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| Regulated fees and levies: rates proposals 2020/2021Our response to PRA CP 4/20Restricted11 May 2020 |
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# Executive summary

We are pleased to offer high-level comments on this consultation, and on the PRA fees 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 relate 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.

## Introduction

The proposed annual funding requirement (“AFR”) for 2020/2021 stands at £275.4 million, an increase of 8%. The largest part of the AFR comprises the ongoing regulatory activities budget (“ORA”) which for 2020/ 2021 is £263.8 million, an increase of £23.7 million on the previous year. For building societies and banks, the annual increase for their share of the ORA is 9.2%.

The FCA’s AFR has also risen but by significantly less than the PRA’s – 5.2%.

No real justification is given for such a large increase in the ORA budget. In fact, there is very little detail at all on what the increase in fees will be spent on. The PRA 2020/ 2021 business plan[[1]](#footnote-1) provides disappointingly few answers; it appears more of a “business as usual” document. The proposed market changes and horizon scanning activities which include climate change risks, fintech, digital currencies, regtech, and application of artificial intelligence and machine learning, are a continuation of previous years’ activities: in effect, business as usual. There is no proposed increase either in major banking supervisory initiatives; indeed many current ones have been, quite rightly, paused due to the effects of COVID-19.

**Cost control**

Implicit in this year’s fees consultation, and in previous years’, is the view that the cost of regulation, and by implication fees, will never fall. Last year the PRA's business plan[[2]](#footnote-2) referred to the Bank of England’s target to maintain a flat nominal budget. No explanation has been given as to why this objective has been abandoned. But the FCA’s 2020/ 2021 fees proposals[[3]](#footnote-3) say: “We are committed to delivering an ORA budget that is flat in real terms...” We would be interested to know why the two regulators have taken different paths when we would assume they should be aligned.

This implicit assumption of ever higher regulatory fees means that building societies, currently coupled with banks for regulatory fee purposes, bear the brunt. If not retrenching, regulators should at least concentrate on making the most of current resources – as the firms that fund them do. Many regulated firms have managed to cut costs by investment in technology; the PRA has clearly invested significantly in IT over recent years, and plans to continue to do so, yet its costs appear not to have dropped.

The mutual sector has worked hard to cut its costs while still delivering a high quality service - even in the current, difficult climate - to customers. We do not see why the regulator cannot apply the same principles and deliver the same. One of the eight strategic goals for the PRA in 2020/2021 is to operate efficiently and effectively but the fact the goal is the last of the eight perhaps shows its relative lack of importance. The PRA’s business plan for 2020/ 2021 does develop the theme of efficiency and effectively but its impact is somewhat negated by the very few hard targets, even bearing in mind the uncertainties thrown up by COVID-19.

While the charge out rates for various grades of PRA staff are provided, the breakdown of those employed by the PRA is not. The business plan says that the overall headcount in 2020/2021 will reduce to 1,294, from 1,321 in 2019/2020. It would be helpful to understand where the 27 job cuts will be made and also how many staff are forecast to be engaged, for example, in supervision, ideally down to sector level, in policy, in systems and in support/ other areas. A breakdown of permanent and temporary/ agency FTE staff would also be useful.

**Impact on deposit takers**

As in previous years, the bulk (64%) of the PRA’s costs is borne by banks and building societies. Deposit takers, the fee block capturing these firms, will fund £168.1 million of the PRA’s ongoing regulatory activities budget (“ORA”) of £ 263.8 million. For the deposit takers fee block this represents a rise of 9.2% from 2019/2020. The effect on individual firms’ regulatory fees could be greater, however: the number of firms among which the costs of ongoing regulatory activities are divided has dropped slightly from 801 to 793. This is part of a long term trend. In the 2016/ 2017 budget, for example, there were 856 deposit takers to share the burden.

Some understanding of why an apparently slowly diminishing number of deposit takers continues to shoulder the same proportion of the PRA’s costs would be helpful.

**Treatment of mutuals**

The tariff basis for the deposit takers’ fee block is modified eligible liabilities, roughly UK deposits. This fee block includes building societies and banks. While we understand 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 the Building Societies Act 1986 and to the PRA’s supervisory statement on building societies’ treasury and lending activities[[4]](#footnote-4). 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 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 PRA carries out a fundamental review 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.

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|  | www.bsa.org.ukThe 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. |

1. See [PRA Business Plan 2020/ 21](file:///C%3A%5CUsers%5Candreajeffries%5CDownloads%5Cd.co.uk%5Cprudential-regulation%5Cpublication%5C2020%5Cpra-business-plan-2020-21). [↑](#footnote-ref-1)
2. See [PRA Business Plan 2019/ 20](https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/publication/pra-business-plan-2019-20.pdf). [↑](#footnote-ref-2)
3. See [FCA regulatory fees and levies proposals 2020/2021](https://www.fca.org.uk/publication/consultation/cp20-06.pdf). [↑](#footnote-ref-3)
4. See [Supervising building societies’ treasury and lending activities.](https://www.bankofengland.co.uk/prudential-regulation/publication/2015/supervising-building-societies-treasury-and-lending-activities-ss) [↑](#footnote-ref-4)