FCA regulated fees and levies: rates proposals for 2023/24

Response to FCA consultation paper, CP 23/7

11 May 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, relates 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 remain valid nonetheless.

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, with consideration of a 'polluter pays' approach. 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, with the FCA reflecting in CP22/23 that they no longer consider headcount to be a good proxy for the risks trading firms pose to their statutory objectives, and have sought 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 other firms, 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

As set out in our response to CP22/23, 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 the proposed FCA periodic fee-rates 2023/24?

Overall fee rate changes from 2022/23

In our response to CP22/23, we highlighted a concern that significant increases in fees may fall on firms as in theory, firms may have needed to budget for an increase in their FCA fees of potentially up to 10% for 2023/24.

The proposed AFR allocations reflect increases from 2022/23 of £6.2m or 7.6% for fee block A1 – Deposit acceptors, with the total AFR for 2023/24 showing an 8.5% increase from 2022/23. The A1 fee-block increase is driven primarily by an increase in tariff data of 5.2%; arguably this relatively small increase in tariff data does not represent an increase in the overall risk or supervisory effort associated with this fee block, yet this volatility drives the fees paid by the fee-block.

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

As set out in our response to CP22/23, we supported 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. We welcome that this is reflected in the proposed fee-rates for 2023/24.

Q2: Do you have any comments on the 2 clarifications we are proposing for the FEES manual?

The rationales for the proposed clarifications make sense.

Q3: Do you have any comments on the proposed method of calculating the tariff rates for firms in each fee-block towards the CJ levy and our proposals for how the overall CJU levy should be apportioned?

Building Societies are covered by the I001 industry block – deposit acceptors, home finance lenders and administrators. This block will pay 31.9% of the total CJ levy in 2023/24, versus 36.9% in 2022/23 – a reduction of nearly 14% against the total CJ levy remaining at £106m.

It would be useful to see further detail as to why there has been such a change for this fee-block; whether this is due to the application of a more risk-based approach in terms of the estimation of expected activity relating to this fee-block, or a more straight-forward reduction in the 'number of relevant' accounts?

Our responses to the FOS's discussion paper on creating a funding model for the future, and FOS's consultation on its 2023/24 plans and budgets, continued to highlight concerns relating to matters including the continued move to a 50/50 case fee / levy funding split; the extent of detail provided regarding CJ levy changes; and the move to cover FOS fixed costs using CJ levy.

These concerns continue, given the impact being an undue burden placed on smaller firms, and also being potentially at odds with the principle of 'polluter pays.' Smaller firms and those with low numbers of complaints (which account for the vast majority of our members) find themselves subsidising the poor behaviour of others.

Q4: Do you have any comments on the proposed 2023/24 rates for the levies collected on behalf of government departments?

MaPS levies

The allocation process for the money guidance levy appears very subjective and detailed given the amounts involved – 3 components, which vary in subjectivity, which are then equally weighted.

Debt advice and pensions guidance

No detail appears to have been provided as to how the amounts involved have been allocated to fee-blocks, even though the amounts involved are significantly higher than relating to MapS.

Economic Crime Levy

In our response to CP22/23, we acknowledged that the FCA is not consulting on this matter, but noted that a new regulatory return would be required for relevant data collection (from April 2023), details of which were still to be communicated.

We understand that firms have now been issued with the new return and are due to prepare and submit it shortly.

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 are intended to optimise and potentially rationalise levels of regulatory reporting as part of their proposals.

Our response highlighted, that if this new return is to collect 'UK Turnover or Revenue' data from firms, the following recommendations:

1. Clarification of 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

It is already clear that firms are unsure whether to use 'gross' interest income or 'net' interest income as their Turnover equivalent figure. Whilst the gross figure may be theoretically arguable as a proxy for Turnover, industry and regulatory 'norms' for the financial services sector use 'Net Interest Income' as the Turnover equivalent figure.

We recommend that clarification of Turnover definition is made as soon as possible.

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.