# FCA regulated fees and levies: rates proposals 2020/21

Our response to CP 20/6

Restricted
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Building Societies Association

# Executive summary

We are pleased to offer comments on this consultation, and on the FCA fees and levies policy in general. Appropriate and proportionate regulation remains key to the long-term future of the UK financial services sector. That the costs are paid for by the firms which benefit from this regulation is not disputed.

Our main concerns with these proposals, and the fees and levies policies in general, relate to cost control and to the lack of an appropriate fees tariff for building societies. Many points are mirrored in our response to the PRA's fees consultation[1]. Some of our arguments are not new but they nonetheless remain valid.

[1] See BSA response to PRA regulatory fees 2020/ 2021.

## Introduction

We answer individual questions on 2020/ 2021 fees and levies that are relevant to the BSA membership further in this response. We also highlight some long-standing concerns with the FCA's cost control and fee policies:

*Cost control*

We welcome the FCA's commitment to a flat ongoing regulatory activities ("ORA") budget in 2020/ 2021 and hope it continues in future years. We recognise the need for an adequately-resourced conduct regulator staffed by competent, experienced and effective people. This is particularly relevant in uncertain times caused by COVID-19. But there is also a need for budget clarity, robust budgetary control, resistance to "mission creep", and prioritisation of tasks as resources simply cannot cover everything. There is no clear correlation between high spending regulators and successful ones.

An example of lack of budget clarity is the three-year activity "transformation". It was a regular feature of earlier budgets and, like the 2020/ 2021 edition, always lacked detail. Transformation is one of the FCA's five priorities[2] this year. But the only concrete projects mentioned are digital regulatory reporting, an ongoing project, and better communication with other regulators, another activity that has presumably been going on for some time. Much of the rest, including how progress is measured, is very general. At £10 million in 2020/ 2021, it may only be a small percentage of the £587.6 million annual funding requirement ("AFR") but its opacity does not help regulated firms see if/ how the activity benefits them.

But while the AFR and ORA increases may seem unexceptional this year, the effect on building societies – and maybe banks too - is not. One society reports an overall increase of 12% in its FCA regulatory fees and levies. There appears to be an implicit assumption that banking institutions will always bear the brunt of any increase.

[2] See FCA business plan 2020/2021.

[3] See PRA supervisory statement 20/15.

*Treatment of mutuals*

The tariff base for the deposit acceptors' fee block is modified eligible liabilities, roughly UK deposits. This fee block includes building societies and banks. While we understand the FCA, like the PRA, requires an expedient and clear metric, modified eligible liabilities is an indiscriminate and blunt measure of risk or impact. It has a disproportionate effect on domestic deposit takers such as building societies, which by their nature tend to have high levels of MELs.

While the very largest societies' size and customer base mean they are systemically important, they operate a lower risk business model, compared to many banks. In part, this is due to restrictions imposed by building society legislation and to the PRA's supervisory statement on building societies' treasury and lending activities[3]. But in the main, this lower risk model is a result of societies' – in common with all mutuals - desire to serve their members with straightforward, well-designed, low cost products.

We therefore urge the FCA – as we do the PRA - to decouple building societies from banks and consider a more proportionate tariff for them, one that reflects their lower risks and domestic focus. Size, while a reasonable indicator of impact, is a poor proxy for risk; we suggest the FCA carries out a further review[4] of its funding model and consider approaches that incorporate an element of "polluter pays" as well as provide incentives for better and more prudent behaviour.

## Consultation questions

Q1: *Do you have any comments on the proposed FCA 2020/21 minimum fees and variable periodic fee rates for authorised firms?*

Welcome as the freeze on A.0 minimum fees is, particularly during the current climate, it has a relatively minor overall impact on

[4] FCA last carried out a review of fees with industry in 2013/ 2014.

building societies. Less welcome are the increases on other fee blocks, particularly the A.2 fee block, home finance providers and administrators for which the tariff base of number of mortgages increases by 4.3% in 2020/ 2021. Those that are part of the A.13 fee block, advisors, arrangers, dealers or brokers, see an even higher increase of 10.36% in the tariff base of annual income.

Q3: *Do you agree with our proposal to undertake the consumer harm campaign and our proposed basis of recovering the 2020/21 costs from fee-payers? Please include the reasons for your views in the feedback you provide.*

The FCA is proposing to undertake a consumer harm campaign over the next five years and to recover the £2.3 million funding costs of this campaign for 2020/2021 across all fee blocks, except the minimum fee block. Given the focus is high risk, high return, illiquid investments, products not sold by BSA members, we strongly dispute that additional cost. Only such firms that sell such products should pay the fees. Not only is the campaign of no relevance to BSA members' activities, but also such campaign costs have a habit of getting out of control very quickly.

Q8: *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 CJ levy should be apportioned?*

Following changes to its December 2019 proposals to change its funding model, the Financial Ombudsman Service (“FOS”) will now raise 30% of its income from the compulsory jurisdiction (“CJ”) levy rather than the 40% it had initially suggested. In 2019/ 2020 and previous years, the percentage was 15%. The general levy for 2020/ 2021 has risen to £83.9 million, up from £38 million in 2019/ 2020, itself an increase of 82% over the previous year.

Yet again these changes have a huge impact on building societies. For the I001 industry block, which captures deposit acceptors and home finance providers and administrators, the proposed tariff base is £0.15594 per relevant account, more than double the previous year's £0.07095, itself up from £0.04388 in 2018/ 2019. One large society reports a 127% increase in its 2020/ 2021 FOS levies.

Earlier this year[5], we called for a fundamental reassessment and restructuring of the CJ levy, the construction of which no longer fits the reality of where complaint risks originate. This reassessment and restructuring should be taken alongside a fresh approach to FOS funding. The current I001 industry block is too blunt an instrument to achieve any risk-based differentiation.

As with FCA periodic fees, we believe that building societies should be decoupled from banks in their current funding block and be subject to a more proportionate tariff that reflects their lower risks and complexity. Alternatively, a review of the levy should restructure the I001 industry block into smaller blocks based on a combination of firms’ size and the risk objectives above with differentiated tariffs to reflect the scale of each group of firms’ business activities and the complaints risk they pose.

FOS has many years’ worth of complaints data and the systems capacity to draw up a risk-based levy. A review of the levy structure is long overdue: the 2019/20 budget saw a steep rise of £20 million, 82% over the previous year.

Q10: *Do you have any comments on the proposed 2020/21 rates for the MAPS debt advice levy?*
Q12: *Do you have any comments on the proposed 2020/21 rates for the Devolved Authorities’ debt advice levy?*

The budget for debt advice in England has risen to £64.6 million, a 15.8% increase over 2019/ 2020. For debt advice in the devolved authorities, the figure is £9.421 million, an increase of just over 16% compared to last year. Currently, the costs for both services are

[5] See BSA response: FOS budget 2020.

shared between home finance providers and administrators and consumer credit lenders.

We continue to question why only certain financial services firms are burdened with these significant and growing costs.  The most common sources of debt and arrears in the UK in 2019[6] according to one debt charity were credit card, personal loan, council tax and water yet none of these providers pays directly or at all into FOS for these activities. It would be fairer and more equitable to apportion costs for debt advice across other sectors and authorities in addition to financial services on the basis of "polluter pays". With appropriate sector/ regulator level agreements, the cost of collecting such levies should not be substantial or complex.

The fall-out from COVID-19 may present more demand for the services of MAPS' frontline partners and the devolved authorities.  Any such increase should not fall to building societies given the help they have already provided, for example with mortgage holidays, to their customers.

[6] See Stepchange Statistics Yearbook 2019.

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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 £420 billion, and account for 23% of the UK mortgage market and 19% of the UK savings market.