07, excluding those life and pensions contracts which result from <i>category 2.1</i> activities carried out by another <i>firm</i>, where a payment has been made by the life and pensions <i>firm</i> to that other <i>firm</i> and that payment is of a type that falls under (a).</p> <p>Notes relating to the calculation of the tariff base for <i>category 2.1</i>:</p> <p>(1) Life and pensions contracts mean <i>long-term insurance contracts</i> (but not including <i>pure protection contracts</i>) and rights under a <i>stakeholder pension scheme</i> or a <i>personal pension scheme</i>.</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>class 3</i>.</p> <p>(3) Box management profits are excluded from the calculation of annual income.</p> <p>(4) Net amount retained means all the commission, fees, etc. in respect of <i>category 2.1</i> activities that the <i>firm</i> has not rebated to customers or passed on to other <i>firms</i> (for example, where there is a commission chain). Items such as general business expenses (for example, employees' salaries and overheads) must not be deducted.</p> <p>(5) <i>Category 2.1</i> activities mean activities that fall within <i>category 2.1</i>.</p> <p>(6) In relation to a <i>firm</i> carrying out life distribution or pensions intermediation:</p> <p>(a) <i>category 2.1</i> activities also include activities that now fall within <i>category 2.1</i> but that were</p>





Class 3	Investment Provision Claims
	<p>customers or passed on to other <i>firms</i> (for example, where there is a commission chain). Items such as general business expenses (for example employees' salaries and overheads) must not be deducted.</p> <p>(2) [deleted]</p> <p>(3) Box management profits are excluded from the calculation of annual income.</p>

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

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

Class 5	Debt Management Claims
<b>Tariff base for category 5.1</b>	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. Annual debts under management being the annual total value of the <i>participant firm's relevant debts under management</i> .
<b>Tariff base for category 5.2</b>	Annual lending being the annual total amount provided under all <i>regulated credit agreements</i> in respect of which the <i>participant firm</i> 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
<b>Firms with permission for:</b>	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.
<b>Tariff base</b>	The tariff base for Class A (DGS members) in the Depositor Protection part of the <i>PRA Rulebook</i> .

**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

		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 <i>category 2.3</i> and <i>class 3</i> is calculated by taking gross income falling into <i>category 2.3</i> and <i>class 3</i> 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). 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 <i>firm</i> chooses to include all its annual income.
1.1	G	Gross income for the activity of <i>managing investments</i> is the sum of the following: <ol style="list-style-type: none"> <li>(1) the amount of the annual charge on all assets in portfolios which the <i>firm</i> 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</li> <li>(2) the front-end or exit charge levied on sales or redemptions of assets in portfolios which the <i>firm</i> manages on a discretionary basis (typically 4-5% of sales/redemptions) in that same accounting period; plus</li> <li>(3) the amount of performance management fees from the management of assets in portfolios which the <i>firm</i> manages on a discretionary basis received or receivable in that same accounting period; plus</li> <li>(4) any other income directly attributable to the management of assets in portfolios which the <i>firm</i> manages on a discretionary basis in that same accounting period, including commission and interest received.</li> </ol>
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>category 2.1</i> (the life distribution and investment intermediation <i>category</i> ).
1.3	G	A <i>firm</i> 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 <i>personal pension scheme</i> or <i>collective investment scheme</i> ). 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 <i>category 2.3</i> or <i>class 3</i> , 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 <i>firm</i> 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. <i>Category 2.3</i> and <i>class 3</i> are based on net income retained.
		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.

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**Classes participating in the retail pool and applicable limits [deleted]**

