BANK OF ENGLAND
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Consultation Paper | PRA CP1/20

FCA CP20/2

Financial Services Compensation Scheme – Management Expenses Levy Limit 2020/21

January 2020

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PRUDENTIAL REGULATION AUTHORITY

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The response will be assessed to inform our work as a regulator and central bank, both in the public interest and in the exercise of our official authority. We may use your details to contact you to clarify any aspects of your response.

Responses to this consultation will be shared with the FCA and the FSCS. They will review the responses and may also contact you to clarify aspects of your response. We will retain all responses for the period that is relevant to supporting ongoing regulatory policy developments and reviews. However, all personal data will be redacted from the responses within five years of receipt. To find out more about how we deal with your personal data, your rights or to get in touch please visit bankofengland.co.uk/legal/privacy.

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Responses are requested by Monday 17 February 2020.

Please address any comments or enquiries to:
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1 Overview

1.1 In this Consultation Paper (CP), the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) set out proposals for the Management Expenses Levy Limit (MELL) for the Financial Services Compensation Scheme (FSCS) for 2020/21. This CP is supported by the publication of the FSCS's Plan and Budget for 2020/21.

1.2 This CP is relevant to all PRA and FCA authorised firms, but contains no material of direct relevance to retail financial services consumers or consumer groups upon which they might need to act. As costs may be passed on to consumers in the form of higher prices, consumers may indirectly contribute to part of the FSCS levies. However, an efficient and adequately funded compensation scheme is beneficial to all consumers.

Background

1.3 The FSCS has a statutory responsibility to process compensation claims resulting from the failure of financial services firms. It also carries out a number of other functions, including:

- making recoveries from failed financial institutions;
- promoting consumer awareness; and
- the verification of account information provided by firms that enables faster pay-out to depositors.

1.4 Under the Financial Services and Markets Act 2000 (FSMA),[1] the PRA and the FCA must set a limit for the total management expenses that the FSCS can levy on financial services firms. The MELL is the maximum amount that the FSCS may levy in a year for its operating costs without further consultation; it ensures that the FSCS has adequate funding to exercise certain functions conferred on it by Part XV of FSMA and by rules made by the PRA and the FCA.

Summary of the proposal

1.5 The proposed MELL is £83.2 million for 2020/21, consisting of a management expenses budget of £78.2 million and an unlevied contingency reserve of £5 million. The proposed MELL would apply from Wednesday 1 April 2020, the start of the FSCS's financial year, to Wednesday 31 March 2021.

Structure of the CP

1.6 Chapter 2 of this CP contains the proposals for the MELL for 2020/21. The key points to note in the budget are set out, alongside further detail on the proposals and an explanation of the FSCS's contingency reserve. How the budget is allocated between PRA and FCA funding classes is also explained.

1.7 Chapter 3 of this CP contains an analysis of the costs and benefits of the proposed rules (including the impact on mutual societies) as required under FSMA.[2] It also contains the PRA's and the FCA's assessment of the compatibility of the proposed rules with their respective statutory objectives (including the secondary competition objective) and regulatory principles.[3] There is also an assessment by both authorities as to whether they have carried out their duty to have due regard to the need to

1 Section 223(1) FSMA.
2 Sections 138I, 138J and 138K of FSMA.
3 Sections 1B, 2B, 2C, 2H and 3B of FSMA.

eliminate discrimination and to promote equality of opportunity in carrying out their policies, services and functions.[4]

Responses and next steps

1.8 This consultation closes on Monday 17 February 2020. The PRA and the FCA invite feedback on the proposed MELL set out in this consultation. Please address any comments or enquiries to CP1_20@bankofengland.co.uk. The PRA is accepting responses on behalf of both organisations, and responses will be considered by both authorities.

1.9 Following a consideration of the responses, the PRA will issue a Policy Statement (PS) and the FCA will issue a Handbook Notice so that the final rules can be in place for the start of the FSCS's financial year on Wednesday 1 April 2020.

1.10 The proposals set out in this CP have been designed in the context of the current UK and EU regulatory framework. The PRA will keep the policy under review to assess whether any changes would be required due to changes in the UK regulatory framework, including those arising once any new arrangements with the European Union take effect.

1.11 In the event that the UK leaves the EU with no implementation period in place, the PRA has assessed that the proposals would not need to be amended under the EU (Withdrawal) Act 2018 (EUWA). Please see PS5/19 'The Bank of England's amendments to financial services legislation under the European Union (Withdrawal) Act 2018'[5] for further details.

4 Section 149(1) of the Equality Act 2010.
5 April 2019: https://www.bankofengland.co.uk/paper/2019/the-boes-amendments-to-financial-services-legislation-under-the-eu-withdrawal-act-2018.

2 Proposals

2.1 In this chapter, we set out the proposals in respect of the FSCS's MELL for 2020/21. The MELL covers the costs of operating the compensation scheme and is the maximum amount that the FSCS can levy for its operating costs in order to fulfil the obligations imposed on it by FSMA and set out in the rules made by the PRA and FCA.[6]

2.2 The MELL has two components: the management expenses budget; and a contingency reserve. It does not include claimants' compensation costs. See paragraph 2.11 for further detail.

2.3 The FSCS's actual expenses for the year may differ from its budget according to the total number and type of claims received. At the end of the financial year, the FSCS will perform a reconciliation of the actual expenses for the year against the total amount levied and the allocation across classes.

2.4 Any changes will be reflected by providing rebates or using any unspent levies to reduce firms' future levies. The proposed rules through which the PRA and the FCA would set the MELL are in Appendices 1 and 2 respectively.

Management Expenses Budget

2.5 The proposed management expenses budget for 2020/21 is £78.2 million. The management expenses budget covers the FSCS's ongoing operating costs and includes the FSCS's IT, staff, outsourcing, legal and claims handling costs.

2.6 This is an increase of 4.8% (£3.6 million) over the 2019/20 management expenses budget of £74.6 million published in PS10/19 in March 2019.[7] 75% of the increase can be attributed to a forecast rise in the volume and complexity of claims expected by the FSCS.

2.7 The FSCS has indicated that it may also need to use £2.6 million of its 2019/20 contingency reserve due to an unexpected increase in the number of claims it will need to handle in that year. In the event of this use of the contingency reserve, the actual spend for 2019/20 would be £77.2 million; the proposed management expenses budget for 2020/21 of £78.2 million would then be an increase of 1.3% (£1 million) year-on-year.

Contingency reserve

2.8 The contingency reserve is an important part of the FSCS's contingency planning. It allows the FSCS to raise additional funds at short notice to meet costs that were not foreseen when the management expenses levy was raised. The contingency reserve can be levied without further formal consultation by the PRA and the FCA.

2.9 The proposed contingency reserve for 2020/21 is £5 million, which is the same as 2019/20. The FSCS has reviewed the level required and considers that a £5 million reserve is sufficient.

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6 The relevant PRA and FCA rules comprise the Depositor Protection Part, the Policyholder Protection Part, the Dormant Account Scheme Part, the FSCS Management Expenses Levy Limit and Base Costs Part, and the Management Expenses in Respect of Relevant Schemes Part of the PRA Rulebook, and the COMP and FEES 6 section of the FCA Handbook.

7 'Financial Services Compensation Scheme – Management Expenses Levy Limit 2019/20': https://www.bankofengland.co.uk/prudential-regulation/publication/2019/financial-services-compensation-scheme-management-expenses-levy-limit-2019-20.

2.10 As noted in paragraph 2.7, the FSCS forecasts that it may need to utilise the contingency reserve in the 2019/20 financial year to cope with a rise in the volume of complex claims.

Compensation costs

2.11 The FSCS's compensation costs levy, which covers compensation paid to consumers, is determined separately by the FSCS and does not form part of this consultation. The FSCS will indicate its current estimate of compensation costs and its related funding and levies in its 2020/21 Plan and Budget, due to be published on Thursday 16 January 2020, and confirm the final levies in early April 2020.

FSCS Strategy

2.12 The FSCS is continuing to focus its budget on the strategy[8] for the 2020s, which is centred around the four pillars of Prepare, Protect, Promote and Prevent:

- Prepare: The FSCS must be able to protect customers in a crisis or in the event of major failures to maintain public confidence and financial stability.
- Protect: The FSCS is known and trusted for protection that puts people back on track through outstanding customer experience.
- Promote: The full range of FSCS protection is known about and trusted.
- Prevent: The FSCS collaborates with their regulatory and industry stakeholders to prevent future failure and to reduce compensation costs.

2.13 The FSCS's costs have been allocated to these strategic pillars in its 2020/21 budget. For further information on the allocation, please refer to Table 1.

Management Expenses Budget – further detail

2.14 In this section the FSCS's proposed management expenses budget is broken down by activity, with information on the main changes from last year's budget.

2.15 This year the FSCS has distinguished between volume-driven costs (costs sensitive to changes in claims volumes) and controllable costs (costs which are not sensitive to changes in claims volumes). Splitting costs in this way helps to communicate the key drivers for the FSCS's expenses.

8 A copy of the FSCS strategy can be found at https://www.fscs.org.uk/about-fscs/mission-and-strategy/.

Table 1: Management expenses, Activity-based costing (£million)

ABC Category	Strategy pillar	2020/21 Budget			2019/20 Budget			Variance	
		Budget	Controllable costs	Volume driven	Budget	Controllable costs	Volume driven	Total	Total %
Claims handling infrastructure and support		**57.9**	**35.3**	**22.5**	**53.9**	**34.1**	**19.8**	**4.0**	**7%**
Outsourced claims handling	Protect	17.3	0.0	17.3	13.4	0.0	13.4	3.9	29%
Internal claims handling support	Protect/ Prepare	10.6	5.3	5.2	9.7	5.4	4.3	0.9	9%
Core Support: IT, facilities, central services	Protect/ Promote	30.0	30.0	0.0	28.7	28.7	0.0	1.3	5%
Provisions	Protect	0.0	0.0	0.0	2.1	0.0	2.1	-2.1	-100%
Deposit Readiness	**Prepare**	**7.2**	**7.2**	**0.0**	**7.6**	**7.6**	**0.0**	**-0.4**	**-5%**
Protection, recoveries, investment, & pension deficit		**13.1**	**13.1**	**0.0**	**13.1**	**13.1**	**0.0**	**0.0**	**0%**
Depositor protection	Promote/ Prepare	3.0	3.0	0.0	2.8	2.8	0.0	0.2	7%
Consumer protection	Promote	0.8	0.8	0.0	0.7	0.7	0.0	0.1	14%
Recoveries	Protect	3.4	3.4	0.0	3.6	3.6	0.0	-0.2	-6%
Investment	Promote/ Protect/ Prevent	4.0	4.0	0.0	4.0	4.0	0.0	0.0	0%
Pension deficit funding	Protect	1.9	1.9	0.0	1.9	1.9	0.0	0.0	0%
Total management expenses		**78.2**	**55.7**	**22.5**	**74.6**	**54.7**	**19.9**	**3.6**	**5%**

Key points to highlight

2.16 **Claims handling infrastructure and support:** This constitutes the largest part of the management expenses budget, amounting to £57.9 million; this enables the FSCS to carry out its core function of handling claims following firm failures.

- Outsourced claims handling costs amount to £17.3 million. This is an increase of £3.9 million on the 2019/20 budget, to account for a projected increase in the volume of complex claims the FSCS may need to handle.
  - The FSCS has realised efficiencies in this area by continuing to transition to Capita as its outsourced claims handling service partner; projected 2020/21 claims handling costs are £6.3 million lower than if the FSCS had not started this transition.
  - The FSCS has budgeted £5.1 million to process particularly complex claims over 2020/21.
- Internal claims handling support costs amount to £10.6 million. This is an increase of £0.9 million. The increasing complexity of cases is driving rising costs due to the need for more IT and legal support.
- Core support (IT, facilities and central services) costs amount to £30 million. This is an increase of £1.3 million. The majority of the increase is due to a rise in staff headcount and the application of the FSCS's new pay policy, which is discussed in paragraphs 2.19 and 2.20.

2.17 **Depositor readiness:** The FSCS maintains a borrowing facility, available within one business day, to fund pay-outs following significant firm failures. The cost of the facility, including bank charges and payment processing fees, is expected to be £7.2 million. This is a reduction of £0.4 million.

- These costs will facilitate enhancements such as faster payment and increased capacity; the costs of these enhancements are offset by the removal of a contingency previously held for Brexit, which the FSCS anticipates can be absorbed in its business as usual (BAU) budget.

2.18 **Depositor protection, consumer protection, investment, recoveries and pension deficit:** The FSCS proposes to spend £13.1 million in these areas:

- Within depositor protection, costs in relation to handling Single Customer View (SCV) files from banks will remain flat at £0.7 million. In 2019/20 the FSCS's SCV systems continued to be improved by the development of its self-verification process. The SCV self-verification process is now available to nearly all firms. Additional improvements will be funded from the FSCS's SCV budget.

- Within depositor and consumer protection, the FSCS is increasing spending by £0.2 million to maintain overall awareness and increase focus on non-depositor areas.

- Spending on investment will remain flat at £4 million. There will be a change in the focus of this spending in order to improve claims processes in a number of areas including service design and technology.

    - Service design: Improving the end to end service so that it is easier for vulnerable customers to access, and designing simpler future processes to reduce the time it takes to process more complex claims.

    - Technology: Transitioning from a separate supplier for hardware and software to a single outsourced technology partner to improve efficiency, evolve the FSCS's claims handling capabilities to avoid obsolescence, and build cyber capability as cyber threats continue to increase.

    - The FSCS is proposing to increase investment in data sharing to assist the FCA in data gathering, which the FSCS and FCA expect to help reduce firm failure.

- On the advice of the Trustees, spending on the FSCS's pension deficit will remain constant at £1.9 million per year as the FSCS believes this level is sufficient to meet its obligations. The FSCS expects any deficit to be fully funded early in 2021/22.

Staff costs

2.19 Staff costs are included within the activity-based spending categories. The FSCS proposes a staff budget of £22.8 million (£1.5 million increase) to facilitate an increase in staff headcount and a 2% salary inflation budget, as approved by the FSCS's Remuneration Committee.

2.20 The FSCS is planning an increase of 18 full-time equivalent (FTE). Areas with a proposed increase in FTE include the operations, IT and the legal teams. The increased headcount is predominantly to handle the expected increase in complex claims.[9]

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9 Please see Appendix 3 for more information.

Budget allocation

2.21 The management expenses budget component of the MELL is made up of:

(i) a base costs element, which is related to the general running costs of the FSCS and is not directly dependent on the volume or type of claims received. Base costs are split equally between the PRA and FCA regulatory fee blocks and allocated to individual firms in proportion to their regulatory fees; and

(ii) a specific costs element, which includes the costs of assessing claims, achieving recoveries and making payments. Specific costs are allocated to PRA and FCA regulatory fee blocks based on the cost and volume of claims relating to PRA and FCA funding classes.[10]

2.22 The FSCS's proposed specific costs are £50.5 million and the proposed base costs are £27.7 million.

2.23 Appendix 4 contains a breakdown of the FSCS's proposed budget by funding class. The FCA funding class allocation would increase by £5.6 million and the PRA funding class allocation would decrease by £1.9 million.

2.24 Further information on the FSCS's proposed management expenses budget will be included in its 2020/21 Plan and Budget, due to be published on Thursday 16 January 2020 on the FSCS website.[11]

10 Funding classes comprise groupings of activities regulated by the PRA and the FCA for which the FSCS offers protection. Management expenses are allocated to the relevant classes based on proportionate level of activity in the funding classes.

11 https://www.fscs.org.uk/industry/publications/plan-and-budget/.

3 Statutory obligations

3.1 Under FSMA,[12] the PRA and the FCA are required to carry out and publish a cost benefit analysis (CBA) when proposing draft rules, as well as:

- an explanation of the reasons for believing that making the proposed rule is compatible with the PRA's and the FCA's objectives;
- an explanation of the PRA's and the FCA's reasons for believing that making the proposed rule is compatible with their duty to have regard to the regulatory principles;
- a statement as to whether the impact of the proposals upon mutuals will be significantly different than upon other persons.

3.2 The Prudential Regulation Committee (PRC) and the FCA should also have regard to aspects of the Government's economic policy as recommended by HM Treasury.[13]

3.3 The PRA and the FCA are also required by the Equality Act 2010[14] to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out its policies, services and functions.

Cost benefit analysis

3.4 FSMA requires the PRA and the FCA to publish a CBA of proposed rules, defined as an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made.

3.5 Monetary values for the impacts are provided where it is reasonably practicable to do so. The proposals are based on carefully weighing up the costs and benefits and reaching a judgement, taking into account all foreseeable impacts.

Benefits

3.6 Setting the MELL at £83.2 million ensures the FSCS can continue to operate and to meet its objective of providing a compensation scheme that is efficient, fair, approachable and responsive.

3.7 If a MELL was not set then the FSCS would not be able to operate and provide direct benefits to consumers through the payment of compensation to eligible claimants in the event of firm failure. While the wider benefits of the FSCS are hard to quantify, the direct benefit to consumers from FSCS compensation is forecast to be £548 million in 2019/20.[15] This reduces consumers' financial loss and increases consumer confidence in authorised financial services firms. This is particularly important for depositors, as timely compensation in the event of the failure of a deposit taker helps ensure consumer confidence in the financial system.

3.8 Compensation pay-outs are partially offset by the recoveries made by the FSCS from the estates of failed firms or from third parties responsible for the losses.

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12 Section 138J and 138I of FSMA respectively.
13 Section 30B of the Bank of England Act 1998.
14 Section 149 of the Equality Act 2010.
15 This forecast is the FSCS's estimate of the amount to be paid out in compensation for 2019/20 based on known and likely claims. The amount is based on an estimate of the number of completed claim decisions, the proportion of claims upheld, and the average cost of each claim.

Costs

3.9 The one-off direct costs to firms are equal to the budget of £78.2 million. The MELL will be split between the PRA and the FCA funding classes and levied on all authorised firms according to the volume of regulated financial services business they conduct. Appendix 4 provides a summary of how the MELL costs are allocated between the PRA and the FCA classes.

3.10 Management expenses are charged to firms and may be passed on to consumers in the form of higher prices.

3.11 The contingency reserve of £5 million would give the FSCS some margin to meet costs that exceed its budgeted expenses and that need to be funded at short notice. The PRA and the FCA recognise that the FSCS needs to be able to respond quickly and efficiently to firm failures. Should the FSCS require funding beyond the limit imposed by the MELL due to exceptional circumstances, the PRA and the FCA would urgently consider the request.

Summary

3.12 The PRA and the FCA consider that the benefits of raising the MELL outweigh the costs placed on industry, primarily because the provision of compensation in the event of the failure of a financial services firm helps to ensure consumer confidence in the financial system.

Compatibility with the PRA's objectives

3.13 The PRA must, when discharging its general functions, so far as is reasonably possible, act in a way that advances its general objective – ie promoting the safety and soundness of PRA-authorised firms.[16]

3.14 The PRA must carry out that objective primarily by:

- seeking to ensure that the business of PRA-authorised persons is carried out in a way which avoids any adverse effect on the stability of the UK financial system; and
- seeking to minimise the adverse effect that the failure of a PRA-authorised person could be expected to have on the stability of the UK financial system.

3.15 The PRA considers that the proposed rule on setting the MELL is compatible with these statutory obligations. The continued operation of the FSCS with a MELL set at an appropriate level assists in minimising the adverse effect of the failure of a PRA-authorised person on consumers and so helps promote the stability of the UK financial system as well as confidence in the UK financial system.

3.16 The PRA has an additional primary objective for insurance. In addition to promoting insurers' safety and soundness, thereby supporting the stability of the UK financial system, it has an insurance objective to contribute to securing an appropriate degree of protection for those who are or may become policyholders.[17] The PRA considers that the proposed rule to set the MELL is compatible with this duty because the continued operation of the FSCS with a MELL set at an appropriate rate assists in securing an appropriate degree of protection for policyholders of a PRA-authorised person that has failed.

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16 Section 2B of FSMA.
17 Section 2C of FSMA.

3.17 When discharging its general functions in a way that advances its objectives the PRA must, so far as is reasonably possible, act in a way which, as a secondary objective, facilitates effective competition in the markets for services provided by PRA-authorised persons in carrying on regulated activities.[18]

3.18 The MELL is not expected to have any adverse effect on competition as it applies to firms in proportion to their share of FSCS protected business within their funding class. Any levy on a firm as a result of this proposal will take into account the business volume of the firm levied, as well as the claims received in the relevant classes; as such the MELL is not likely to disadvantage specific groups of firms (in particular smaller firms).

FCA general duties

3.19 Section 138I(2)(d) of FSMA requires that a consultation undertaken by the FCA includes an explanation of the FCA's reasons for believing that making the proposed rules is compatible with its duties under section 1B(1) and (5)(a). These are commented on below.

3.20 In discharging its general functions the FCA must, so far as is reasonably possible, act in a way which: (a) is compatible with its strategic objective; and (b) advances one or more of its operational objectives (section 1B(1) of FSMA). In addition, the FCA must discharge its general functions in a way which promotes effective competition in the interests of consumers (section 1B(4)).

3.21 The proposal is compatible with the duty to promote effective competition in the interests of consumers. Any levy placed on a firm as a result of this proposal will take into account the firm's size, and as such is not likely to disadvantage specific groups of firms (in particular smaller firms).

3.22 The proposal set out in this consultation is primarily intended to advance the FCA's operational objective of consumer protection. The role of the FSCS is, in general, to provide compensation to consumers of financial products when authorised firms are unable, or likely to be unable, to meet their obligations. A compensation scheme provides a safety net, offering protection to consumers, which in turn leads to greater confidence in their dealings with financial services firms, benefiting all firms and leading to a stronger financial system. If the FSCS was unable to process claims because of financial constraints due to an inappropriate MELL this would undermine the protection offered to consumers.

3.23 In light of this, the FCA considers that the proposed FSCS MELL is appropriate. The limit proposed ensures the FSCS has adequate resources to perform its functions for the coming year. In addition, in setting the MELL for 2020/21, the PRA and FCA have allowed for sufficient contingency reserve to prevent disruption to the FSCS's work if it needs to exceed its operating budget for unexpected reasons.

3.24 Setting an FSCS MELL figure has no material significance for the reduction of financial crime objectives.

Compatibility with the regulatory principles – PRA and FCA

3.25 This section comments on how this proposal to set the MELL meets the requirement that the PRA and the FCA must have regard to the regulatory principles outlined in section 3B of FSMA in discharging their respective general functions.

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18 Sections 2H(1), 2H(2) and 3B of FSMA.

3.26 The regulatory principles most relevant to this proposal are:

(a) The need to use the resources of each regulator in the most efficient and economical way.

3.27 The FSCS is operationally independent of, but accountable to, the PRA and the FCA. This means that the PRA's and the FCA's resources are not directly involved in carrying out the proposed activities.

3.28 The PRA and the FCA rules require the FSCS to use its resources in the most efficient and economical way when carrying out its functions. Setting the MELL, after public consultation, encourages good internal management and effective operating procedures.

(b) The principle that a burden or restriction should be proportionate to the benefits.

3.29 The PRA's and the FCA's assessment of the fairness and proportionality of the burden and benefits relating to this proposal can be found in the cost benefit analysis section of this consultation paper.

Impact on mutuals

3.30 Management expenses are levied on all authorised firms according to the volume of regulated financial services business they conduct. This includes mutual societies. The impact on mutual societies is therefore not considered significantly different to that on other types of firms.

HM Treasury recommendation letter

3.31 HM Treasury has made recommendations to the PRC and the FCA about aspects of the Government's economic policy to which the PRC and the FCA should have regard when considering how to advance the objectives of the PRA and the FCA and apply the regulatory principles set out in FSMA.[19] The PRA and the FCA consider that the recommendations most relevant to the proposals in this CP are:

(i) competition;

(ii) a better outcome for consumers; and

(iii) competitiveness.

3.32 Recommendation (ii) has been considered in paragraph 3.7, and recommendation (i) in paragraphs 3.17, 3.18, 3.20 and 3.21. With regard to recommendation (iii), the PRA and the FCA consider that an appropriately funded compensation scheme will enhance consumers' trust in UK regulated firms. This will help to ensure that the UK remains an attractive domicile for internationally active financial institutions, and that London retains its position as a leading financial centre.

Equality and diversity

3.33 In making their respective rules and establishing their practices and procedures, the PRA and the FCA may not act in an unlawfully discriminatory manner. They are required, under the Equalities Act 2010, to have due regard to the need to eliminate discrimination and promote equality of opportunity in carrying out its policies, services and functions.[20]

19 Information about the PRC and the recommendations from HM Treasury are available on the Bank's website at www.bankofengland.co.uk/about/people/prudential-regulation-committee.

20 Section 149(1) of the Equalities Act 2010.

3.34 To meet this requirement, the PRA and the FCA have performed an assessment of the policy proposals and do not consider that the proposals give rise to equality and diversity implications. However, we would welcome any comments respondents may have on any equality issues they believe arise as a result of these proposal.

Appendices

Appendix 1: Prudential Regulation Authority Rulebook: Management Expenses Levy Limit and Base Costs Part

PRA RULEBOOK: NON AUTHORISED PERSONS: FSCS MANAGEMENT EXPENSES LEVY LIMIT AND BASE COSTS INSTRUMENT 2020

Powers exercised

A. The Prudential Regulation Authority ("PRA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137T (General supplementary powers);
(2) section 213 (The compensation scheme);
(3) section 214 (General); and
(4) section 223 (Management expenses).

B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Pre-conditions to making

C. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to any representations made.

PRA Rulebook: Non Authorised Persons: FSCS Management Expenses Levy Limit and Base Costs Instrument 2020

D. The PRA makes the rules in the Annex to this instrument.

Commencement

E. This instrument comes into force on [1 April] 2020.

Citation

F. This instrument may be cited as the PRA Rulebook: Non Authorised Persons: FSCS Management Expenses Levy Limit and Base Costs Instrument 2020.

By order of the Prudential Regulation Committee
[Date]

Annex

Amendments to the FSCS Management Expenses Levy Limit and Base Costs Part

In this annex new text is underlined and deleted text is struck through.

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2 LIMIT ON MANAGEMENT EXPENSES LEVIES

2.1 The total of all *management expenses levies* attributable to the period 1 April ~~2019~~ 2020 to 31 March ~~2020~~ 2021 of the *deposit guarantee scheme*, the *dormant account scheme* or the *policyholder protection scheme* may not exceed ~~£79,555,000~~ £83,167,893 less whatever *management expenses levies* the *FSCS* has imposed in accordance with *FCA compensation scheme rules* attributable to that period.

Appendix 2: Financial Conduct Authority Handbook: FEES manual

FINANCIAL SERVICES COMPENSATION SCHEME (MANAGEMENT EXPENSES LEVY LIMIT 2020/21) INSTRUMENT 2020

Powers exercised

A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137T (General supplementary powers);
(2) section 213 (The compensation scheme);
(3) section 214 (General); and
(4) section 223 (Management expenses).

B. The rule-making powers listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on 1 April 2020.

Amendments to the Handbook

D. The Fees manual (FEES) is amended in accordance with the Annex to this instrument.

Citation

E. This instrument may be cited as the Financial Services Compensation Scheme (Management Expenses Levy Limit 2018/2019) Instrument 2020.

By order of the Board
[*date*]

Annex

Amendments to the Fees manual (FEES)

In this Annex, underlining indicates new text.

6 Annex 1R **Financial Services Compensation Scheme – Management Expenses Levy Limit**

This table belongs to FEES 6.4.2R	
Period	Limit on total of all management expenses levies attributable to that period (£)
…	
1 April 2019 to 31 March 2020	£79,555,000
<u>1 April 2020 to 31 March 2021</u>	<u>£83,167,893</u>

Appendix 3: FSCS management expenses by line item (£Millions)

Budget: Significant items (£m)	**20/21**	**19/20**	***change***	***% change***
Staff costs (Incl contractors)	**23.8**	**22.2**	**1.6**	**7%**
Staff costs	22.8	21.3	1.5	7%
Contractors	1.0	0.9	0.1	11%
Communications	**3.8**	**3.9**	**-0.1**	**-3%**
Depositor awareness	2.1	2.1	0.0	0%
Awareness of other protection	0.7	0.7	0.0	0%
Core support	1.1	1.2	-0.1	-8%
Professional, legal and recovery costs	**10.0**	**9.2**	**0.8**	**9%**
Professional, legal and recovery costs	10.0	7.1	2.9	41%
PPI	0.0	2.1	-2.1	-100%
Outsourced claims handling	**17.3**	**13.4**	**3.9**	**29%**
Outsource claims	17	13.1	3.9	30%
Outsource printing	0.3	0.3	0.0	0%
Investment	**4.0**	**4.0**	**0.0**	**0%**
Digital	3.5	3	0.5	17%
Prevent	0.5	0	0.5	0%
Insurance claims systems	0.0	1.0	-1.0	-100%
Credit facility	**7.2**	**7.6**	**-0.4**	**-5%**
Pension Deficit funding	**1.9**	**1.9**	**0**	**0%**
Facilities, IT and overheads	**10.2**	**10.3**	**-0.1**	**-1%**
Facilities	2.2	2.2	0.0	0%
IT	4.4	4.4	0.0	0%
Depreciation	1.5	1.4	0.1	7%
Restructuring provision costs	0.6	0.8	-0.2	-25%
External providers	1.5	1.5	0.0	0%
Provisions	**0.0**	**2.1**	**-2.1**	**-100%**
Total management expenses	**78.2**	**74.6**	**3.6**	**4.8%**

Appendix 4: FSCS management expenses by funding class (£Millions)

	2020/21			2019/20			Movement		
	FSCS Total Costs £m	PRA Fee Block Allocation £m	FCA Fee Block Allocation £m	FSCS Total Costs £m	PRA Fee Block Allocation £m	FCA Fee Block Allocation £m	FSCS Total Costs £m	PRA Fee Block Allocation £m	FCA Fee Block Allocation £m
Base Costs Total (Split 50:50)	**27.7**	**13.9**	**13.9**	**27.0**	**13.5**	**13.5**	**3%**	**3%**	**3%**
Specific Costs									
Deposits	13.0	13.0		12.6	12.6		3%	3%	
General Insurance Provision	4.8	4.8		7.4	7.4		-36%	-36%	
Life & Pension Provision	-	-		-	-		0%	0%	
General Insurance Distribution	5.7		5.7	8.0		8.0	-28%		-28%
Life Distribution, Pensions & Investment Intermediation	18.8		18.8	17.4		17.4	8%		8%
Investment Provision	6.8		6.8	0.6		0.6	1035%		1035%
Home Finance Intermediation	1.3		1.3	1.6		1.6	-15%		-15%
Debt Management	0.0		-	-		-	0%		0%
Specific Costs Total	**50.5**	**17.8**	**32.7**	**47.6**	**20.1**	**27.5**	**6%**	**-11%**	**19%**
Management Expenses Total	**78.2**	**31.7**	**46.6**	**74.6**	**33.6**	**41.0**	**5%**	**-6%**	**14%**