FCA Regulatory fees and levies: policy proposals for 2023/24

Response to FCA consultation paper, CP 22/23

January 2023

Building Societies Association

Executive summary

We are pleased to offer comments on these proposals, and on the FCA fees and levies policy in general. Our main concerns with these, and the fees and levies policies in general, relate as ever to cost control and to the lack of an appropriate fees tariff for building societies. Some of our arguments are not new but they nonetheless remain valid.

We answer individual questions on 23/24 fees and levies policy that are most relevant to the BSA membership in this response. We also highlight some on-going concerns with the FCA's treatment of fees for mutuals.

General policy considerations

Decoupling of building society tariff structure

The BSA has previously suggested the decoupling of building societies from banks and a funding tariff that reflects their lower risks and domestic focus. While we note the response to this point in PS22/7, we observe that the theme or concept of an approach which takes into account both size and risk related aspects, and a proportionate approach, seems to be increasing in relevance; for example:

- MiFID trading firm fees discussed in this CP, with the FCA reflecting "we no longer consider a headcount to be a good proxy for the risks trading firms pose to our statutory objectives", and seeking comment on the most appropriate metric(s) to use to calculate fees for such firms
- Strong and Simple framework development, and its associated Simpler-regime firm criteria and thresholds proposed which include both size and risk related criteria

Building societies operate a lower risk business model, compared to many banks, driven by restrictions imposed by building society legislation, the PRA's supervisory statement on building societies' treasury and lending activities (SS20/15), and societies' desire to serve their members with straightforward, well-designed, low cost products.

We therefore encourage the FCA to adopt a more risk-based approach, potentially alongside the existing size-related metrics, to future fee and rate policy considerations.

Further development of appropriate methodologies

We encourage the FCA to continue developing policy with respect to cost recovery and allocation methodologies, as acknowledged in PS 22/7 and further discussed in CP 22/23, with regard to areas including Consumer Duty, MaPS, and FOS.

For example, given the ongoing impact of higher energy bills on people's finances and associated difficulties, we believe that the current MaPS levy voluntary contribution status for energy firms should be formalised to ensure appropriate future contributions from the energy industry.

Q1: Do you have any comments on our approach to the 2023/24 consultation on FCA fee-rates?

Inflation

Whilst we accept the budgeting process should consider and take account of inflation, we are concerned that significant increases in fees may fall on firms; in theory, firms may need to budget for an increase in their FCA fees of potentially up to 10% for 2023/24.

Banks and building societies continue to face cost headwinds due to cost of living pressures, inflation and talent resource scarcity, and we therefore encourage the FCA to seek cost efficiencies as part of the budget finalisation process.

Minimum, flat-rate and application fees

We support the proposal to maintain minimum, flat-rate and application fees at current levels for 2023/24, and the associated deferral of the timetable for spreading the previously announced minimum fee increases from the new structure.

Q2: Do you have any comments on the £5,000 fee we are proposing to charge firms which apply for permission to approve financial promotions of types of products?

The proposal would benefit from further articulation of the basis for deeming a Category 5 fee level as appropriate, and the extent to which this amount will contribute towards the associated processing costs.

Economic Crime Levy update

We acknowledge that the FCA is not consulting on this matter, but note that a new regulatory return will be required for relevant data collection (from April 2023), details of which are still to be communicated.

This will add to the regulatory reporting burden for all firms which is far from ideal, particularly given initiatives such as 'Transforming Data Collection' and 'Strong and Simple' which may optimise and potentially rationalise levels of regulatory reporting as part of their proposals.

If this new return is to collect 'UK Turnover or Revenue' data from firms, we make the following recommendations:

1. Clarify definition of Turnover for banks and building societies
2. Consider whether existing ONS or HMRC returns already capture the required data, and could therefore be used as the basis for the new regulatory return

By Conrad O'Donnell
Prudential Regulation policy support
Conrad.odonnell@bsa.org.uk
0207 520 5900

York House
23 Kingsway
London WC2B 6UJ

020 7520 5900
@BSABuildingSocs
www.bsa.org.uk

www.bsa.org.uk

The Building Societies Association (BSA) is the voice of the UK's building societies and also represents a number of credit unions.

We fulfil two key roles. We provide our members with information to help them run their businesses. We also represent their interests to audiences including the Financial Conduct Authority, Prudential Regulation Authority and other regulators, the Government and Parliament, the Bank of England, the media and other opinion formers, and the general public.

Our members have total assets of over £481 billion, and account for 23% of the UK mortgage market and 18% of the UK savings market.