

Chapter 6

Financial Services Compensation Scheme Funding

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 any *specific costs levy*:

- (1) first, amongst the relevant *classes* in proportion to the amount of relevant costs arising from the different activities for which *firms* in those *classes* have *permission* up to the *levy limit* of each relevant *class*. The *FCA provider contribution classes* are not relevant *classes* for this purpose; and
- (2) thereafter, where the *levy limit* has been reached (whether as a result of *compensation costs* or *specific costs* or both) for a *class* whose attributable costs may be allocated to the *retail pool* (see ■ FEES 6 Annex 5R), to the *retail pool*, in accordance with and subject to ■ FEES 6.5A.

6.4.7A **R** The *FSCS* must calculate a *participant firm's* share of a *specific costs levy* (subject to ■ FEES 6.3.22 R (Adjustments to calculation of levy shares) by:

- (1) identifying each of the relevant *classes* to which the *participant firm* belongs, using the statement of business most recently supplied under ■ FEES 6.5.13 R;
- (2) identifying the *management expenses* other than *base costs* which the *FSCS* has incurred, or expects to incur, in the relevant *financial year* of the *compensation scheme*, allocated to the *classes* identified in (1), but not yet levied;
- (3) calculating, in relation to each relevant *class*, 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*;
- (4) applying the proportion calculated in (3) to the figure in (2); and
- (5) if more than one *class* is relevant, adding together the figure in (4) for each *class*.

New participant firms

6.4.8 **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 *specific costs levy* made in that year.

6.4.9 **G** [deleted]

6.4.10 **G** 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*.

Specific costs levy for newly authorised firms

6.4.10A **R**

- (1) This *rule* deals with the calculation of:
 - (a) a *participant firm's specific 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 specific 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
 - (c) 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 *FSCS financial year* following the *financial year* of the *compensation scheme* in which it became a *participant firm*:
 - (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 6.5.13 R(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.

Application of FEES 6.4.10AR

6.4.10B

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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 6.4.10AR. 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 6.4.10AR | Data period under FEES 6.4.10AR |
|---|-------------------------------|--|---------------------------------|
| <i>Dealing in investments as agent</i> in relation to General Insurance Inter-mediation | <i>Annual eligible income</i> | Financial year ended 31 March 2009 - so projected valuations will be used. | 1 November to 31 December 2009 |

6.4.11

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6.4.12

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