

# **Reviewing the funding of the Financial Services Compensation Scheme (FSCS): feedback from CP17/36, final rules and new proposals for consultation**

**Consultation Paper**

CP18/11\*\*\*

May 2018



## How to respond

We are asking for comments on this Consultation Paper (CP) by 1 August 2018.

You can send them to us using the form on our website at: [www.fca.org.uk/cp18-11-response-form](http://www.fca.org.uk/cp18-11-response-form).

### Or in writing to:

Clare Vicary  
Financial Conduct Authority  
25 The North Colonnade  
London E14 5HS

### Telephone:

020 7066 7606

### Email:

[cp18-11@fca.org.uk](mailto:cp18-11@fca.org.uk)

### How to navigate this document onscreen



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takes you to helpful abbreviations

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# 1 Summary

- 1.1** The Financial Services Compensation Scheme (FSCS) provides important protection to consumers paying compensation when authorised firms<sup>1</sup> have gone out of business and consumers have suffered harm.<sup>2</sup> Our ongoing review seeks to ensure that the scheme provides the right protections, works effectively and is funded fairly.
- 1.2** In Consultation Paper (CP) CP17/36<sup>3</sup> we consulted on proposals to:
- change the funding classes and the retail pool
  - introduce contributions from product providers to the cost of intermediary failures ('provider contributions')
  - make sure that the scheme continues to provide the right level of protection of consumers
- 1.3** We also asked for views on a number of discussion questions, including whether we should require certain Personal Investment Firms (PIFs) to pay capital into a trust account or purchase a surety bond to ensure that more consumer claims are covered by insurance policies which should help to reduce the cost of the FSCS to other firms.
- 1.4** In this Policy Statement (PS) we summarise the feedback we received to CP17/36 and make final rules. Reflecting the feedback we received to the discussion questions, we also ask a consultation question about Professional Indemnity Insurance (PII) policies. We are proposing that PIFs should have PII policies that do not limit claims, where the policyholder or a third party is insolvent, or where a person other than the PIF (eg the FSCS) is entitled to make a claim. The changes are intended to ensure that more consumer claims are paid by insurers which could help to reduce the cost of the FSCS to other firms.

## Who this affects

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- 1.5** This PS and the attached CP will interest all firms that are current or potential contributors to FSCS funding. Under current Financial Conduct Authority Rules (FCA), FSCS contributions are:
- required from:
    - firms involved in providing investments; intermediating investments, general insurance, life insurance and home finance
    - certain debt management and consumer credit firms

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1 Appointed representative or recognised investment exchanges operating organised trading facilities or multilateral trading facilities

2 The FSCS does not compensate every consumer who suffers a loss. The FSCS can step in when a firm is or is likely to be unable to pay claims against it and owes a 'civil liability' to a claimant in respect of a protected type of claim.

3 [www.fca.org.uk/publication/consultation/cp17-36.pdf](http://www.fca.org.uk/publication/consultation/cp17-36.pdf)



- may be required from firms that provide insurance, home finance or that accept deposits

**1.6** The final rules and the new consultation proposals may interest consumers or consumer groups. The FSCS plays a critical role in giving consumers confidence in the financial services market, but the protection it offers comes at a cost to the industry and ultimately to consumers.

## The wider context

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**1.7** The FSCS is the UK's compensation scheme of last resort for customers of authorised financial services firms. The benefits of the FSCS, for both industry and consumers, are rarely challenged. But the question of how the costs of funding should be allocated between different firms and sectors is the subject of more debate with often polarised views among groups of contributors. In 2016 we launched a fundamental review of how the FSCS is funded.

**1.8** It is a natural function of the scheme that firms that are still trading are required to cover any costs generated by those that have failed, and extensive consultation has confirmed that there is no perfect way to divide the cost of providing the scheme. We have had to balance legitimate but competing objectives, and we know that some stakeholders will be unhappy with the outcome.

**1.9** Our review to date has looked at:

- how we might reduce the number and value of claims falling to the FSCS and alleviate the burden on the FSCS for claims made (eg by the use of targeted supervision)
- how the bill should be allocated to reduce volatility and to make sure that the scheme is funded fairly
- ensuring that the FCA compensation limits provide an appropriate level of protection, in particular following changes to the options available to consumers at retirement

**1.10** In December 2016 we published CP16/42<sup>4</sup> which sought views on how the FSCS compensation bill should be allocated. It also considered whether it was possible to reduce the size of the compensation bill, eg by requiring more effective PII. We consulted on proposals to change the scope and operation of FSCS funding, including:

- extending FSCS coverage for some aspects of fund management and introducing it for debt management and structured deposit intermediation
- more reporting requirements to help us to introduce risk-based levies in the future
- requiring Lloyd's of London to contribute to the retail pool

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4 [www.fca.org.uk/publication/consultation/cp16-42.pdf](http://www.fca.org.uk/publication/consultation/cp16-42.pdf)

- changing payment arrangements so that some firms can be asked to pay some of the levy on account

**1.11** In October 2017 we published CP17/36 which included final rules for the areas that we consulted on in CP16/42, and a number of new discussion and consultation proposals. Our 2018/19 business plan<sup>5</sup> and Approach to Supervision CP<sup>6</sup> provide further information on the supervisory work we will carry out to reduce the number and value of claims falling to the FSCS.

## Summary of feedback and our response

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**1.12** Respondents generally supported our proposals to change the funding classes and to change the FSCS compensation limits. Some respondents strongly disagreed with our proposals relating to product provider contributions. We are hoping that the package of measures that we are planning to introduce will help to reduce the overall bill in the long term and the likely burden on providers. Alternative options suggested by respondents that we have considered, but ruled out, are in Chapter 2. In the other areas outlined below we intend to make final rules to confirm the proposals we consulted on.

**1.13** In Chapter 2 we summarise feedback and finalise rules and guidance that we consulted on in CP17/36 to reduce the volatility of FSCS levies and to assist in ensuring that we have a robust funding model with sustainable classes that provide sufficient funding for compensation:

### Changing the funding classes:

- merging the Life and Pensions Intermediation funding class with the Investment Intermediation funding class
- moving pure protection intermediation from the Life and Pensions Intermediation funding class to the General Insurance Distribution funding class

### Product provider contributions:

- requiring providers to contribute 25% of the funding requirement for the insurance and investment intermediation funding classes

### Retail pool:

- all of the new FCA funding classes (except the deposit acceptors class) will benefit from and contribute to the retail pool, including the investment provision class

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<sup>5</sup> [www.fca.org.uk/publication/business-plans/business-plan-2018-19.pdf](http://www.fca.org.uk/publication/business-plans/business-plan-2018-19.pdf)

<sup>6</sup> [www.fca.org.uk/publication/corporate/our-approach-supervision.pdf](http://www.fca.org.uk/publication/corporate/our-approach-supervision.pdf)

- 1.14** In Chapter 3 we summarise feedback and finalise rules and guidance that we consulted on in CP17/36 to ensure that the FSCS continues to provide the right level of protection for consumers and to reflect changes to the options available to consumers when they retire by:

**FSCS compensation limits:**

- increasing the FSCS compensation limit for investment provision, investment intermediation claims, home finance intermediation claims and debt management claims from £50,000 to £85,000
- changing the £50,000 limit for claims in relation to the intermediation of long-term care insurance, which is a pure protection contract, to match the limit for other kinds of pure protection intermediation, to 100% of the claim

**What we are changing**

- 1.15** We are aware that historically, some PII providers have sought to limit their liability by preventing the FSCS from making a claim on the policy. This has been achieved either through a specific clause, or by relying on insolvency clauses which exclude claims that relate to the insolvency of the firm or of third parties. Where a firm has, for example, provided negligent financial advice for a consumer to invest in a fund, we do not believe a claim on that firm's PII should be excluded by virtue of the insured or the fund becoming insolvent, provided the claim has been notified correctly and the product is not otherwise excluded.
- 1.16** In Chapter 4 we ask for views on a proposal that PIFs should have PII policies that do not limit claims, where the policyholder or a third party is insolvent, or where a person other than the PIF (eg the FSCS) is entitled to make a claim. The changes are intended to ensure that more consumer claims are covered by insurance policies which should help to reduce the cost of the FSCS to other firms.

**How this links to our objectives**

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**Consumer protection**

- 1.17** Clauses in PII policies that prevent a person other than the PIF (eg the FSCS) from making a claim could result in consumers not receiving the full amount of compensation they are owed.

**Market integrity**

- 1.18** Clauses in PII policies that prevent the FSCS from making a claim create a barrier to the FSCS achieving its duty of pursuing recoveries which could result in higher costs being passed on to levy payers and ultimately consumers.

**Equality and diversity considerations**

- 1.19** We have considered the equality and diversity issues that may arise from the proposals in this PS.
- 1.20** Overall, we do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010. But we will continue to consider the equality and diversity implications of the proposals during the consultation period, and will revisit them when making the final rules.

- 1.21** In the meantime we welcome your input on this.

### **Wider effects of this consultation**

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- 1.22** Our proposals could result in higher premiums and increased costs for firms. We discuss this in more detail in the cost benefit analysis in Annex 2.

### **What you need to do next**

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- 1.23** Most of the final rules set out in section 1 will come into effect on 1 April 2019.
- 1.24** We would also like your views on the new question on page 20 of this CP.
- 1.25** Please send us your comments by 1 August 2018. You can use the online response form on our website or write to us at the address on page 2.

### **What we will do next**

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- 1.26** We will consider your feedback and publish final rules in a Handbook Notice in due course.

## 2 Changing the funding classes and provider contributions

**2.1** In this chapter we summarise the responses to our proposals to amend the funding class structure, set out our response and confirm final rules. The proposals that we consulted on in CP17/36 included:

- merging the Life and Pensions Intermediation and Investment Intermediation classes
- moving pure protection intermediation from the Life and Pensions class to the General Insurance Distribution class
- introducing provider contributions to the insurance, investment, and home finance intermediation funding classes from the first pound
- changing the retail pool so all of the new FCA funding classes (with the exception of the deposit acceptors class) will benefit from and contribute to it, including the investment provision class

### Changing the funding classes (Q4 and Q5 of CP17/36)

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**2.2** In recent years, the industry has expressed concern about the volatility of FSCS levies and the impact of this on intermediaries in particular. The Financial Advice Market Review (FAMR) looked at the variability of FSCS levies and suggested that we should consider reforming the FSCS funding classes to reduce volatility in FSCS levies. In CP16/42 we considered how we could tackle this through a revised class structure and we discussed a number of options for change including:

- a single merged intermediation class, with provider contributions
- merging the Investment Intermediation and Life and Pensions Intermediation classes, with provider contributions
- the current intermediary class structure, with provider contributions

**2.3** Given the feedback we received to CP16/42, in CP17/36 we consulted on merging the Investment Intermediation and Life and Pensions Intermediation funding classes to create a new Investment Intermediation Claims class.

**2.4** In CP17/36 we asked:

**Q4:** *Do you have any comments on our proposal to merge the Life and Pensions Intermediation funding class with the Investment Intermediation funding class?*



- 2.5** We received 98 responses to this question. Most respondents supported our proposal to merge the classes on the basis that there is a high degree of commonality between firms in these classes (as many firms conduct both types of business), and because merging the classes would make the levy less volatile.
- 2.6** Respondents that disagreed – mostly investment intermediaries objecting to paying for claims relating to pensions mis-selling – did not raise any new arguments to those raised in response to CP16/42. They generally preferred to maintain a narrower interpretation of affinity, ie the degree of similarity between the different firms in the scheme, rather than reducing volatility.
- 2.7** Some respondents argued that we should reconsider the division of classes and possibly sub-divide them more to create greater affinity to make sure that more similar firms pay for each other's claims.
- 2.8** Several product providers and their representative bodies disagreed because they disagreed with provider contributions.

### Our response

A key aim of the review is to reduce volatility and, as set out in CP17/36, we have already considered and rejected proposals to further sub-divide classes. We have therefore decided to proceed with this proposal.

Merging these two classes into one larger class means that the volatility<sup>7</sup> of the total bill will decrease, as the levy will be shared across a broader range of firms. This option also groups similar firms together in the merged class. The larger combined class threshold will also reduce the likelihood that the retail pool will be triggered, so the revised structure will be more sustainable.

- 2.9** Several respondents to CP16/42 were concerned that firms that intermediate pure protection insurance are currently in the Life and Pensions intermediation class, which means that they have paid increased FSCS levies. This is because of a rise in compensation costs from firms that provided unsuitable advice in relation to self-invested personal pension schemes (SIPPS). In CP17/36 we consulted on moving these firms to the General Insurance Distribution class to better align their risk profile with firms in their funding class. We noted that this would potentially expose these firms to claims relating to payment protection insurance (PPI), which are expected to rise in the short term given the PPI time bar. We could not achieve the same relocation for insurance product providers because of how they report data to the PRA.
- 2.10** In CP17/36 we asked:

**Q5:** *Do you agree with our proposal to move pure protection intermediation from the Life and Pensions Intermediation funding class to the General Insurance Distribution funding class?*

<sup>7</sup> This is an average and the specific effect will of course vary by firm. For example, investment intermediation claims have recently been high but relatively stable. Life and pensions claims have been lower but more volatile.

- 2.11** We received 121 responses to this question. Most respondents supported the proposal and agreed that it would better align the risk profiles of these firms. Some respondents noted that the move reflects the regulatory regime for the distribution of pure protection and general insurance products under the Insurance Distribution Directive (IDD).
- 2.12** Some respondents, including financial advisers and insurance brokers, disagreed with the proposal, due to concerns about paying for PPI claims, the impact it could have on firms remaining in the Life and Pensions Intermediation class, and differences in the nature of pure protection insurance products and general insurance products, and how they are sold. It was also suggested that the contradictory approach in relation to pure protection providers should be resolved with the PRA.

### Our response

We have decided to proceed with this proposal as it means that these firms will be in a class that will better reflect their risk profile.

We recognise that this will mean that pure protection intermediaries and pure protection providers are not in the same funding class. We could consult on moving pure protection providers into the same class as pure protection intermediaries but this would mean ceasing to use the PRA's tariff base for all insurers in the FCA's FSCS funding rules. We think that it is beneficial to use the PRA's tariff base, for the reasons set out in CP17/36, so we do not plan to consult further on this proposal.

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## Provider contributions (Q6 of CP17/36)

- 2.13** Authorised providers currently only contribute to the costs of failed intermediaries from levies that they pay for their own intermediation activities, and also to any costs incurred if the retail pool is triggered. However, the financial services market in the UK relies on providers and intermediaries working together. Through the Responsibilities of Providers and Distributors for the Fair Treatment of Customers (**RPPD**) and subsequently via the Markets in Financial Instruments Directive II (MiFID II) and the Insurance Distribution Directive (IDD), the link between distributors and providers has been made clearer and providers cannot completely disassociate themselves from sales of their products.
- 2.14** Through our review of the funding of the FSCS we have been considering how to better reflect this reality in the way that the costs of compensation are allocated across different sectors, and the relationships between them. This led to us consulting in CP17/36 on providers meeting 25% of the overall cost of funding for the relevant intermediary class.

**2.15** In CP17/36 we asked:

**Q6:** *Do you agree with our proposal to change the class thresholds for FCA product provider classes to represent 25% of the relevant intermediary claims funding class threshold? If not, what alternative would you suggest?*

- 2.16** We received 175 responses to this question. A large number of intermediaries argued for the level of provider contribution to be 75% rather than 25%, while some respondents thought a 50/50 split would be fairer. These respondents reasoned that while intermediaries charge fees for their advice, the money from consumers ultimately flows to the providers of the underlying products who, in their view, receive most of the benefit of the sale.
- 2.17** Some respondents raised concerns around the potential impact on relationships between providers and intermediaries, cautioning against any unintended consequences such as cancelled agency agreements.
- 2.18** Of the providers that responded the vast majority (and their representatives) strongly opposed our proposals. Some stated that they have no oversight of intermediary behaviour and so should not be expected to be responsible for it. Others suggested that the proposal may lead to the costs of increased scrutiny of intermediaries being passed on to consumers. A few respondents disagreed in principle, but noted that the overall cost implications for providers were unlikely to be substantial.
- 2.19** A small number of providers supported the proposals but suggested alternate options such as not requiring providers to pay from the first pound, or reducing the threshold at which the retail pool is triggered. They referred to the inter-dependence of providers and intermediaries and the shared benefits of consumer confidence created by the FSCS.
- 2.20** A couple of respondents challenged the proposal for vertically integrated firms which carry out their own intermediation, arguing they should be exempt from paying for other intermediary failures. Some argued that firms which do not rely on intermediation, such as discretionary fund managers and depositaries, should also be exempt from provider contributions on the grounds that they do not consider themselves to be providers.
- 2.21** A minority of respondents queried whether the arrangement would lead to intermediaries contributing to the cost of provider failures.

### Our response

At the start of the funding review, we set out the principles for it in our strategic approach. These included aiming to ensure that firms that benefit from the conditions created by the FSCS should pay towards it. While there are conflicting opinions on how to achieve this, the need to secure appropriate consumer protection has been accepted consistently. This requires, among other things, a sustainably funded FSCS.

We think that requiring providers to play more of a role in contributing to the FSCS reflects the fact that these firms benefit from overall



confidence in the UK market and the structures that exist for the distribution of products to consumers. Requiring providers to contribute should further incentivise them to design products that are well understood by intermediaries and that benefit end consumers, and to understand and exercise control over their distribution chains. The proposal will also help to make sure that we have a robust funding model with sustainable classes that provide sufficient funding for compensation, reducing the burden on intermediaries.

Although most respondents - by number - called for a higher proportion of provider contributions, there was no evidence to persuade us that such an increase would be appropriate. We acknowledged in CP17/36 that the level of provider contributions is a judgement call. Given the complexity of the financial services market we are wary of introducing an overly complex calculation. We thought that 25% was a reasonable reflection of our overall policy aims, accepting the divergent industry views on the topic, and recognising that this is a significant change (providers currently make no contributions to intermediary failures outside of the retail pool or for their own intermediation activities).

This consultation asked for views on whether or not 25% of the funding requirement for intermediary claims was the most appropriate proportion for providers to contribute. We accept that most providers do not agree with this and we have carefully considered the alternative proposals set out in responses. We have decided not to proceed with any of the alternative proposals because they add complexity and do not align with our policy intention to reduce volatility.

We think that all providers, including firms that do not use intermediaries, should be required to contribute to intermediary failures from the first pound. Firms which do not use external intermediaries still pay levies in respect of the appropriate intermediation class for their direct sales (on the basis that they intermediate their own sales and this can still lead to mis-selling). If we removed firms with direct sales models, providers who use external intermediaries would subsidise levies paid by those who do not, but not the other way around. There are also practical challenges. We can't identify which firms do not use external intermediaries from our current data. This makes it difficult for us to assess the impact of the proposal, or to implement it.

We don't agree that firms which do not interact with intermediaries ie DFMs and depositaries, should be exempt from contributing to the provider contributions despite being in the investment provision class. For depositaries, it is true that the business model of these firms in this context is not to sell a product or package of services to end consumers. Instead, they provide necessary ancillary services to the investment management chain. However, they still benefit from this market without which there would be no demand for their custody services. For this reason we believe it is reasonable to require depositaries to contribute alongside other providers such as asset managers. For DFMs the situation is similar to providers who do not use external intermediaries. Many DFMs benefit from referrals from intermediaries, and so benefit from the wider system. Contributions by DFMs and depositaries will help

reduce volatility in, and increase sustainability of, the new FSCS funding model. More effective PII will help to reduce costs for both providers and intermediaries.

For the reasons mentioned above, we propose to introduce product provider contributions as consulted on.

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## The retail pool (Q7 of CP17/36)

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- 2.22** As we changed the funding class structure, we also had to reconsider how the retail pool operates. At the moment, the retail pool operates in two ways. If an intermediary class reaches its threshold, the retail pool is triggered and the costs are shared among all other intermediary classes, the Investment Provision class, and the FCA provider contribution classes, to the extent that they have unused class levy limits. If the Investment Provision class reaches its threshold, the retail pool is triggered, but only the intermediary classes will contribute to the costs (up to their class thresholds).
- 2.23** We proposed amending the operation of the retail pool so that if one of the new intermediary claims classes reaches its threshold, or the Investment Provision class reaches its threshold, all other funding classes, including the Deposit Acceptors' contribution class, will contribute to the costs. This proposal took into account our proposals on provider contributions.
- 2.24** In CP17/36 we asked:
- Q7:** *Do you have any comments on our proposal for how the retail pool will operate?*
- 2.25** We received 24 responses to this question.
- 2.26** Most respondents were supportive of the proposal, and viewed it as a practical solution to the challenge while acknowledging that broader changes to the funding class model should reduce the risk of the retail pool being called upon in future.
- 2.27** Some respondents disagreed with the proposal, arguing that it was not fair that the Investment Provision class would benefit from the retail pool in the event it reached its threshold, whereas other FCA provider classes do not benefit in the same way.
- 2.28** A few respondents suggested the Investment Provision class should be treated in the same way as other FCA provider classes, in that it should be contribution only.

### Our response

We plan to proceed with the proposals we consulted on.

If we did not make changes to the retail pool but carved out provider contributions, the operation of the retail pool would be very complex. In the event of an intermediary claims class reaching its threshold, all other classes would contribute as they would now. However, if the Investment



Provision class failed, only the intermediaries within the new intermediary claims classes would contribute. This would distort the proportion of funding available from providers and intermediaries in the remaining intermediary claims classes.

We have also looked at whether it is possible to treat the Investment Provision class as other provider classes are treated, ie retail pool contribution only.

However, the firms that participate in the Investment Provision class vary in both size and regulatory regime, and we think that retail pool availability is necessary to provide support to the Investment Provision class if there is a funding shortfall – given the relatively low level of the class threshold relative to the thresholds of the Deposits and Insurance provision classes. In CP16/42 we reviewed the class threshold, currently at £200m, and proposed to maintain it at that level based on an affordability analysis.

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## Miscellaneous changes

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- 2.29** We are bringing forward changes to the names of the funding classes in the FEES manual (FEES 6), introduced because of implementation of the Insurance Distribution Directive,<sup>8</sup> so the names of the funding classes match changes to SUP 16.<sup>9</sup> We are also removing some PRA material from the Compensation sourcebook (COMP), which used to be in the PRA's Handbook and isn't part of the FCA's Handbook.

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<sup>8</sup> See the IDD "near-final" rules at PS 18/01, at <https://www.fca.org.uk/publication/policy/ps-18-1.pdf>  
<sup>9</sup> SUP 16 Annex 18AR and 18BG

## 3 FSCS Compensation Limits

- 3.1** In this chapter we summarise the responses that we received to the proposal we consulted on in CP17/36 to increase the FSCS compensation limits for investment provision, investment intermediation, home finance intermediation claims and debt management claims from £50,000 to £85,000.

### Review of limits

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- 3.2** The amount of compensation currently available to a consumer who has a claim varies and different limits apply to different types of claim. The pension freedoms have resulted in more consumers investing their pension funds in drawdown products instead of insurance-based annuities. The compensation limit for provider failure in relation to drawdown products is capped at £50,000 (assuming that it is not a contract of insurance), but for insurance-based annuities it is 100% of the loss with no upper limit.
- 3.3** The current compensation limit of £50,000 for investment business<sup>10</sup> and home finance intermediation has been in place since October 2009. FSCS data shows that the proportion of investment business claims where the overall claim was greater than the £50,000 limit has increased from 5% to 13% between 2010 and 2014. Increasing the limit to £85,000 would ensure that more claims are fully compensated than if the limit remained at £50,000. Increasing the limits for each of investment business, home finance intermediation and debt management claims helps simplify the FSCS message and it is also the same as the current PRA FSCS limit for deposits: the proposed changes, therefore, might help to reduce consumer confusion regarding the various limits, at least for as long as the deposit limit stays at £85,000.
- 3.4** In CP17/36 we asked:

**Q8:** *Do you agree that we should increase the FSCS compensation limit for investment provision, investment intermediation, home finance intermediation claims and debt management claims from £50,000 to £85,000?*

**Q9:** *If you do not agree with the proposal above, do you have an alternative proposal?*

- 3.5** We received 128 responses to question 8, with 84 respondents agreeing to the proposal in principle. Most thought that aligning the limits with the current FSCS limit for deposits would help to reduce confusion for consumers, at least for as long as deposit limit stays at £85,000. A number of respondents expressed concerns about increased costs for firms. Respondents who disagreed (mainly investment intermediaries) were concerned that increasing the limits would increase costs for firms and could also affect the cost of PII cover. For question 9, no new options were suggested although some respondents argued that the FCA should do more to reduce the overall bill ie through enhanced supervision.

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10 Investment provision and investment intermediation

- 3.6** Some respondents thought that the proposed new limits were too low given the pensions freedoms and that the limits should be much higher, for example linked to the Lifetime Allowance (currently £1.03m) or to cover up to 95% of claims.
- 3.7** Some respondents asked for more recent information about costs as the data used in the CBA were based on data for FSCS claims prior to the pension freedoms.

### CBA (2010 - 2014)

- 3.8** In the CBA that accompanied CP17/36, we explained that for an increase in the limits from £50,000 to £85,000, for all relevant claims dealt with by the FSCS in the period 2010 to 2014, total compensation paid would have increased by around **£99.64m**, or approximately **£24.91m** per annum. This gross increase of £99.64m is around **10%** of the total compensation paid in the period. The total increase would have had the following impact on funding classes:

- £74.75m (£18.69m p.a. on average) in respect of Investment Intermediation
- £24.3m (£6.08m p.a. on average) in respect of Life & Pensions Intermediation
- £0.04m (£0.01m p.a. on average) in respect of Investment Provision
- £0.549m (£0.14m p.a. on average) in respect of Home Finance Intermediation

- 3.9** Table 1 shows that the number of less-than-fully-compensated claimants would have significantly reduced had the £85,000 limit been in place from 2010 to 2014.

**Table 1: Number of less-than-fully-compensated claimants 2010-2014**

	Number of less-than-fully-compensated claimants			
	Investment Provision (total claims 36)	Investment Intermediation (total claims 52,051)	Life & Pensions Intermediation (total claims 12,880)	Home Finance Intermediation (total claims 287)
<b>Limit £50k</b>	3 (8.3%)	3517 (6.8%)	966 (7.5%)	25 (8.7%)
<b>Limit £85k</b>	0	1280 (2.5%)	490 (3.8%)	11 (3.8%)

- 3.10** The data show that there were no claims in the Investment Provision funding class for more than £85,000, so all claims in that class would have been fully compensated, the number of less-than-fully-compensated claims in the Investment Intermediation funding class would have gone down from 6.8%, to only 2.5% of the total number of claims made in that class. The number of less-than-fully-compensated claims in the Life & Pensions Intermediation funding class would have gone down from 7.5% to only 3.8% of all claims made in that class, and the number of less-than-fully-compensated claims in the Home Finance Intermediation funding class would have gone down from 8.7% to only 3.8% of all claims made in that class.



## CBA (2015 - 2017)

**3.11** We have updated the CBA with more recent data from the FSCS. If the higher limits of £85,000 had been in place for all relevant claims dealt with by the FSCS (for the four classes) for the period 2015 to 2017, total compensation paid by the FSCS would have increased by a maximum of **£40.4m** per annum. This is an increase of around **26%** of total compensation paid in this time period for the four funding classes (compared to 10% for the period 2010-2014). However, **94.4%** of consumer losses would have been compensated if the limits had been £85,000 compared to the **86.5%** that were actually fully compensated in that period. The impact on the individual funding classes if the limit had been £85,000 is as follows for the period 2015-17:

- £14.71m p.a. on average in respect of Investment Intermediation
- £23.96m p.a. on average in respect of Life & Pensions Intermediation
- £0.61m p.a. on average in respect of Investment Provision
- £1.12m p.a. on average in respect of Home Finance Intermediation

**3.12** Table 2 shows that the number of less-than-fully-compensated claimants would have significantly reduced had the £85,000 limit been in place from 2015 to 2017.

**Table 2: Number of less-than-fully-compensated claimants 2015-17<sup>11</sup>**

	Number of less-than-fully-compensated claimants			
	Investment Provision total claims 343)	Investment Intermediation (total claims 27,423)	Life & Pensions Intermediation (total claims 10,480)	Home Finance Intermediation (total claims 1,243)
<b>Limit £50k</b>	71 (20.7%)	2,150 (7.8%)	2,989 (28.5%)	129 (10.4%)
<b>Limit £85k</b>	27 (7.9%)	725 (2.6%)	1,440 (13.7%)	31 (2.5%)

**3.13** The data show that the number of less-than-fully-compensated claims in the Investment Provision funding class would have gone down from 20.7% to 7.9% of the total number of claims made in that class and the number of less-than-fully-compensated claims in the Investment Intermediation funding class would have gone down from 7.8%, to only 2.6% of the total number of claims made in that class. The number of less-than-fully-compensated claims in the Life & Pensions Intermediation funding class would have gone down from 28.5% to only 13.7% of all claims made in that class, and the number of less-than-fully-compensated claims in the Home Finance Intermediation funding class would have gone down from 10.4% to only 2.5% of all claims made in that class.

<sup>11</sup> Note: this is likely an overestimate of the impact as it only compares pre-abatement figures with the claims paid. The pre-abatement figure can be higher than claim paid for reasons other than the £50k limit but is not possible to distinguish in the data.



## Our response

Any increase in the limits implies a potential increase in levies, but having considered the feedback we received we remain of the view that an increase to £85,000 remains an appropriate balance of consumer protection and cost to industry, particularly given the stark difference in the limits for insurance based annuities versus investment products in the context of pension freedoms. The new £85,000 limit will apply to all claims in relation to defaults on or after 1 April 2019. Our 2018/19 business plan contains further information on how we are trying to reduce the number and value of claims falling to the FSCS by targeted supervisory work.

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## 4 Professional indemnity insurance market, the coverage it provides and other options for reducing the bill

- 4.1** In this chapter we provide feedback to the questions we asked in CP17/36 on PII and alternative options for PIFs that might mean more firms (or their insurers) pay more of the costs of the redress their actions cause, reducing the cost of compensation paid by the FSCS. We also ask a new consultation question in relation to PII.

### Professional indemnity insurance (summary of responses that we received to Q1 of CP17/36)

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- 4.2** In CP17/36 we asked for views on a proposal to prevent PIFs from buying PII policies which exclude claims when the policyholder or a third party is insolvent. Exclusions like this can prevent the FSCS or customers of PIFs from making a claim on the PII policy.

- 4.3** In CP17/36 we asked:

**Q1:** *Do you have any views on our proposal to prevent personal investment firms (PIFs) from buying PII policies which exclude claims when the policyholder or a related party is insolvent?*

- 4.4** We received 75 responses to this question, mostly in support of the proposal which was seen as sensible and fair.

- 4.5** Several respondents expressed a mix of concern and surprise that such exclusions existed, particularly examples where negligent advice is excluded from cover on the basis of a third party's insolvency. Respondents highlighted that other professions such as solicitors and chartered accountants prohibit such exclusions.

- 4.6** Some respondents who did not support the proposal felt the onus should be placed on PII providers rather than PIFs. A few respondents suggested that the FCA should look to increase capital requirements for PIFs rather than make amendments to PII requirements. Others raised concerns about a potential reduction in capacity among PII providers which could lead to reduced availability of PII, and the impact of increased costs to PIFs as a result of the proposal.

### Our response

We don't think that PIFs should have PII policies that hamper the FSCS's duty to seek recoveries where a claim has been correctly notified and the activity is not excluded. We welcome respondents' support and questions as to how this will work in practice, and have set out further detail, including a new consultation question, below.

Several people mentioned the potential increase in costs to firms through higher premiums. We have addressed this in more detail in the cost benefit analysis (CBA) in Annex 2.

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## Changes to PII for personal investment firms – new consultation questions

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- 4.7** The FSCS has a duty to pursue recoveries that are ‘reasonably possible and cost effective to pursue’.<sup>12</sup> When the FSCS pays compensation to a consumer, the consumer’s rights against the firm in default, any third party or a successor are usually assigned to the FSCS. This allows the FSCS to try to recoup some or all of the costs of compensation for the benefit of both levy payers and/or those customers who have been paid compensation by the FSCS but still have uncompensated losses.<sup>13</sup> One route to recoveries includes the PII providers of those firms in default.
- 4.8** We know that in the past some PII providers have sought to limit their liability by preventing the FSCS from making a claim on the policy. This was either through a specific clause excluding the FSCS as a claimant, or by relying on broad, general insolvency clauses which exclude claims relating to the insolvency of the firm or of third parties regardless of any legal liability the firm may owe to a consumer. Where a firm has, for example, provided negligent financial advice for a consumer to invest in a fund, we do not believe a claim on that firm’s PII should be excluded if the insured or the fund become insolvent, provided the claim has been notified correctly and the product is not otherwise excluded.
- 4.9** This creates a barrier to the FSCS achieving its duty of pursuing recoveries, which has knock-on impacts on levy payers, which end up paying higher levies, and consumers, who may not receive the full amount of compensation that they are owed.
- 4.10** Currently, PIFs are required to maintain PII which provides an adequate level of cover and meets certain limits of indemnity.<sup>14</sup> We propose to introduce a rule to ensure that PIFs have PII policies that do not limit claims, where the policyholder or a third party is insolvent, or where a person other than the PIF (eg the FSCS) is entitled to make a claim on the policy. This will be a requirement for all PII policies effected or renewed from the date the rule takes effect.

## Question for Consultation – Please respond

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**Q1:** Do you agree with our proposed approach to ensure that PIFs have PII policies that do not limit claims, where the policyholder or a third party is insolvent, or where a person other than the PIF (eg the FSCS) is entitled to make a claim on the policy? If not, do you have an alternative proposal?

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<sup>12</sup> COMP 7.4.1R

<sup>13</sup> If the FSCS recovers more than it has paid to a claimant in compensation, the FSCS will pass the surplus to the customer. There is also provision to ensure that a claimant is not disadvantaged by promptly accepting FSCS compensation, with the result that the FSCS will recoup less than it has paid in compensation.

<sup>14</sup> PII requirements for PIFs are set out in IPRU-INV Chapter 13 [www.handbook.fca.org.uk/handbook/IPRU-INV/13/?view=chapter](http://www.handbook.fca.org.uk/handbook/IPRU-INV/13/?view=chapter)

## Options to reduce the bill

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- 4.11** When claims against PIFs arise at the FSCS there aren't many options available to recover the compensation costs through PII, run-off cover, or any other way. In CP17/36 we asked for views on alternative options to enable more claims to be paid for by firms or their insurers, reducing the cost of the FSCS to other firms. One option was to require PIFs with no PII cover for high-risk business lines to pay capital into a trust account. Another was for all PIFs to purchase a surety bond which pays out in the event of FSCS claims arising. Both the capital in trust and the surety bond would be structured to pay out to the FSCS where the FSCS had paid claims on the firm's default.
- 4.12** In CP17/36 we asked:
- Q2:** *Do you have any views on the potential to require PIFs to hold additional capital in trust, for the purposes of contributing to any FSCS claims?*
- Q3:** *Do you have any views on requiring PIFs to obtain a surety bond?*
- 4.13** We received 100 and 91 responses to these questions respectively.
- 4.14** Most respondents supported both proposals in principle and thought that firms should meet the costs of any claims against them to the greatest extent possible. Respondents in favour generally preferred the proposal that PIFs with no PII for active high-risk business lines should be required to hold funds in a trust for the benefit of the FSCS. Many respondents acknowledged that it could potentially act as a disincentive for firms advising on high-risk transactions, which are typically subject to PII exclusions, and reduce the burden on the FSCS.
- 4.15** Respondents who did not support the trust proposal thought that it would increase costs for firms and create barriers to competition for smaller PIFs, particularly given existing capital adequacy requirements. It was also suggested that the proposal wouldn't tackle historic issues, and that requiring cash funds rather than assets (as can be held for capital adequacy requirements) would create a greater burden and therefore a greater disincentive.
- 4.16** Despite support in principle a number of respondents challenged how feasible the trust proposal would be in practice, questioning how it would operate, how we would set an appropriate limit, and the potential dynamic impact on the advice market if firms are unable to invest in growth or exit the market.
- 4.17** The proposal to require all PIFs to obtain a surety bond received less support because it was likely to increase costs for all firms (rather than being targeted) and insurers might be reluctant to offer such a product to higher risk firms. Some respondents supported the potential to reduce the burden on the FSCS but told us that bonds should only be a requirement for firms advising on high-risk business.
- 4.18** Many respondents were concerned about having to take out two forms of insurance, because of additional costs. Several respondents suggested that these additional costs would be passed on to consumers.



## Our response

We do not intend to pursue the trust and bond options that we discussed in CP17/36.

The option to require all PIFs to have a surety bond does not target the riskiest firms but introduces additional costs for all PIFs. Insurers have indicated that they would be unlikely to offer such a product only to the highest risk firms, which is the population we are trying to target. We are also aware that the market for the provision of such bonds is small, with no indication of it growing to meet such a demand.

There has been continued support for the proposal that firms which have PII exclusions for active business lines should be required to hold additional funds in trust. Further work on this proposal has led us to the conclusion that it is not an efficient way of achieving the desired outcome, which is to ensure that high-risk PIFs contribute more to the FSCS because they are more likely to create redress liabilities. For this intervention to work, we need to be able to target the minority of advisers providing unsuitable advice. This is a small population, as evidenced in our assessing suitability review<sup>15</sup> which found 93.1% of advice to be suitable.

From 1 April 2018 we will collect data on sales of high-risk investment products, with a view to developing risk-based levies (RBLs). RBLs have a similar deterrent effect to holding funds in trust, can target riskier firms more effectively, and could be structured to adapt flexibly and quickly to emerging harms as they arise. We will consider the case for consulting on RBLs in 2019.

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15 [www.fca.org.uk/publications/multi-firm-reviews/assessing-suitability-review](http://www.fca.org.uk/publications/multi-firm-reviews/assessing-suitability-review)

## Annex 1

### Additional consultation question

1. Reflecting the feedback we received to CP17/36, we are asking for views on a proposal relating to Professional Indemnity Insurance (PII) policies. We are proposing that PIFs should have PII policies that do not limit claims, where the policyholder or a third party is insolvent, or where a person other than the PIF (eg the FSCS) is entitled to make a claim. The changes are intended to ensure that more consumer claims are paid by insurers which could help to reduce the cost of the FSCS to other firms.

**Q1:** Do you agree with our proposed approach to ensure that PIFs have PII policies that do not limit claims, where the policyholder or a third party is insolvent, or where a person other than the PIF (eg the FSCS) is entitled to make a claim on the policy?

## Annex 2

# Cost benefit analysis

### Introduction

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1. FSMA, as amended by the Financial Services Act 2012, requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us 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'.
2. This analysis presents estimates of the significant impacts of our proposal. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For others, we provide estimates of outcomes in other dimensions. Our proposals are based on carefully weighing up these multiple dimensions and reaching a judgement about the appropriate level of consumer protection, taking into account all the other impacts we foresee.

### Amending PII requirements for PIFs

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3. We propose to introduce a requirement for PIFs to hold PII that does not limit claims, where the policyholder or a third party is insolvent, or where a person other than the PIF (eg the FSCS) is entitled to make a claim on the policy.

#### Costs

4. During the PII review, we collected data from 15 large PII that were active at that time. Since these data were collected, one firm has exited the market. These providers service around 67% of the PIF market.
5. We asked firms to consider whether a series of proposed policy changes would be likely to result in either an increase in premiums, or to them exiting the market. The proposed policy changes included the following two scenarios:
  - including the insolvency of the insured/cover for FSCS claims within the scope of cover, and
  - including the insolvency of other firms within the scope of cover
6. Of the 15 providers we asked, 6 said they either did not exclude these scenarios in current policies, did not think there would be any likely premium increase, or were unable to provide an estimate. One provider suggested a likely premium increase of 25%.
7. Seven providers suggested they would be likely to exit the market if we introduced such a change. However, these providers collectively account for a small proportion of the market based on the market shares of the firms we asked. Two providers responded that they would exit the market if we introduced any of the proposed policy changes.



8. One provider suggested it would exit the market if we included the insolvency of the insured/cover for FSCS claims within the scope of cover, but that it did not understand the intention of the second question and so could not respond.
9. We have looked at the sensitivity of firms' profits to increases in the PII premiums. This is done by modelling an increase of the current levels of individual firms' PII premiums and comparing them with firms' profits. We have modelled the impact of a premium increase of 25% on PIFs using data from regulatory returns by building on the affordability analysis prepared for CP16/42.<sup>16</sup> The model takes firms' average profit or loss in the three years to 2015/16.
10. Once adjusted for missing observations, this analysis shows that 3% of firms made a loss over the last three years. The impact of increasing PII premiums by 25% is estimated to lead to an additional 1%, or 50 firms, making a loss. This is a static estimate and does not take into account how firms might react, for example by passing on costs.
11. This approach is based on an increase in premiums across the whole market. However in reality, several PII providers either do not include such exclusions in policy terms and conditions, or have indicated that they would be unlikely to increase premiums. These firms represent nearly two-thirds of the market share of the sample we surveyed. We would not expect the impact of this proposal to be felt across the entire PIF population, the data we collected from providers suggests it would affect around 16%. The data we have collected suggest that the PII market is competitive. Our survey of PIFs did not identify any barriers to switching provider. In the last five years, 45% of PIFs surveyed had switched PII providers.
12. The PII premium uplift estimated above is the same for all firms. In reality, different firms would face different increases for the same increased PII coverage.
13. There may also be an increase in costs in adjusting to the change, for example by shopping around for a new policy. We are aware that the majority of PIFs rely on a broker to source their PII policies, and so we believe that this cost will be minimal.
14. As this proposal would lead to a fixed increase in costs, rather than a one-off or shock increase we were modelling for in respect of FSCS levies, it is likely that these costs could be passed on to consumers of firms which currently have the exclusion.

### Benefits

15. This proposal offers benefits to consumers and firms. It seeks to ensure that correctly notified claims on PII policies are not excluded because the insured or a related third party is no longer solvent. We know that several PII providers already insure this scenario, so this requirement ensures a degree of consistency, which is beneficial to ensuring market integrity. It will also create fairer competition, allowing insurers to compete on more tailored policies.
16. Consumers' claims to the FSCS in respect of investment intermediation are limited to £50,000 in compensation.<sup>17</sup> The FSCS can recover costs through PII where available, and if it is successful it can pay additional funds to the consumer over and above the compensation limit. Insolvency exclusions have historically meant that consumers

<sup>16</sup> [www.fca.org.uk/publication/consultation/cp16-42.pdf](http://www.fca.org.uk/publication/consultation/cp16-42.pdf) page 90

<sup>17</sup> This will go up to £85,000 from 1 April 2019 in respect of firms that default after this date.



can only get back up to £50,000 of their losses. By removing the exclusions there is an increased chance of consumers receiving either full or greater levels of compensation, however we cannot quantify this benefit.

17. The effect of recoveries on the FSCS is that the funding classes to which the recoveries relate are given a reduction of their compensation cost levies in future years. It is also feasible that preventing the exclusion of claims arising from third party insolvency could stop PIFs from exiting the market with outstanding claims, by ensuring PII providers meet claims that may otherwise fall to the PIF.

## Annex 3

# Compatibility statement

### Compliance with legal requirements

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1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).
2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules is (a) compatible with its general duty, under s.1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, and (b) its general duty under s.1B(5)(a) FSMA to have regard to the regulatory principles in s.3B FSMA. The FCA is also required by s.138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.
3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (s.1B(4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.
4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s.1JA FSMA about aspects of the economic policy of Her Majesty's Government to which we should have regard in connection with our general duties.
5. The FCA's main contribution to this economic policy is working with the Bank of England's Financial Policy Committee and the Bank of England acting in its capacity as the PRA, to protect consumers, promote competition in financial services and to protect and enhance the integrity of the UK financial system. A strong and stable financial system supports economic growth, helps achieve improved outcomes for consumers, facilitates productive investment and underpins the UK's position as an important global financial centre.
6. The proposals consulted on in this PS are relevant to the following aspects of the government's economic policy:  
  
**Competition/Competitiveness**
7. We have considered the implications of our proposed changes, and believe that they will not impact barriers to entry for advice firms, and that they will encourage competition between PII providers.



### **Better outcomes for consumers**

8. The proposal we are consulting on is intended to secure better outcomes for consumers by enabling them and the FSCS to recover more compensation costs from PII, where available.
9. This Annex includes our assessment of the equality and diversity implications of these proposals.
10. Under the Legislative and Regulatory Reform Act 2006 (LRRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). These proposals do not consist of general policies, principles, or giving guidance.

### **The FCA's objectives and regulatory principles: Compatibility statement**

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11. The consultation proposals set out in this PS are primarily intended to advance the FCA's operational objective of securing an appropriate degree of protection for consumers.
12. The proposals are intended to provide a greater level of protection for consumers who, for example, might have received unsuitable advice from a firm that is no longer solvent, or was advised to invest in a fund which is no longer solvent. These firms are a valued and trusted source of advice for many consumers. Accordingly, it is important for PIFs to have adequate PII coverage.
13. We think that these proposals are compatible with the FCA's strategic objective of ensuring that the relevant markets function well. When PIFs fail with outstanding liabilities, this cost is then mutualised by the FSCS by way of ongoing regular levies and occasionally by interim levies. We realise that these levies are often seen as unfair to PIFs that have not failed and have not caused consumer detriment.
14. In order to function well, the operation of the market should be as fair as possible to market participants, whilst remaining proportionate. The PII requirements that PIFs are required to meet should help to reduce the FSCS compensation bill, as the FSCS will not be prevented from making recoveries via PII policies. There may also be fewer PIF failures if PII policies do not limit cover on the basis of the insolvency of investment providers related to which PIFs may have a liability to consumers. For the purposes of the FCA's strategic objective, "relevant markets" are defined by s.1F FSMA.
15. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s.3B FSMA.

### **The need to use our resources in the most efficient and economic way**

16. The proposals are formulated in a way that is intended to be the most efficient and economic way of achieving the desired outcome.

### **The principle that a burden or restriction should be proportionate to the benefits**

17. For reasons outlined in the cost-benefit analysis we consider that the burden imposed under the proposal is proportionate to the benefits we expect to achieve.

**The general principle that consumers should take responsibility for their decisions**

18. This principle is not directly relevant to this PS, as our proposals do not affect a consumer's responsibility for their financial decisions.

**The responsibilities of senior management**

19. This will have an impact on senior managers who are responsible for ensuring a firm has complied with the rules in relation to PII requirements but we do not think that the impact will be substantial.

**The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information**

20. We do not believe the proposals have any bearing on the desirability of publishing information relating to persons subject to requirements imposed under FSMA.

**The principle that we should exercise our functions as transparently as possible**

21. The reasons for the proposals are set out in detail in the PS.
22. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s.1B(5)(b) FSMA). However, the proposal does not have a bearing on financial crime.

**Expected effect on mutual societies**

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23. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies as they do not apply to mutual societies.

**Compatibility with the duty to promote effective competition in the interests of consumers**

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24. In preparing the proposals as set out in the consultation section of this PS, we have had regard to the FCA's duty to promote effective competition in the interests of consumers. We believe that our proposals are unlikely to increase premiums to a level that would have an impact on barriers to entry for advice firms, and that it will encourage competition between PII providers. We have also considered the benefits for consumers in terms of improved access to compensation.

## Annex 4

### List of non-confidential respondents

A Finance Ltd

Advance Mortgage Funding Limited (trading as Pink Home Loans)

Advice & Wealth Management Solutions

Aegon

Andrew Oliver & Co Limited

Arbuthnot Latham & Co Limited

Arthur Beverly Financial Management Limited

Ashcroft Financial Solutions

Aspirational Wealth Ltd

Association of British Insurers

Association of Financial Mutuals

Association of Member-Directed Pension Schemes

Association of Mortgage Intermediaries

Association of Pension Lawyers

Baker Hudson Ltd

Beacon Wealth Management

Bhavik Shah IFA

BIBA

Big River Ltd

BizEE Software

Blackdown Financial

BPH Wealth Management LLP

Brewin Dolphin Ltd

Browning Financial Planning Ltd

Cheltenham IFA Ltd

Chiltern Consultancy

Coloma Wealth Management

Competitive Mortgages and Financial Services Ltd

Corylus Compliance Services

David Burford IFA Ltd

David Severn (individual)

Davies Financial Limited

Debenwood Financial Planning Ltd

Depository and Trustee Association

DPI Financial Services Ltd

Dukes IFA

Elmham Financial Ltd

Eric Chalker (individual)

Evans Ash F/S LLP

Facts & Figures

Finance and Leasing Association

Financial Concepts Chartered Financial Planners

First Complete Ltd

Gary Cook Financial Services

Goodison McQueen Limited

Grangewood Financial Management Limited

Granite Financial Services (UK) Limited

H R Independent Financial Services Ltd

Hanson Financial Partners Ltd

Hawthorn Financial Services (Wealth Management) Limited

Horlock Holdcroft

HWWA Consulting Ltd

I.D. Bond Independent Financial Services Ltd

Ideal Financial Management Ltd

Investment and Life Assurance Group

Integrated Investments

International Underwriting Association

Investline

J B Financial Services

Jenkins Financial Advisers Ltd

Johnston Carmichael Wealth Ltd

JPA Financial Services Ltd

Letts Mortgage

LFP Financial Planning and Wealth Management

LFS & Partners Ltd

LJ Financial Planning Ltd

Lloyd's of London

Lyn Financial Services

Master Adviser CFP limited

McCloskey Independent Financial Management

Moodybrook Financial Services Limited

Mortgage Advice Brokerage Ltd

My Financial Services Limited

NWIA Limited

Orchard House IFAs

Pension & Investment Partners LLP

Phillip Bates & Co Financial Services Ltd

Personal Investment Management & Financial Advice Association



Plan for Life Wealth Management Ltd

Plumb Financial Services

Prangle Financial Planning Ltd

Professional Financial Centre Ltd

Professional Pensions and Investments Ltd

Roger Morton (individual)

Sanderson Financial Planning

Simply Biz

Sophex Ltd T/A Lifetime Financial Solutions

SS UK

St James's Place Wealth Management

Standard Life

Steggles & Co Ltd

Straight Talk Financial Planning

Tenet

The Goodman Partnership LLP

The Investment Association

The Society of Pension Professionals

True Potential Wealth Management

UK Finance (General)

UK Finance (Mortgage Product Services Board)

Warwick FS Ltd

Wilcocks & Associates Ltd

Withybrook Financial Consultants Ltd

Wright Financial Management Ltd



## Annex 5

### Abbreviations used in this paper

<b>CBA</b>	Cost Benefit Analysis
<b>CP</b>	Consultation Paper
<b>DFM</b>	Discretionary Fund Manager
<b>FAMR</b>	Financial Advice Market Review
<b>FCA</b>	Financial Conduct Authority
<b>FSCS</b>	Financial Services Compensation Scheme
<b>FSMA</b>	Financial Services and Markets Act
<b>GI</b>	General Insurer
<b>IDD</b>	Insurance Distribution Directive
<b>MiFID II</b>	Markets in Financial Instruments Directive II
<b>PIF</b>	Personal Investment Firm
<b>PII</b>	Professional Indemnity Insurance
<b>PPI</b>	Payment Protection Insurance
<b>PRA</b>	Prudential Regulation Authority
<b>RPPD</b>	Responsibilities of Providers and Distributors for the Fair Treatment of Customers
<b>SIPPS</b>	Self-invested Personal Pension Scheme
<b>RBL</b>	Risk-Based Levy
<b>UK</b>	United Kingdom

We have developed the policy in this Consultation Paper in the context of the existing UK and EU regulatory framework. The Government has made clear that it will continue to implement and apply EU law until the UK has left the EU. We will keep the proposals under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework in the future. We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

All our publications are available to download from [www.fca.org.uk](http://www.fca.org.uk). If you would like to receive this paper in an alternative format, please call 020 7066 9644 or email: [publications\\_graphics@fca.org.uk](mailto:publications_graphics@fca.org.uk) or write to: Editorial and Digital team, Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS





# Appendix 1

## Draft Handbook text

**PROFESSIONAL INDEMNITY INSURANCE (INSOLVENCY EXCLUSIONS) FOR  
PERSONAL INVESTMENT FIRMS INSTRUMENT 2018**

**Powers exercised**

- A. The Financial Conduct Authority makes this instrument in the exercise of the powers and related provisions in the following sections of the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137A (The FCA’s general rules);
  - (2) section 137T (General supplementary powers); and
  - (3) section 139A (Power of the FCA to give guidance).
- B. The rule-making powers listed above are specified for the purpose of section 138G (Rule-making instruments) of the Act.

**Commencement**

- C. This instrument comes into force on *[date]*.

**Amendments to the Handbook**

- D. The Interim Prudential sourcebook for Investment Businesses (IPRU(INV)) is amended in accordance with the Annex to this instrument.

**Citation**

- E. This instrument may be cited as the Professional Indemnity Insurance (Insolvency Exclusions) for Personal Investment Firms Instrument 2018.

By order of the Board  
*[date]*

## Annex

**Amendments to the Interim Prudential sourcebook for Investment Businesses  
(IPRU(INV))**

In this Annex, underlining indicates new text and striking through indicates deleted text.

**13 Financial Resources Requirements for Personal Investment Firms**

**13.1 APPLICATION, GENERAL REQUIREMENTS AND PROFESSIONAL INDEMNITY INSURANCE REQUIREMENTS**

...

Limitations

- 13.1.20 R The policy must not be subject to conditions or exclusions which unreasonably limit its cover ~~(whether by exclusion of cover, by policy excesses or otherwise)~~.
- 13.1.20A R The policy must not limit cover which would otherwise be provided by the policy where:
- (1) any of the following default:
- (a) the firm; or
- (b) a person or fund relevant to a potential claim; or
- (2) a person other than the firm is entitled to make a claim on the policy.
- 13.1.20B R (1) IPRU(INV) 13.1.20AR does not limit the generality of the scope of IPRU(INV) 13.1.20R.
- (2) In IPRU(INV) 13.1.20R and IPRU(INV) 13.1.20AR, ‘limit cover’ includes limiting by exclusion, by policy excesses or otherwise.
- (3) In IPRU(INV) 13.1.20AR, ‘default’ means becoming:
- (a) in default;
- (b) insolvent or likely to be unable to satisfy claims against it; or
- (c) the subject of one or more of the proceedings listed in COMP 6.3.3R in the United Kingdom (or of equivalent or similar proceedings in another jurisdiction) whether or not a determination under COMP 6.3.3R has been made.
- 13.1.20C R The policy’s terms must include a statement confirming that the policy complies with IPRU(INV) 13.1.20AR.

- 13.1.20D    G    (1)    An example of a *person* or fund relevant to a potential claim (see *IPRU(INV)* 13.1.20AR(1)(b)) is a fund the *firm* advised its *customers* to invest in.
- (2)    An example of a *person* entitled to make a claim under the policy (see *IPRU(INV)* 13.1.20AR(2)) is:
- (a)    a *customer* of the *firm* or related *person* by virtue of the Third Parties (Rights Against Insurers) Act 2010; or
- (b)    the *FSCS*.
- (3)    One of the purposes of *IPRU(INV)* 13.1.20AR(2), taken with *COMP*, is that a claim on the policy by the *FSCS* is treated as each of the claims the *FSCS*'s claim represents, taken separately. For example, the *FSCS* may make a claim on the policy in relation to each claim under (2)(a) as a result of assignment.

...

**TP 1            Table: Transitional provisions applying to IPRU(INV)**

(1)	(2)	(3)	(4)	(5)	(6)
	Material to which the transitional provision applies		Transitional Provision	Transitional provision: dates in force	Handbook Provisions coming into force
...					
<u>20</u>	<u><i>IPRU(INV)</i> 13.1.20AR and 13.1.20CR</u>	<u>R</u>	<u>The <i>rules</i> referred to in column (2) only apply to a policy effected (including any renewal) after [date of instrument]</u>	<u>From [date of instrument] indefinitely</u>	<u>[date of instrument]</u>



## Appendix 2

### Made rules (legal instrument)

## FINANCIAL SERVICES COMPENSATION SCHEME (FUNDING REVIEW) INSTRUMENT 2018

### Powers exercised

- A. The Financial Conduct Authority makes this instrument in the exercise of the powers and related provisions in the following sections of the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137A (The FCA’s general rules);
  - (2) section 137T (General supplementary powers);
  - (3) section 139A (Power of the FCA to give guidance);
  - (4) section 213 (The compensation scheme); and
  - (5) section 214 (General).
- B. The rule-making powers listed above are specified for the purpose of section 138G (Rule-making instruments) of the Act.

### Commencement

- C. Part 1 of Annex B and Part 1 of Annex D come into force on 2 May 2018.
- D. The remainder of this instrument comes into force on 1 April 2019.

### Amendments to the Handbook

- E. The modules of the FCA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2) below:

(1)	(2)
Glossary	Annex A
Fees manual (FEES)	Annex B
Supervision manual (SUP)	Annex C
Compensation sourcebook (COMP)	Annex D

### Notes

- F. In the Annexes to this instrument the “notes” (indicated by “**Note:**”) are included for the convenience of readers but do not form part of the legislative text.

### Citation

- G. This instrument may be cited as the Financial Services Compensation Scheme (Funding Review) Instrument 2018.

By order of the Board  
26 April 2018

## Annex A

### Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise indicated.

Insert the following new definitions in the appropriate position. The text is not underlined.

<i>category</i>	a category of <i>participant firms</i> within a <i>class</i> : see <i>FEES</i> 6 Annex 3AR.
<i>deposit acceptors' contribution class</i>	<i>class</i> 6 in <i>FEES</i> 6 Annex 3AR, to which the <i>FSCS</i> may allocate a <i>compensation costs levy</i> or <i>specific costs levy</i> allocated to the <i>retail pool</i> .

Amend the following definitions as shown.

<i>annual eligible income</i>	(in <i>FEES</i> ) (in relation to a <i>firm</i> , <del>and a class and category</del> ) the annual income (as described in <i>FEES</i> 6 Annex 3AR) for the <i>firm's</i> last financial year ended in the year to 31 December preceding the date for submission of the information under <i>FEES</i> 6.5.13R attributable to that <i>class or category</i> . A <i>firm</i> must calculate <i>annual eligible income</i> from such annual income in one of the following ways: <ul style="list-style-type: none"> <li>(a) only include such annual income if it is attributable to business in respect of which the <i>FSCS</i> may pay compensation; or</li> <li>(b) include all such annual income.</li> </ul>
<i>levy limit</i>	(in <i>FEES</i> ) the maximum aggregate amount of <i>compensation costs</i> and <i>specific costs</i> that may be allocated to a particular <i>class or category</i> in one <del>financial year</del> <i>financial year</i> as set out in <i>FEES</i> 6 Annex 2R, whether directly or <del>(where relevant to that class)</del> through the <i>retail pool</i> . <del>FCA provider contribution classes do not have a levy limit: they have a retail pool levy limit: see FEES 6 Annex 5R.</del>

Delete the following definition. The text is not shown struck through.

<i>FCA provider contribution class</i>	a <i>class</i> to which the <i>FSCS</i> may only allocate a <i>compensation costs levy</i> or <i>specific costs levy</i> allocated to the <i>retail pool</i> , as described in <i>FEES</i> 6.5A, namely: the deposit acceptor's contribution class; the insurers - life contribution class; the insurers - general contribution class; or the home finance providers and administrators' contribution class.
--	--

## Annex B

### Amendments to the Fees manual (FEES)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise indicated.

#### Part 1: Comes into force on 2 May 2018

## 6 Financial Services Compensation Scheme Funding

### 6.1 Application

...

- 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 ten *classes*: the investment provision *class*; the life distribution and pensions intermediation *class*; the home finance intermediation *class*; the investment intermediation *class*; the general insurance ~~intermediation~~ distribution *class*; the deposit acceptor's contribution *class*; the insurers – life contribution *class*; the insurers – general contribution *class*; the home finance providers and administrators' contribution *class* and the debt management claims *class*. The *permissions* held by a *participant firm* determine into which *class*, or *classes*, it falls.

...

#### 6 Annex 2R Financial Services Compensation Scheme – annual levy limits

This table belongs to *FEES* 6.3.5R

Class	Levy Limit (£ million)
B2: General insurance <del>intermediation</del> <u>distribution</u>	...
C2: Life <u>distribution</u> and pensions intermediation	...
...	

...

#### 6 Annex 3AR Financial Services Compensation Scheme – classes

This table belongs to *FEES* 6.4.7AR and *FEES* 6.5.6AR

	<b>General Insurance</b>
--	--------------------------

<b>Class B1</b>	[deleted]
<b>Class B2</b>	General Insurance <del>Intermediation</del> <u>Distribution</u>
...	
<b>Class C2</b>	Life <u>Distribution</u> and Pensions Intermediation
...	

...

**6 Annex 5R**      **Classes participating in the retail pool and applicable limits**

This table belongs to *FEES* 6.5A.1R.

<b>Class</b>	<b>Attributable costs for this class in excess of levy limit allocated to the retail pool?</b>	<b>Retail pool levy limit (£ million)</b>	<b>Retail pool compensation costs levy or specific costs levy allocated to this class?</b>
...			
...	...	...	...
Life <u>distribution</u> and pensions intermediation			
...			
General insurance <del>intermediation</del> <u>distribution</u>			
...			

...

Insert the new TP 19 after FEES TP 18 (Transitional provisions relating to changes to the FSCS levy arrangements taking effect in 2018/19). The text is not underlined.

**TP 19**      **Transitional provisions relating to statements provided by participant firms before 1 April 2019 with respect to the FSCS 2019/20 financial year**

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provisions coming into force
19.1	FEES 6.5.13R	R	For the purposes of statements provided by <i>participant firms</i> under FEES 6.5.13R before 1 April 2019 and with respect to the <i>financial year</i> of the <i>compensation scheme</i> beginning on 1 April 2019, references in FEES 6.5.13R to <i>classes</i> must be read as references to <i>classes</i> and <i>categories</i> to which <i>firms</i> will belong after 31 March 2019; and references to tariffs must be read as references to tariffs as in force after 31 March 2019.	From 2 May 2018 to 31 March 2019	1 April 2019

## Part 2: Comes into force on 1 April 2019

### 6 Financial Services Compensation Scheme Funding

#### 6.1 Application

...

- 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 ~~ten~~ six *classes*: ~~the investment provision class; the life distribution and pensions intermediation class; the home finance intermediation class; the investment intermediation class; the general insurance distribution class; the deposit acceptor's contribution class; the insurers' life contribution class; the insurers' general contribution class; the home finance providers and administrators' contribution class and 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 Debt Management Claims class; and the deposit acceptors' contribution class.~~ The permissions held by a *participant firm* determine into which *class*, or *classes*, it falls.

The management expenses 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 each of the classes, to which the *FSCS* has allocated *specific costs* that class, or categories within that class. Each *class* or *category* has a ~~separate~~ “tariff base” for this purpose, set out in *FEES 6 Annex 3AR*. *Participant firms* may be exempt from contributing to the *specific costs levy*.

...

- 6.1.15 G *Compensation costs* are principally the costs incurred in paying compensation. Costs incurred:

...

are also treated as *compensation costs*. *Compensation costs* are attributed to the *class* which gives rise to the costs up to relevant *levy limits*. ~~Certain classes~~ Classes (other than the *deposit acceptors’ contribution class*) may be funded, for *compensation costs levies* beyond the *class levy limit*, by the *retail pool*.

....

#### The retail pool

- 6.1.16A G The *FCA* has made *rules* providing that *compensation costs* and *specific costs* attributable to the ~~intermediation classes, the investment provision class and the debt management claims class~~ (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 ~~certain classes (known as *FCA provider contribution classes*) (see *FEES 6 Annex 5R*)~~ the *deposit acceptors’ contribution class*. The ~~*FCA provider contribution classes*~~ *deposit acceptors’ contribution class* may contribute to *compensation costs levies* or *specific costs levies* funded by the *retail pool*, but may not ~~themselves itself~~ receive any such funding. ~~The *FCA provider contribution classes* have a different tariff structure to the other classes, based on regulatory costs or the *PRA*~~

~~Rulebook (see FEES 6 Annex 3AR).~~

...

## 6.2 Exemption

6.2.1A 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 ~~an FCA provider contribution class~~ 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.

...

## 6.3 The FSCS's power to impose levies

...

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 (~~not including the FCA provider contribution classes~~ 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 2R.

~~[Note: the levy limits for the FCA provider contribution classes are set out in FEES 6 Annex 5R]~~

...

6.3.22 R The FSCS may adjust the calculation of a participant firm's share of any levy to take proper account of:

...

(5) ~~FEES 2.3 (Relieving Provisions), FEES 6.4.8R (New participant firms), FEES 6.5.9R (New participant firms), FEES 6.3.23R~~



(Remission of levy or additional administrative fee) or *FEES* 6.6  
(Incoming EEA firms); or

....

## 6.4 Management expenses

...

### Specific costs levy

- 6.4.6A R The *FSCS* must allocate, and calculate a *participant firm's* share of, a ~~any specific costs levy~~; in the same way as for a compensation costs levy (see *FEES* 6.5).
- (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 [deleted]~~
  - (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. [deleted]~~
- 6.4.7A R The *FSCS* must calculate a *participant firm's* share of a *specific costs levy* (subject to *FEES* 6.3.22R (Adjustment 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* 6.5.13R;
  - (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*. [deleted]

### 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. [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. [deleted]~~

~~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* 6.5.13R (Reporting Requirements).
- (e) Where a *participant firm* is required to use actual data under this rule, *FEES* 6 Annex 3AR is disapplied, to the extent it is incompatible, in relation to the calculation of that *participant firm's* valuation date in its second *financial year*. [deleted]

#### Application of *FEES* 6.4.10AR

- 6.4.10B 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* 6.4.10AR. 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. [deleted]

Type of permission acquired on 1 November	Tariff base	Valuation date but for <i>FEES</i> 6.4.10AR	Data period under <i>FEES</i> 6.4.10AR
<i>Dealing in investments as agent in relation to General</i>	<i>Annual eligible income</i>	Financial year ended 31 March 2009—so projected valuations will be used.	1 November to 31 December 2009

Insurance Intermediation			
-----------------------------	--	--	--

...

## 6.5 Compensation costs

...

### 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*. ~~The FCA provider contribution classes are not relevant classes for this purpose; 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) ~~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 and subject to the conditions in FEES 6.5.2-AAR.

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.

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

<u>insurance provision)</u>	(b) on the relevant <i>category</i> or <i>class</i> by the <i>FSCS</i> under the <i>FCA's rules</i> ; <u>in the same financial year</u>	
<u>Category 2.4 (Structured deposits provision)</u>		
<u>Deposit acceptors' contribution class</u>		
<u>Category 2.3 (Investment provision)</u>	<u>Levy limit for class 3 (Investment Provision Claims) minus any compensation costs levies or specific costs levies imposed by the FSCS in the same financial year</u>	<u>Class 3 (Investment Provision Claims)</u>

- (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).

...

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 6.3.23R in respect of that *firm*.

...

- 6.5.6A R The FSCS must calculate each *participant firm's* share of a *compensation costs levy* (subject to FEES 6.3.22R (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 6.5.13R(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*;

...

- (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.

...

#### 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 ~~*FEES* 6.4.10AR applies to the calculation of a *participant firm*'s *compensation costs levy* and its tariff base as it applies to the calculation of its *specific costs levy*. [deleted]~~

- 6.5.9B G ~~The example table in *FEES* 6.4.10BG can be applied to the calculation of the tariff bases under *FEES* 6.5.9AR. [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.

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

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

...

#### Reporting requirements

- 6.5.13 R (1) Unless exempt under *FEES* 6.2.1AR, 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* ~~except the *FCA provider contribution classes*.~~

...

- (4) ~~The *Society* must provide the statement in (1) in relation to the insurers – general contribution class and the insurers – life contribution class.~~  
[deleted]

...

- 6.5.14 R If the information in *FEES* 6.5.13R 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* 6.5.13R.

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).

...

## **6.5A      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(2)):

- (1) to *classes* whose ~~*retail pool levy limit*~~ *levy limit* has not been reached as at the date of the levy;
- (2) in proportion to the relative sizes of the ~~*retail pool levy limits*~~ *levy limits* of the *classes* in (1) and up to those ~~*levy limits*~~ *levy limits*; and
- (3) in accordance with the table in FEES 6 Annex ~~5R~~ 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.

~~[Note: The retail pool levy limits for classes other than the FCA provider contribution classes are the normal levy limits for that class. See the table in FEES 6 Annex 5R for the retail pool levy limits for all relevant classes.]~~

~~Effect of levies under PRA's rules on insurers and deposit takers in the retail pool~~

- 6.5A.2    R    (1) ~~An allocation in FEES 6.5A.1R to an FCA provider contribution class other than the home finance providers and administrators' contribution class may not be of an amount that, if it were added to any levies:~~
- (a) ~~that correspond to the FCA's compensation costs levies or specific costs levies; and~~
  - (b) ~~which have previously in the same financial year been imposed on the PRA funding class which corresponds to that FCA provider contribution class (as set out in FEES 6.5A.7R);~~

the combined figure would be greater than any levy limit of the corresponding *PRA* funding class.

(2) ~~Where:~~

- (a) ~~an *FCA* provider contribution class has already contributed to specific costs or compensation costs (through the retail pool) in a financial year; and~~
- (b) ~~if the amount of that previous contribution by the class in (a) were added to a levy that corresponds to the *FCA*'s compensation costs levy or specific costs levy and which is being imposed on the *PRA* funding class which corresponds to the class in (a) (and any previous such levies in the same financial year), the combined figure would be greater than any levy limit of the corresponding *PRA* funding class;~~

~~the *FSCS* must, so far as reasonably possible, obtain repayment of the previous contribution by the class in (a) from the retail pool (including the *FCA* provider contribution classes except the class in (a)) to the extent that ensures that the combined figure in (b) would no longer be greater than any levy limit of the corresponding *PRA* funding class, and credit the repayment to the class in (a).~~

(3) ~~The *FSCS* may obtain the repayment in (2) by:~~

- (a) ~~a levy;~~
- (b) ~~commercial or other borrowing; or~~
- (c) ~~utilising funds as set out in, and subject to, FEES 6.3.17R.~~  
~~[deleted]~~

~~[Note 1: the home finance providers and administrators' contribution class does not have a corresponding *PRA* funding class.]~~

~~[Note 2: the levy limits for the corresponding *PRA* funding classes are contained in the *PRA Rulebook*.]~~

...

How levy limits affect allocation to classes in the retail pool

- 6.5A.4 R The calculation of the relative sizes of the ~~retail pool~~ levy limit *levy limit* (for the purpose of FEES 6.5A.1R(2)) is based on the original ~~retail pool~~ levy limits *levy limits* for the *classes* (as set out in FEES 6 Annex 5 2R) and not the remaining capacity in each *class*.

...

## 6 Annex Financial Services Compensation Scheme – annual levy limits

2R

This table belongs to FEES 6.3.5R

<u>Class</u>	<u>Class Category</u>	<u>Levy Limit (£ million)</u>
<u>Class 1: General Insurance Distribution Claims</u>	<del>B2:</del> <u>1.1: General insurance intermediation distribution</u>	<del>300</del> <u>310</u>
	<u>1.2: General insurance provision</u>	<u>100 (subject to FEES 6.5.2-AAR)</u>
		<b><u>Total: 410</u></b>
<u>Class 2: Investment Intermediation Claims</u>	<del>E2:</del> <u>2.1: Life distribution and pensions investment intermediation</u>	<del>400</del> <u>240</u>
	<u>2.2: Life insurance provision</u>	<u>35 (subject to FEES 6.5.2-AAR)</u>
	<u>2.3: Investment provision</u>	<u>50 (subject to FEES 6.5.2-AAR)</u>
	<u>2.4: Structured deposits provision</u>	<u>5 (subject to FEES 6.5.2-AAR)</u>
		<b><u>Total: 330</u></b>
<u>Class 3: Investment Provision Claims</u>	<del>D1:</del> <u>Investment provision</u>	200
	<del>D2:</del> <u>Investment intermediation</u>	150
<u>Class 4: Home Finance Intermediation Claims</u>	<del>E2:</del> <u>4.1: Home finance intermediation</u>	40
	<u>4.2: Home finance provision</u>	<u>15</u>
		<b><u>Total: 55</u></b>
<u>Class 5: Debt Management Claims</u>	<del>K:</del> <u>5.1: Debt management claims</u>	20
	<u>5.2: Consumer credit provision</u>	
<u>Class 6: Deposit acceptors' contribution</u>		<u>105 (subject to FEES 6.5.2-AAR)</u>

...

**6 Annex 3AR Financial Services Compensation Scheme – classes and categories**

This table belongs to ~~FEES 6.4.7AR~~ and FEES 6.5.6AR

...

<b><u>Class 1</u></b>	<b><u>General Insurance Distribution Claims</u></b>
<b><u>Class B1</u></b>	[deleted]
<b><u>Class B2 Category 1.1</u></b>	<del>General Insurance intermediation</del> <u>insurance distribution</u>
<b><u>Firms with permission for:</u></b>	<del>Any</del> <u>any</u> 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><u>Category 1.2</u></b>	<u>General insurance provision</u>
<b><u>Firms with permission for:</u></b>	<u>effecting contracts of insurance; and/or</u>
	<u>carrying out contracts of insurance;</u>
	<u>that are general insurance contracts.</u>
<b><u>Also includes:</u></b>	<u>the Society</u>
<b><u>Tariff base for category 1.1</u></b>	<p><del>Class B2 Category 1.1: annual eligible income where annual eligible income means annual income adjusted in accordance with this box. Annual income</del> is calculated as the sum of (a) and (b):</p> <p>(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 <del>class B2 category 1.1</del> activities, including any income received from an <i>insurer</i>; and</p> <p>(b) if the <i>firm</i> is an <i>insurer</i>, in relation to <del>class B2 category 1.1</del> activities (Note 4), the amount of <i>premiums</i> receivable on its <i>contracts of insurance</i> multiplied by 0.07, excluding those</p>

	<p><i>contracts of insurance</i> which result from <del>class B2</del> <u>category 1.1</u> activities 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).</p> <p>Notes relating to the calculation of the tariff base for <del>class B2</del> <u>category 1.1</u>:</p> <p>(1) <del>Exclude annual income for pure protection contracts. Only include general insurance contracts</del> [deleted]</p> <p>(2) <del>The calculation is adjusted in accordance with the definition of annual eligible income.</del> [deleted]</p> <p>(3) Net amount retained means all the commission, fees, etc. in respect of <del>class B2</del> <u>category 1.1</u> 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>(4) <del>Class B2 Category 1.1</del> activities mean activities that fall within <del>class B2</del> <u>category 1.1</u>. They also include activities that now fall within <del>class B2</del> <u>category 1.1</u> 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 <del>class B2</del> <u>category 1.1</u> but which were not at the time <i>regulated activities</i>.</p>
<b><u>Tariff base for category 1.2</u></b>	<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>
<b><u>Class 2</u></b>	<b><u>Life and Pensions Investment Intermediation Claims</u></b>
<b><u>Class C1</u></b>	[deleted]
<b><u>Class C2 Category 2.1</u></b>	<del>Life Distribution and Pensions Intermediation</del> <u>distribution and investment intermediation</u>
<b><u>Firms with permission</u></b>	<u>intermediation of structured deposits</u> (except for <u>managing investments</u> in relation to <u>structured deposits</u> ) and/or

for:

any of the following in relation to long-term insurance contracts (other than pure protection contracts) or rights under a stakeholder pension scheme or a personal pension scheme:

~~Any~~ any of the following in relation to long-term insurance contracts (other than pure protection contracts) and/or rights under a stakeholder pension scheme or a personal pension scheme:

*dealing in investments as agent;*

*arranging (bringing about) deals in investments;*

*making arrangements with a view to transactions in investments;*

*assisting in the administration and performance of a contract of insurance;*

*advising on investments;*

*advising on pension transfers and pension opt-outs;*

*basic advice;*

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

~~in relation to any of the following:~~

~~long term insurance contracts (including pure protection contracts);~~

~~rights under a stakeholder pension scheme or a personal pension scheme.~~

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

*dealing in investments as principal;*

*dealing in investments as agent;*

*MiFID business bidding;*

*arranging (bringing about) deals in investments;*

*making arrangements with a view to transactions in investments;*

*advising on investments;*



	<u>basic advice;</u> <u>safeguarding and administering investments;</u> <u>arranging safeguarding and administering of assets;</u> <u>operating a multilateral trading facility;</u> <u>agreeing to carry on a regulated activity which is within any of the above.</u>
<b><u>Recognised investment exchanges</u></b>	<u>Recognised investment exchanges that are operating a multilateral trading facility or operating an organised trading facility</u>
<b><u>Category 2.2</u></b>	<u>Life insurance provision</u>
<b><u>Firms with permission for:</u></b>	<u>effecting contracts of insurance; and/or</u> <u>carrying out contracts of insurance;</u> <u>that are long-term insurance contracts (including pure protection contracts); and/or</u> <u>entering as provider into a funeral plan contract.</u>
<b><u>Also includes:</u></b>	<u>the Society</u>
<b><u>Category 2.3</u></b>	<u>Investment provision</u>
<b><u>Firms with permission for:</u></b>	<u>any of the following:</u> <u>managing investments;</u> <u>managing an AIF;</u> <u>managing a UCITS;</u> <u>acting as trustee or depositary of an AIF;</u> <u>acting as trustee or depositary of a UCITS;</u> <u>establishing, operating or winding up a collective investment scheme;</u> <u>establishing, operating or winding up a stakeholder pension scheme;</u> <u>establishing, operating or winding up a personal pension scheme;</u> <u>agreeing to carry on a regulated activity which is within any of</u>

	<u>the above.</u>
<b><u>Category 2.4</u></b>	<b><u>Structured deposits provision</u></b>
<b><u>Firms with permission for:</u></b>	<u>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.</u>
<b><u>Tariff base for category 2.1</u></b>	<p><u>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 Rulebook</i>, but only to the extent that it:</u></p> <p><u>(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 <i>FEES</i> 6.5.13R attributable to that <i>category</i>; and</u></p> <p><u>(b) multiplied by 0.07.</u></p> <p><u>Except in respect of <i>direct sales of structured deposits</i>: <del>Class C2:</del> <i>annual eligible income</i> where <del><i>annual eligible income</i></del> means annual income <del>adjusted in accordance with this box</del>. Annual <del>income</del> is calculated as the sum of (a) and (b):</u></p> <p><u>(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 <del><i>class C2</i></del> <u><i>category 2.1</i></u> 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</u></p> <p><u>(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 <del><i>class C2</i></del> <u><i>category 2.1</i></u> 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 <del><i>class C2</i></del> <u><i>category 2.1</i></u> 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).</u></p> <p><u>Notes relating to the calculation of the tariff base for <del><i>class C2</i></del> <u><i>category 2.1</i></u>:</u></p> <p><u>(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>.</u></p> <p><u>(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 <del><i>class D1</i></del> <u><i>class 3</i></u>.</u></p> <p><u>(3) <del>The calculation is adjusted in accordance with the definition of <i>annual eligible income</i>. Box management profits are excluded from the calculation of annual income.</del></u></p>

	<p>(4) Net amount retained means all the commission, fees, etc. in respect of <del>class C2</del> <u>category 2.1</u> 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) <del>Class C2</del> <u>Category 2.1</u> activities mean activities that fall within <del>class C2</del> <u>category 2.1</u>.</p> <p>(6) In relation to a <i>firm</i> carrying out life distribution or pensions intermediation:</p> <p>(a) <del>They</del> <u>category 2.1</u> activities also include activities that now fall within <del>class C2</del> <u>category 2.1</u> but that were not <i>regulated activities</i> when they were carried out; <u>and</u></p> <p><del>(6) A</del> (b) 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 <del>class C2</del> <u>category 2.1</u> but which were not at the time <i>regulated activities</i>.</p>
<b><u>Tariff base for category 2.2</u></b>	<p><u>For the <i>Society</i>, the aggregate of the tariff base for Insurance Class C1 in the Policyholder Protection part of the <i>PRA Rulebook</i> that would apply to each <i>member</i> if:</u></p> <p><u>(a) that tariff base applied to each <i>member</i> in respect of their <i>insurance business</i> in relation to <i>long-term insurance contracts</i> (including <i>pure protection contracts</i>); and</u></p> <p><u>(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>.</u></p> <p><u>For all other <i>participant firms</i>, the tariff base for Insurance Class C1 in the Policyholder Protection part of the <i>PRA Rulebook</i>.</u></p>
<b><u>Tariff base for category 2.3</u></b>	<u>The tariff base for <i>class 3</i> (Investment Provision Claims).</u>
<b><u>Tariff base for category 2.4</u></b>	<u>The tariff base for Class A (DGS members) in the Depositor Protection part of the <i>PRA Rulebook</i> but only to the extent that it relates to deposits that are <i>structured deposits</i>.</u>
<b><u>Class 3</u></b>	<b><u>Investment Provision Claims</u></b>
<b><u>Class D1</u></b>	<u>Investment provision</u>
<b>Firms with permission for:</b>	<u>Any <u>any</u> of the following:</u>
	<u><i>managing investments</i>;</u>
	<u><i>managing an AIF</i>;</u>
	<u><i>managing a UCITS</i>;</u>

	<i>acting as trustee or depositary of an AIF;</i>
	<i>acting as trustee or depositary of a 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>
<b>Class D2</b>	<b>Investment intermediation</b>
<b>Firms with permission for:</b>	<i>intermediation of structured deposits (except for managing investments in relation to structured deposits); and/or</i>
	<i>Any of the following activities in relation to designated investment business:</i>
	<i>dealing in investments as principal;</i>
	<i>dealing in investments as agent;</i>
	<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>
	<i>BUT excluding activities that relate to long term insurance contracts or rights under a stakeholder pension scheme or a personal pension scheme.</i>
<b>Recognised investment</b>	<i>Recognised investment exchanges that are operating a multilateral</i>

<b>exchanges</b>	<del>trading facility or operating an organised trading facility</del>
<b>Tariff base</b>	<p><del>Class D1 : <i>annual</i> Annual eligible income where <i>annual eligible income</i> means annual income adjusted in accordance with this box. Annual income is equal to the net amount retained by the firm of all income due to the firm in respect of or in relation to activities falling within class D1 3.</del></p> <p><del>Class D2 except in respect of direct sales of structured deposits: <i>annual eligible income</i> where <i>annual eligible income</i> means annual income adjusted in accordance with this box. Annual income is equal to the net amount retained by the firm of all income due to the firm in respect of or in relation to activities falling within class D2.</del></p> <p><del>Notes on <i>annual eligible income</i> for <i>classes D1 and D2 class 3</i> (except in respect of <i>direct sales of structured deposits</i>):</del></p> <p><del>(1) For the purposes of calculating annual income, net amount retained means all the commission, fees, etc. in respect of activities falling within class D1 or D2, as the case may be 3, that the firm has not rebated to customers or passed on to other firms (for example, where there is a commission chain). Items such as general business expenses (for example employees' salaries and overheads) must not be deducted.</del></p> <p><del>(2) The calculation is adjusted in accordance with the definition of <i>annual eligible income</i>. [deleted]</del></p> <p><del>(3) Box management profits are excluded from the calculation of annual income.</del></p> <p><del>Class D2 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 Rulebook</i>, but only to the extent that it:</del></p> <p><del>(a) relates to <i>structured deposits</i> accepted in the firm's last financial year ended in the year to 31 December preceding the date for submission of the information under <i>FEES 6.5.13R</i> attributable to that class; and</del></p> <p><del>(b) multiplied by 0.07.</del></p>
<b><u>Class 4</u></b>	<b><u>Home Finance Intermediation Claims</u></b>
<b><u>Class E2</u></b> <b><u>Category 4.1</u></b>	<del>Home Finance Intermediation</del> <u>finance intermediation</u>
<b>Firms with permission for:</b>	<p><del>Any</del> <u>any</u> of the following activities:</p> <p><i>arranging (bringing about) a home finance transaction;</i></p> <p><i>making arrangements with a view to a home finance transaction;</i></p> <p><i>advising on <u>a</u> home finance transaction;</i></p>

	<p>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);</p> <p><i>agreeing to carry on a regulated activity</i> which is within any of the above.</p>
<b><u>Category 4.2</u></b>	<b><u>Home finance provision</u></b>
<b><u>Firms with permission for:</u></b>	<p>any of the activities below:</p> <p><i>entering into a home finance transaction;</i></p> <p><i>administering a home finance transaction;</i></p> <p><i>agreeing to carry on a regulated activity</i> which is within any of the above.</p>
<b><u>Tariff base for category 4.1</u></b>	<del>Class: E2: annual</del> <i>Annual eligible income</i> <del>where the annual income is</del> calculated in accordance with the fee-block A18 in part 2 of <i>FEES</i> 4 Annex 1AR.
<b><u>Tariff base for category 4.2</u></b>	The number of <i>home finance transactions</i> , calculated in accordance with the tariff base for fee-block A2 in part 2 of <i>FEES</i> 4 Annex 1AR.
<b><u>Class 5</u></b>	<b><u>Debt Management Claims</u></b>
<b><u>Category 5.1</u></b>	<b><u>Debt management</u></b>
<b><u>Firms with permission for:</u></b>	<p>any of the following except if held under a <i>limited permission</i>:</p> <p><i>debt adjusting; and/or</i></p> <p><i>debt counselling;</i></p> <p>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>
<b><u>Category 5.2</u></b>	<b><u>Consumer credit provision</u></b>
<b><u>Firms with permission for:</u></b>	<p>any of the following, except if held under a <i>limited permission</i>:</p> <p><i>entering into a regulated credit agreement as lender;</i></p> <p><i>exercising, or having the right to exercise, the lender's rights and duties under a regulated credit agreement.</i></p>
<b><u>Tariff base for category 5.1</u></b>	<i>Annual debts under management</i> being the annual total value of the <i>participant firm's relevant debts under management</i> .

<b><u>Tariff base for category 5.2</u></b>	<u>Annual lending being the annual total amount provided under all regulated credit agreements in respect of which the participant firm is the lender, or exercises, or has the right to exercise, the lender's rights and duties under such agreements.</u>
<b>Class F6</b>	<b>Deposit acceptor's contribution</b>
<b>Firms with permission for:</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>
<b>Tariff base</b>	The tariff base for Class A (DGS members) in the Depositor Protection part of the <i>PRA Rulebook</i> .
<b>Class G</b>	<b>Insurers—life contribution</b>
<b>Firms with permission for:</b>	<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);</i>
	<i>entering as provider into a funeral plan contract.</i>
<b>Also includes:</b>	<del>the Society</del>
<b>Tariff base</b>	<p>For the <i>Society</i>, the aggregate of the tariff base for Insurance Class C1 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 in relation to long term insurance contracts (including pure protection contracts); and</i></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 C1 in the Policyholder Protection part of the <i>PRA Rulebook</i>.</p>
<b>Class H</b>	<b>Insurers—general contribution</b>
<b>Firms with permission for:</b>	<i>effecting contracts of insurance; and/or</i>
	<i>carrying out contracts of insurance;</i>
	<i>that are general insurance contracts.</i>
<b>Also includes:</b>	<del>the Society</del>

<b>Tariff base</b>	<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>
<b>Class I</b>	<b>Home finance provision</b>
<b>Firms with permission for:</b>	<p>Any of the activities below:</p> <p><i>entering into a home finance transaction;</i></p> <p><i>administering a home finance transaction;</i></p> <p><i>agreeing to carry on a regulated activity which is within any of the above.</i></p>
<b>Tariff base</b>	The number of <i>home finance transactions</i> , calculated in accordance with the tariff base for fee block A2 in part 2 of <i>FEES 4 Annex 1AR</i> .
<b>Class K</b>	<b>Debt management claims</b>
<b>Firms with permission for:</b>	<p>Any of the following except if held under a <i>limited permission</i>:</p> <p><i>debt adjusting and/or debt counselling in each case in relation to protected debt management business except where these activities are carried on by a not for profit debt advice body;</i></p> <p><i>entering into a regulated credit agreement as lender;</i></p> <p><i>exercising, or having the right to exercise, the lender’s rights and duties under a regulated credit agreement.</i></p>
<b>Tariff base</b>	<p><i>For debt adjusting and debt counselling: annual debts under management being the annual total value of the participant firm’s relevant debts under management.</i></p> <p><i>For all other participant firms in this class: annual lending being the annual total amount provided under all regulated credit agreements in respect of which the participant firm is the lender or exercises, or has the right to exercise, the lender’s rights and duties under such agreements.</i></p>



6 Annex 4G Guidance on the calculation of tariff bases

This table belongs to FEES 6.5.8G

Calculation of annual eligible income for firms in <del>class D1</del> <u>category 2.3 and class 3</u> who carry out discretionary fund management and are in FCA fee block A7		
-1.1	G	The tariff base for <del>class D1</del> <u>category 2.3 and class 3</u> is calculated by taking gross income falling into <del>class D1</del> <u>category 2.3 and class 3</u> 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.
...		
1.2	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 <del>class D2</del> <u>category 2.1</u> (the <u>life distribution and investment intermediation</u> <del>class</del> <u>category</u> ).
...		
Calculation of annual eligible income for firms in <del>sub-class D1</del> <u>category 2.3 and class 3</u> and who carry out activities within FCA fee block A9		
2.1	G	The calculation of income in respect of activities falling into <del>class D1</del> <u>category 2.3 or class 3</u> , and FCA fee block A9, should be based on the tariff base provisions for that fee block (in Part 3 of FEES 4 Annex 1AR). 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. <del>Class D1 is</del> <u>Category 2.3 and class 3</u> are based on net

		income retained.
<b>Calculation of annual eligible income for a firm in class <del>B2</del> or class <del>C2</del> categories 1.1 or 2.1</b>		
3.1	G	...
...		

FEES 6 Annex 5R (Classes participating in the retail pool and applicable limits) is deleted in its entirety. The deleted text is not shown.

**6 Annex Classes participating in the retail pool and applicable limits [deleted]**  
**5R**

Insert the new TP 20 after FEES TP 19 (Transitional provisions relating to statements provided by participant firms before 1 April 2019 with respect to the FSCS 2019/20 financial year). The text is not underlined.

**TP 20 Transitional provisions relating to changes to the FSCS levy arrangements taking effect in 2019/20**

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provisions coming into force
20.1	The changes made to <i>FEES</i> 6 by the Financial Services Compensation Scheme (Funding Review) Instrument 2018	R	The changes in (2) apply to any levy made after 31 March 2019. This is so even if:  (1) the claim against the <i>relevant person</i> or <i>successor in default</i> arose or relates to circumstances arising before that date; or  (2) the <i>relevant person</i> or <i>successor</i> was <i>in default</i> before that date.	From 1 April 2019 indefinitely	1 April 2019
20.2	<i>FEES</i> 6.3.19R	R	<b>Allocation of recoveries</b> Any recoveries made by the <i>FSCS</i>	From 1 April 2019	1 April 2019

FEES 6.3.20R		after 31 March 2019 in relation to <i>protected claims</i> , the costs of which were allocated prior to 1 April 2019 to a <i>class</i> in place at the time, including, if relevant, through the <i>retail pool</i> in place at the time, must be credited to the corresponding <i>class</i> in accordance with the following table:		indefinitely	
		<b>Class in place before 1 April 2019</b>	<b>Corresponding class</b>		
		B2 (General Insurance Distribution) H (Insurers – general contribution)	Class 1 (General Insurance Distribution Claims)		
		C2 (Life distribution and pensions intermediation) D2 (Investment intermediation) G (Insurers – life contribution)	Class 2 (Investment Intermediation Claims)		
		D1 (Investment provision)	Class 3 (Investment Provision Claims)		
		E2 (Home finance intermediation) I (Home finance provision)	Class 4 (Home Finance Intermediation Claims)		
		K (Debt management claims)	Class 5 (Debt Management Claims)		
		F (deposit acceptor's)	Class 6 (Deposit acceptors'		

			contribution)	contribution)		
20.3	<i>FEES</i> 6.3.14R	R	<b>Allocation of surplus/deficit</b> The <i>FSCS</i> must allocate any surplus or deficit in a <i>class</i> in place on 31 March 2019 to the corresponding <i>class</i> in <i>FEES</i> TP 20.2R.		From 1 April 2019 indefinitely	1 April 2019
20.4	<i>FEES</i> 6.3.17R	R	<b>Management of funds</b> In relation to <i>classes</i> C2 and D2 as existing before 1 April 2019, where:  (1) the <i>FSCS</i> has used money, in accordance with <i>FEES</i> 6.3.17R, held to the credit of one of the above <i>classes</i> (the creditor class) to pay <i>compensation costs</i> or <i>specific costs</i> attributable or allocated by way of levy to the other of those <i>classes</i> (the debtor class); and  (2) on 31 March 2019 the creditor class is not yet reimbursed by the debtor class;  the <i>FSCS</i> must ensure that the debtor class pays interest to the creditor class under <i>FEES</i> 6.3.17R(2)(b) for the period up to 1 April 2019 and no later.		From 1 April 2019 indefinitely	1 April 2019

## Annex C

### Amendments to the Supervision manual (SUP)

In this Annex, underlining indicates new text and striking through indicates deleted text.

SUP 16 Annex 18AR (Section J: Data Required for Calculation of Fees, Part 1) is amended as follows.

#### Section J: data required for the calculation of fees

##### Part 1

		A	B	C
		FCA	FOS	FSCS
		Annual Income	Relevant Annual Income	Annual Eligible Income
		(£s)	(£s)	(£s)
1	Home Finance Intermediation	<i>FEES 4 Annex 1AR</i> Part 3, fee block A.18	<i>FEES 5 Annex 1R</i> , industry block 16	<i>FEES 6 Annex 3AR</i> <del>Class E2</del> <u>category 4.1</u>
2	General Insurance Distribution	<i>FEES 4 Annex 1AR</i> Part 3, fee block A.19	<i>FEES 5 Annex 1R</i> , industry block 17	<i>FEES 6 Annex 3AR</i> <del>Class B2</del> <u>category 1.1</u>
3	Life Distribution and <del>Pensions</del> <u>Investment</u> Intermediation	<i>FEES 4 Annex 1AR</i> Part 3, fee block A.13	Annual income as applied in relation to the equivalent activity groups set out in Part 1 of <i>FEES 4 Annex 1R</i> in respect on industry blocks 8 and 9	<i>FEES 6 Annex 3AR</i> <del>Class C2</del> <u>category 2.1</u>
4	<del>Investment</del> <u>Intermediation</u>	<del><i>FEES 4 Annex 1AR</i>, Part 3, fee block A.13</del>	<del>Annual income as applied in relation to the equivalent activity groups set out in Part 1 of <i>FEES 4 Annex 1R</i> in respect on industry blocks 8 and 9</del>	<del><i>FEES 6 Annex 3AR</i></del> Class D2

...

#### 16 Notes for Completion of the Retail Mediation Activities Return ('RMAR')

##### Annex 18BG

...

#### Section J: Data required for calculation of fees

##### Part 1

...

This information is required so that we can calculate the fees payable by *firms* in respect of the *FCA*, *FOS* and the *FSCS*.

<b>Data for fees calculations</b>	<i>Firms</i> will need to report data for the purpose of calculating <i>FCA</i> , <i>FOS</i> and <i>FSCS</i> levies
...	...
FSCS	The relevant information required is the tariff data set out in <del>classes B2, C2, D2 and E2</del> <u>categories 1.1, 2.1 and 4.1, FEES 6 Annex 3AR</u> . Note that <i>firms</i> are required to report tariff data information relating to all business falling within <del>classes B2, C2, D2 and E2</del> <u>categories 1.1, 2.1 and 4.1, FEES 6 Annex 3AR</u> .

...

## Part 2

...

Both Parts 1 and 2

...

	<b>FCA</b> Annual Income (£s)	<b>FOS</b> Relevant Annual Income (£s)	<b>FSCS</b> Annual Eligible Income (£s)
Home finance intermediation	<i>FEES</i> 4 Annex 11AR, 13G	<i>FEES</i> 5 Annex 1R industry block 16	<i>FEES</i> 6 Annex 3AR <del>class E2</del> <u>category 4.1</u>
General insurance distribution	<i>FEES</i> 4 Annex 11AR, 13G	<i>FEES</i> 5 Annex 1R industry block 17	<i>FEES</i> 6 Annex 3AR <del>class B2</del> <u>category 1.1</u>
Life distribution and <del>pensions</del> <u>investment</u> intermediation	<i>FEES</i> 4 Annex 11AR, 13G	<i>FEES</i> 5 Annex 1R industry block 8, 9	<i>FEES</i> 6 Annex 3AR <del>Class C2</del> <u>category 2.1</u>
<del>Investment</del> intermediation	<del><i>FEES</i> 4 Annex 11AR, 13G</del>	<del><i>FEES</i> 5 Annex 1R industry block 8, 9</del>	<del><i>FEES</i> 6 Annex 3AR class D2</del>

...

## Annex D

### Amendments to the Compensation sourcebook (COMP)

In this Annex, underlining indicates new text and striking through indicates deleted text.

#### Part 1: Comes into force on 2 May 2018

#### 4 Eligible claimants

...

#### 4.3 Exceptions: Circumstances where a person coming within COMP 4.2.2R may receive compensation

...

##### Long term insurance

- 4.3.2 R ~~A person other than one which comes within any of categories (7), (9), (12) or (15) of COMP 4.2.2R is eligible to claim compensation in respect of a long term insurance contract.~~ [deleted]

##### Relevant general insurance contracts

- 4.3.3 R (1) ~~A person falling within categories (1) (4) of COMP 4.2.2R is eligible to claim compensation in respect of a relevant general insurance contract if, at the date the contract commenced he was a small business.~~
- (2) ~~Where the contract has been renewed, the last renewal date shall be taken as the commencement date.~~ [deleted]
- 4.3.4 R ~~A partnership which falls within category 14, or category 17, or both of COMP 4.2.2R is eligible to claim compensation in respect of a relevant general insurance contract entered into before commencement.~~ [deleted]

...

#### Part 2: Comes into force on 1 April 2019

#### 7 Assignment or subrogation of rights

...

#### 7.6 Treatment of recoveries

...

- 7.6.5 G As an example of the circumstances which *COMP* 7.6.4R is designed to address, take two claimants, A and B.
- (1) Both A and B have a *protected investment business claim* of ~~£60,000~~ £120,000 against a *relevant person* (or, where applicable, a *successor*) in default. The *FSCS* offers both claimants ~~£50,000~~ £85,000 compensation (the maximum amount payable for such claims under *COMP* 10.2.3R). A accepts immediately, and assigns his rights against the *relevant person* (or, where applicable, a *successor*) to the *FSCS*, but B delays accepting the *FSCS*'s offer of compensation.
  - (2) In this example, the liquidator is able to recover assets from the *relevant person* (or, where applicable, a *successor*) in default and makes a payment of 50p in the pound to all the *relevant person*'s or *successor*'s, as appropriate, creditors. If the liquidator made the payment before any offer of compensation from the *FSCS* had been accepted, A and B would both receive ~~£30,000~~ £60,000 each from the liquidator, leaving both with a loss of ~~£30,000~~ £60,000 to be met by the *FSCS*. Both *claims* would be met in full.
  - (3) However, if the payment were made by the liquidator after A had accepted the *FSCS*'s offer of compensation and assigned his rights to the *FSCS*, but before B accepted the *FSCS* offer of compensation, A would be disadvantaged relative to B even though he has received ~~£50,000~~ £85,000 compensation from the *FSCS*. A would be disadvantaged relative to B because he promptly accepted the *FSCS* offer and assigned his rights to the *FSCS*. Because A has assigned his rights to the *FSCS*, any payment from the liquidator will be made to the *FSCS* rather than A. In this case the *FSCS* has paid A more than ~~£30,000~~ £60,000, so the ~~£30,000~~ £60,000 from the liquidator that would have been payable to A will be payable in full to the *FSCS* and not to A.
  - (4) B is able to exercise his rights against the liquidator because he delayed accepting the *FSCS*'s offer and receives ~~£30,000~~ £60,000 from the liquidator. B can then make a claim for the remaining ~~£30,000~~ £60,000 to the *FSCS* which the *FSCS* can pay in full (see *COMP* 10.2.2G). B therefore suffers no loss whereas A is left with a loss of ~~£10,000~~ £35,000, being the difference between his claim of ~~£60,000~~ £120,000 and the compensation paid by the *FSCS* of ~~£50,000~~ £85,000.

...

## 10 Limits on the amount of compensation payable

...



## 10.2 Limits on compensation payable

...

- 10.2.2 G The limits apply to the aggregate amount of *claims* in respect of each category of *protected claim* that an *eligible claimant* has against the *relevant person* (or, where applicable, a *successor*). Consequently, a claimant who has, for example, a *claim* against a *relevant person* (or where applicable, a *successor*) in connection with *protected investment business* of ~~£40,000~~ £70,000, and a further such *claim* of £20,000, will only receive the ~~£50,000~~ £85,000 limit.

- 10.2.3 R Table Limits

This table belongs to COMP 10.2.1R

Type of claim	Level of cover	Maximum payment
<i>Protected investment business (except where the <u>designated investment is a long-term care insurance contract that is a pure protection contract</u>)</i>	100% of <i>claim</i>	<del>£50,000</del> <u>85,000</u>
<i><u>Protected investment business where the designated investment is a long-term care insurance contract that is a pure protection contract</u></i>	<u>100% of claim</u>	<u>Unlimited</u>
<i>Protected home finance mediation</i>	100% of <i>claim</i>	<del>£50,000</del> <u>85,000</u>
...		
<i>Protected debt management business</i>	100% of <i>claim</i>	<del>£50,000</del> <u>85,000</u>

...

## TP 1 Transitional Provisions

TP 1.1 Transitional Provisions Table

(1)	(2)	(3)	(4)	(5)	(6)
	Material to which the transitional provision applies		Transitional Provision	Transitional provision: dates in force	Handbook Provisions coming into force
...					
<u>41</u>	<u>Amendments introduced by the Financial Services Compensation Scheme (Funding Review) Instrument 2018</u>	<u>R</u>	<u>The changes referred to in column (2) do not apply in relation to a <i>claim</i> against a <i>relevant person</i>, or against a <i>successor</i>, that was <i>in default</i> before 1 April 2019.</u>	<u>From 1 April 2019 indefinitely</u>	<u>1 April 2019</u>

