GUERNSEY
FINANCIAL
SERVICES
COMMISSION

CONSULTATION PAPER

FEE RATE PROPOSALS

2011

CONSULTATION PAPER

The Guernsey Financial Services Commission ("Commission") invites comments on this consultation paper. Comments should reach the Commission by 30 September 2010.

Responses should either be emailed to the Commission Secretary, Fionnuala Carvill, at feeconsultationresponses@gfsc.gg, or be marked for her attention and sent to:

Guernsey Financial Services Commission

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1 CONSULTATION

1.1 Basis for consultation

1.1.1 The Commission issues this Consultation Paper in accordance with Section 8(2) of the Financial Services Commission (Bailiwick of Guernsey) Law 1987, as amended ("Law"), under which the Commission *"may, in connection with the carrying out of its functions - ….consult and seek the advice of such persons or bodies as it considers appropriate"*.

1.1.2 Section 13(b) of the Law requires the Commission to consult with the States Policy Council, the Policy and Finance Committee of the States of Alderney and the General Purposes and Finance Committee of the Chief Pleas of Sark ("Committees") before making an order imposing or varying fees payable to the Commission in the discharge of its functions.

1.1.3 This Consultation Paper provides support for the consultation required by Section 13(b) of the Law.

1.1.4 The Commission invites industry representatives to submit comments on this Consultation Paper.

1.2 Who will be affected by the proposed changes

1.2.1 These provisions will affect all licensees, registered businesses and individuals, and applicants for licences or registration in accordance with applicable laws and regulations.

1.3 Responding to the consultation

1.3.1 The Commission invites comments in writing.

1.3.2 Comments should be received by the Commission no later than 30 September 2010.

2 THE COMMISSION

2.1 Overview

2.1.1 The Commission is a statutory body corporate established under the Law.

2.2 Commission's functions

2.2.1 The Law prescribes that the Commission shall be responsible for:

2.2.1.1 supervising and regulating financial services in the Bailiwick of Guernsey;

2.2.1.2 providing the Committees with reports, advice and assistance in relation to any matter connected with finance business;

2.2.1.3 preparing and submitting to the Committees recommendations and schemes for the statutory regulation of financial business and generally for the revision of legislation appertaining to companies and other forms of business undertakings;

2.2.1.4 countering of financial crime (including fraud, dishonesty, financial market misconduct, misuse of financial market information and handling the proceeds of crime) and the financing of terrorism;

2.2.1.5 such functions in relation to financial services or such incidental or ancillary matters –

- as are required or authorised by or under any enactment, or
- as the States may, by Regulations, transfer; and

2.2.1.6 such other functions as the States may by Resolution assign to the Commission.

3 PROPOSALS

3.1 Overview

3.1.1 It is the Commission's policy to review the level of fees annually for all business sectors. A letter was issued in December 2009 by the Director General to all those individuals, firms and industry bodies who responded to the Commission's October 2009 Consultation Paper. You will remember that concerns had been raised at the original proposal to increase fees by a greater amount in 2010 than in 2011, e.g. for the Banking sector the proposal was for 70% in 2010 and a further 20% in 2011. The Director General's letter explained that the fees tariff would be amended by spreading the increases then proposed by the Commission equally over two years. This Consultation Paper reflects that phased approach. The largest increases in fee rates for 2010 were for those sectors having the greatest shortfall between fees received and costs (rates increased 43% for the Banking sector; 12% for each of the Insurance and Fiduciary sectors), with similar percentage increases then being anticipated for 2011: see below.

3.1.2 It is the intention of the Commission to continue the policy established in 2009 that the regulatory fee income of each regulatory Division should eventually and approximately cover not only its direct operating costs (principally salaries), but also its share of common costs (e.g. rent, depreciation), estimated in total to be £2.4million, and its allocated proportion of the costs of non-fee earning functions, estimated in total to be £3.8million. It is also the intention of the Commission that it should start to restore reserves.

3.1.3 The Commission considers that it is prudent eventually to remove or significantly reduce the impact of cross-subsidisation from the regulatory Divisions to avoid being vulnerable to downturns in any one or more business sectors. It also provides a fairer apportionment of costs of regulation between licensees.

3.1.4 The current fees tariff remains insufficient for fees received to at least cover direct and allocated costs for the Banking Division, Insurance Division, Fiduciary Division and Non-Regulated Financial Services Businesses/Prescribed Businesses ("NR-FSB/PBs"), though substantial progress has been made towards achieving this due to the fee rate increases effected at the start of this year.

3.1.5 Since last year's Consultation Paper on fee rate proposals, various factors have affected the Commission's finances, including:

- improving regulatory and supervisory activities to meet international standards and expectations, besides domestic requirements;
- overheads have been reduced, where possible, though premises costs will rise from late 2010 when the Commission necessarily moves to new offices.

In particular, legal and professional expenses have reduced, assisted by the recent appointment of an in-house legal counsel;

- in the Banking and Insurance sectors there has been a reduction in the number of licensees since last year's fee rates were set;
- bank interest income estimates for 2011 have declined by a further £208,000 due to continuing low interest rates;
- as explained on page 44 of the 2009 Annual Report, an independent evaluation review is being commissioned, the majority of the cost of which will be borne in 2011. The total cost, as yet, is uncertain because the terms of reference have yet to be set and the tender process yet to be undertaken, but will be significant. One of the review's aims is to increase the effectiveness and efficiency of the regulatory process;
- the NR-FSB and PB sector is expanding with the inclusion of audit firms not otherwise registered and also in terms of workload for monitoring the sector generally;
- the final salary pension scheme funding deficit increased (including 8 Commission staff on permanent secondment to the GTA). In view of this, a cost containment exercise is underway which should moderate future employer contribution rate increases.

In summary, the Commission's reserves, which declined by 63% in 2009, need to be protected in 2011 and enhanced for the future.

3.1.6 Proposals for fee increases in 2011 continue the attempt that commenced last year to achieve the twin objectives of making substantial progress towards each regulatory Division covering its costs from its own fee income and meeting the increased costs and lower income resulting from the factors set out in 3.1.5. Whilst some proposed increases are significant in percentage terms, the monetary values involved are often less significant.

3.1.7 Whilst the Commission is cognisant of the need to take note of comparable jurisdictions such as Jersey and the Isle of Man, fees can only be set by reference to the Commission's circumstances. Setting out fee rate comparisons between Guernsey, Jersey and the Isle of Man is not straightforward, given their different structures (e.g. the Isle of Man has two separate regulators), funding (e.g. the Jersey Commission receives a subsidy from the States of Jersey towards the cost of its Anti-Money Laundering Unit.) and expenses (e.g. the Guernsey Commission currently supports the GTA University Centre). To draw up a comparison simply comparing licence fees is apt to be misleading.

3.1.8 The Commission will incur higher occupancy costs from September 2010 when it relocates to new office premises. The move is necessary because the existing offices, spread over two sites, are no longer fit for purpose. The lease acquisition and office fit-out costs will have an approximate annual amortisation/depreciation cost of £50,000. Rent expenses will increase total costs by approximately 2.8%.

3.1.9 In 2009's Consultation Paper on fee rate increases, it was anticipated that the Commission would create four new posts in 2010, other headcount increases being balanced by reductions in the number of secondments. Three new posts will be created in 2011, all within regulatory Divisions. Salaries were not increased in 2010 for the Director General, Directors or Deputy Directors. All vacant posts created by staff leaving are evaluated and replacements only hired if the post is essential. All staff appointments require the approval of the Director General.

3.1.10 General legal fees provisions are not included in the regulatory Divisions' budget calculations for 2011 and beyond. Modest amounts have been included where specific regulatory issues are likely to arise in 2011. The appointment of an in-house legal counsel in May 2010 has already reduced the number of occasions when the Commission has instructed external lawyers.

3.1.11 The recently concluded IMF assessment may result in additional costs being incurred to address any findings.

3.1.12 The fee proposals set out in the following sections represent a Commission-wide average increase of 11%, as projected in the Director General's letter of December 2009, referred to in 3.1.1 above.

3.1.13 Inflation has been included at 2.2% for 2010 and 3.0% p.a. for 2011, though Guernsey RPI was 2.3% and the underlying cost of living, RPIX (excluding interest rate movements) was 2.4% at June 2010 The rate used for 2011 of 3.0% takes into account not only current Guernsey inflation but also Bank of England inflation projections. Inflation assumptions will be reviewed again as data is released.

3.2 Background – Banking Division

3.2.1 The Banking Division is forecasting a surplus for 2010 of £276,000 of income against direct costs, plus an allocation of forecast overhead expenses of £840,000, a net deficit of £564,000. The net deficit in 2009 was £782,000 (before the FRS17 pension fund accounting adjustment).

3.2.2 Direct costs for 2011 are projected to reduce by £86,000 (7%) as a result mainly of lower legal and professional costs associated with the banking crisis of the last three years.

3.2.3 The current fee tariff is forecast to generate income of £1,398,000 and £1,374,000 in 2011 and 2012 respectively (allowing for expected reductions in licensee numbers and no new licence applications), leading to expected net deficits of £683,000 and £636,000. See also the table at 3.2.6.

3.2.4 In light of these forecast deficits for the Banking Division, the Commission proposes revising the current tariff of annual fee levels upwards for 2011. The proposed increases reflect the Director General's letter of December 2009, and in particular the 43% average (plus inflation) relating to the Banking Division, referred to in 3.1.1 above.

3.2.5 In considering this matter, the following key facts are pertinent:

3.2.5.1 The Banking Division intends to maintain its headcount at 12 in 2011 despite an expectation last year that it would increase to 13.

3.2.5.2 The trends and information available so far suggests that the number of bank licensees at the start of 2011 to be 38, and a further surrender by the start of 2012. Clearly, the 2012 numbers can only represent early estimates.

3.2.6 The table below incorporates the above assumptions on licensee numbers and Commission costs and forecasts the deficits that the current tariff would generate in the years 2011 and 2012 if no increase is approved to the annual fee levels.

Forecasts	**2010**	**2011**	**2012**
Number of licensees - banks	22	21	20
Number of licensees – branches	20	17	17
Income - fees	£1,529,000	£1,398,000	£1,374,000
Share of bank interest income	£13,000	£18,000	£18,000
Expenses - direct	£(1,266,000)	£(1,180,000)	£(1,201,000)
Expenses – allocation of overheads	£(840,000)	£(919,000)	£(827,000)
Deficit	£(564,000)	£(683,000)	£(636,000)
Headcount (FTE)	11.43	11.43	11.43

3.3 Tariff changes – Banking Division

3.3.1 It is proposed to increase the application fee, which currently stands at £27,385, to £36,700 to align with the lowest annual fee band proposed fee. The new change of controller fee, which is due to be implemented in 2011, is directly related to the Application fee as follows:

Consideration of change in controller or significant shareholder:	
Within an existing banking group	half of the fee for a new applicant bank
By another bank	same fee as for a new applicant bank
By a non-bank entity (e.g. private equity house)	double the fee for a new applicant bank

3.3.2 An overall increase of between £9,315 and £15,981 in the tariff for annual registrations is proposed for 2011 in order to move further towards achieving 'break-even' in the Banking Division by the end of 2011.

3.3.3 The increase has been spread proportionally across the tiered tariff (relative to income levels) applicable to banks and is detailed below:

Income band	**Current Fee**	**2011 Revised Fee**
Application fee	£27,385	£36,700
Annual registration fees:		
Under £5 million	£27,385	£36,700
£5 million to £10 million	£31,460	£42,100
£10 million to £20 million	£37,681	£50,400
Over £20 million	£47,119	£63,100
Branches	£9,438	£12,600
Change of controller	New	
- Existing bank group		£18,350
- Another bank		£36,700
- Non-bank entity		£73,400

3.3.4 If the above increases are approved then the effect would be as follows (using the same licensee and headcount assumptions as in 3.2.6 above):

Forecasts	**2010**	**2011**	**2012**
Income - fees	£1,529,000	£1,869,000	£1,886,000
Share of bank interest income	£13,000	£18,000	£18,000
Expenses - direct	£(1,266,000)	£(1,180,000)	£(1,201,000)
Expenses – allocation of overheads	£(840,000)	£(919,000)	£(827,000)
Deficit	£(564,000)	£(212,000)	£(124,000)

3.4 Background – Insurance Division

3.4.1 The Insurance Division is forecasting a surplus for 2010 of £877,000 of income against direct costs plus an allocation of forecast overhead expenses of £1,239,000, a net deficit of £362,000. The net deficit in 2009 was £567,000 (before the FRS17 pension fund accounting adjustment).

3.4.2 Direct costs for 2011 are projected to be in line with those for 2010.

3.4.3 The current fee tariff is forecast to generate income of £2,449,000 in each of 2011 and 2012, leading to expected net deficits of £665,000 and £689,000. See also the table at 3.4.6.

3.4.4 In light of these forecast deficits for the Insurance Division, the Commission proposes revising the current tariff of annual fee levels upwards for 2011. The proposed increases reflect the Director General's letter of December 2009, and in particular the 12% average (plus inflation) relating to the Insurance Division, referred to in 3.1.1 above.

3.4.5 The Commission projects a constant level of new licence applications and licence surrenders in 2011 and 2012 when compared to 2010.

3.4.6 The table below incorporates the above assumptions on licensee numbers and Commission costs and forecasts the deficits that the current tariff would generate in the years 2011 and 2012 if no increase is approved to the annual fee levels.

Forecasts	**2010**	**2011**	**2012**
Number of licensees	760	760	760
Income - fees	£2,485,000	£2,449,000	£2,449,000
Share of bank interest income	£24,000	£25,000	£25,000
Expenses - direct	£(1,632,000)	£(1,671,000)	£(1,769,000)
Expenses – allocation of overheads	£(1,239,000)	£(1,468,000)	£(1,394,000)
Deficit	£(362,000)	£(665,000)	£(689,000)
Headcount (FTE)	18.26	19.26	20.26

3.5 Tariff changes – Insurance Division

3.5.1 An overall increase of between £190 and £670 in the tariff for applications for registration and increases of up to £2,650 for annual registrations is proposed for 2011. The increases have been spread proportionately across fee categories. Even with these increases, a deficit of £285,000 is expected for 2011.

3.5.2 The main increases are detailed below:

	Current Fee	**2011 Revised Fee**
Application fees:		
Insurance Manager	£4,070	£4,690
Insurance Manager – Lloyds	£2,240	£2,580

	Current Fee	2011 Revised Fee
Insurer/Reinsurer/Captive	£4,370	£5,040
Protected/Incorporated Cell Company	£4,370	£5,040
Cell of a PCC/ICC	£1,230	£1,420
Domestic Insurer	£2,460	£2,840
Intermediary	£4,110	£4,740
(addition of licence categories)	£150 to £1,410	£170 to £1,630
Member of association for travel insurance	£1,130	£1,300
Annual fees:		
Insurance Managers – pure	£3,860	£4,450
Insurance Managers – commercial	£6,460	£7,450
Insurance Manager – Lloyds	£2,240	£2,580
Insurer/Reinsurer/Captive	£4,370	£5,040
Protected or Incorporated Cell Company	£4,370	£5,040
Cell of a PCC or ICC	£1,430	£1,650
Transformer cell	£650	£750
Dormant cell	£110	£130
Life Insurer (from/to)	£4,370 to £17,280	£5,040 to £19,930
Domestic Insurer (turnover < £12,000)	£360	£420
Domestic Insurer (turnover £12,000+)	£2,460	£2,840
Intermediary (base fee)	£1,980	£2,290
Intermediary (licence type)	£150 to £1,410	£170 to £1,630
Intermediary (turnover level)	£1,400 to £5,630	£1,620 to £6500
Member of association for travel insurance	£1,130	£1,300
Other fees:		
Conversion of a company to a regulated PCC or ICC	£810	£950
Conversion of a regulated PCC to a regulated ICC	£810	£950
Conversion of a PCC or ICC to a regulated non-cellular company	-	£950

3.5.3 If the above increases are approved then the effect would be as follows (using the same licensee and headcount assumptions as in 3.4.6 above):

Forecasts	**2010**	**2011**	**2012**
Income - fees	£2,485,000	£2,829,000	£2,913,000
Share of bank interest income	£24,000	£25,000	£25,000
Expenses - direct	£(1,632,000)	£(1,671,000)	£(1,769,000)
Expenses – allocation of overheads	£(1,239,000)	£(1,468,000)	£(1,394,000)
Deficit	£(362,000)	£(285,000)	£(225,000)

3.6 Background – Fiduciary Division

3.6.1 The Fiduciary Division is forecasting a surplus for 2010 of £846,000 of income against direct costs, plus an allocation of forecast overhead expenses of £869,000, a net deficit of £23,000. The net surplus in 2009 was £10,000 (before the FRS17 pension fund accounting adjustment).

3.6.2 Direct costs for 2011 are projected to increase by £34,000 (3%) as a result mainly of the addition of one extra staff member from mid 2010 to meet the workload associated with a significantly increased number of on-site inspections.

3.6.3 The current fee tariff is forecast to generate income of £1,844,000 in 2011 and £1,798,000 in 2012, leading to expected net deficits of £413,000 and £366,000. See also the table at 3.6.6.

3.6.4 In light of these forecast deficits for the Fiduciary Division, the Commission proposes revising the current tariff of annual and application fee levels upwards for 2011. The proposed increases reflect the Director General's letter of December 2009, and in particular the 12% average (plus inflation) relating to the Fiduciary Division, referred to in 3.1.1 above.

3.6.5 In considering this matter, the following key facts are pertinent:

3.6.5.1 The headcount of the Fiduciary Division has increased by one during 2010. Headcount is expected to remain at this increased level for the remainder of 2011 and in 2012.

3.6.5.2 The Commission projects a net reduction of 5 fiduciary licensees (of which 4 are personal licensees) between now and the end of 2010, and a further 3 surrenders by the start of 2012.

3.6.6 The table below incorporates the above assumptions on licensee numbers and Commission costs and forecasts the deficits that the current tariff would generate in the years 2011 and 2012 if no increase to the annual and application fee levels is approved.

Forecasts	**2010**	**2011**	**2012**
Number of licensees	194	191	187
Income – fees	£1,970,000	£1,844,000	£1,798,000
Share of bank interest income	£17,000	£19,000	£19,000
Expenses – direct	£(1,141,000)	£(1,175,000)	£(1,192,000)
Expenses – allocation of overheads	£(869,000)	£(1,101,000)	£(991,000)
Deficit	£(23,000)	£(413,000)	£(366,000)
Headcount (FTE)	13.69	13.69	13.69

3.7 Tariff changes – Fiduciary Division

3.7.1 It is proposed to increase the application fee rates uniformly by up to £260. They currently vary between £740 and £1,680, with an additional £224 per group applicant. Current fees do not reflect the level of work involved in processing applications.

3.7.2 An overall increase in the tariff for annual registrations is proposed for 2011 in order to allow the Fiduciary Division to moderate its deficit in 2011. Even with these increases, a deficit of £128,000 is expected in 2011. The greatest increase will apply to those fiduciary licensees having an income in excess of £2 million.

3.7.3 The increase has been spread proportionally across the tiered tariff (relative to income levels) applicable to fiduciaries and is detailed below:

Application fees:	**Current Fee**	**2011 Revised Fee**
Personal licence	£740	£860
Full licence	£1,680	£1,940
Group applicant	£224	£260
Annual registration fees:		
Personal fiduciary licence	£840	£970
Full fiduciary licence		
Income band		
Under £250,000	£5,040	£5,820
£250,000 to £1 million	£8,400	£9,690
£1 million to £2 million	£17,094	£19,720
Over £2 million	£20,720	£23,910
Other fees:		
Personal discretionary exemption	370	430
Company/partnership discretionary Exemption	740	860
Consent to use a name	1,410	1,640

3.7.4 If the above increases are approved then the effect would be as follows (using the same licensee and headcount assumptions as in 3.6.6 above):

Forecasts	**2010**	**2011**	**2012**
Income – fees	£1,970,000	£2,129,000	£2,135,000
Share of bank interest income	£17,000	£19,000	£19,000
Expenses – direct	£(1,141,000)	£(1,175,000)	£(1,192,000)
Expenses – allocation of overheads	£(869,000)	£(1,101,000)	£(991,000)
Deficit	£(23,000)	£(128,000)	£(29,000)

3.8 Background – Investment Division

3.8.1 The Investment Division is forecasting a surplus for 2010 of £2,931,000 of income against direct costs, plus an allocation of forecast overhead expenses of £2,044,000, a net surplus of £887,000. The net surplus in 2009 was £1,089,000 (before the FRS17 pension fund accounting adjustment).

3.8.2 Direct costs for 2011 are projected to increase by £109,000 (5%) as a result mainly of higher staff costs as international policy issues and dealing with problem cases increases workload beyond resources available via existing staff complement.

3.8.3 The current fee tariff and charging structure is forecast to generate income of £5,366,000 in 2011 and 2012 (allowing for the introduction of application and annual fees for additional classes of closed-ended collective investment schemes in 2011), leading to expected net surpluses of £517,000 and £467,000. See also the table at 3.8.6. The introduction of application and annual fees for additional classes of closed-ended collective investment schemes is considered appropriate in light of the amount of resource required to regulate this sector and the fact that these fees are already borne by equivalent open-ended collective investment schemes. It is acknowledged that if these proposals are to be implemented changes to the regulatory rules applicable to authorised closed-ended schemes and registered collective investment schemes will need to be made before the end of 2010.

3.8.4 In light of these forecast surpluses for the Investment Division, the Commission proposes revising the current tariff and structure of charges of annual and application fee levels upwards to a small extent for some categories for 2011 and retaining the existing tariff for others.

3.8.5 In considering this matter, the following key facts are pertinent:

3.8.5.1 Staffing levels are under constant review and it is envisaged that two additional staff members will join the Division in mid-2011. If the level of resource required by the issues outlined in 3.8.2 above continues to increase, we can expect further increase in 2012.

3.8.5.2 The Commission projects a constant level of new licence applications and licence surrenders in 2011 and 2012 when compared to 2010.

3.8.6 The table below incorporates the above assumptions on licensee numbers and Commission costs and forecasts the surpluses that the current tariff would generate in the years 2011 and 2012 if no increase is approved to the annual fee levels.

Forecasts	**2010**	**2011**	**2012**
Number of licensees/collective investment schemes*	4,144	4,144	4,144
Income - fees	£5,133,000	£5,366,000	£5,366,000
Share of bank interest income	£48,000	£47,000	£47,000

Forecasts	2010	2011	2012
Expenses – direct	£(2,251,000)	£(2,359,000)	£(2,518,000)
Expenses – allocation of overheads	£(2,043,000)	£(2,537,000)	£(2,428,000)
Surplus	£887,000	£517,000	£467,000
Headcount (FTE)	29.55	31.55	33.55

** Included are licensees, authorised and registered collective investment schemes, classes of Guernsey open-ended authorised and registered collective investment schemes, and non-Guernsey open-ended collective investment schemes*

3.9 Tariff changes – Investment Division

3.9.1 It is proposed to increase some application fees by variable amounts as part of a general restructure of fees, whilst retaining competitiveness with comparable jurisdictions, whilst leaving others unchanged.

3.9.2 It is proposed to increase some annual fees by variable amounts as part of a general restructure of fees, whilst retaining competitiveness with comparable jurisdictions, whilst leaving others unchanged.

3.9.3 The increases have been spread across all categories of licence and are detailed below:

Application fees:	Current Fee	2011 Revised Fee
Open-ended Collective Investment Schemes		
- Schemes*	£3,000	£3,100
- New classes of existing schemes*	£650	No change
- Non-Guernsey schemes	£1,000	No change
- Designated Territories scheme notification		
- (EX) (Jersey schemes remain at nil)	£1,000	No change
Closed-ended Collective Investment Schemes		
- Schemes*	£3,000	£3,100
- Additional classes*	£0	£650
-		
Licensees	£2,000	£2,100
Annual fees:		
Open-ended Collective Investment Schemes		
- Schemes*	£3,000	£3,100
- Additional classes*	£200	No change
- Non-Guernsey schemes	£500	No change
- Designated Territories scheme (EX)	£500	No change
Closed-ended Collective Investment Schemes		
- Schemes*	£3,000	£3,100
- Additional classes*	£0	£200
Licensees		
- Designated Persons of open-ended schemes	£3,000	No change
- Principal Managers of open-ended schemes	£1,500	No change
- Designated Managers of closed-ended schemes	£3,000	No change
- Managers of closed-ended schemes	£1,500	No change

		Current Fee	2011 Revised Fee
-	Investment exchanges	£11,000	No change
-	Other Licensees	£3,000	No change

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3.9.4 If the above increases are approved then the effect would be as follows (using the same licensee and headcount assumptions as in 3.6.6 above):

Forecasts	**2010**	**2011**	**2012**
Income - fees	£5,133,000	£5,469,000	£5,578,000
Share of bank interest income	£48,000	£47,000	£47,000
Expenses – direct	£(2,251,000)	£(2,359,000)	£(2,518,000)
Expenses – allocation of overheads	£(2,043,000)	£(2,537,000)	£(2,428,000)
Surplus	£887,000	£620,000	£679,000

3.10 Background – Non-Regulated Financial Services Businesses and Prescribed Businesses

3.10.1 The Commission is forecasting fee income for 2010 of £89,000 from Non-Regulated Financial Services Businesses and Prescribed Businesses (ie firms of lawyers, accountants and estate agents).

3.10.2 Audit firms need to register as Prescribed Businesses from 2010 (unless they are otherwise already registered). As a result of this expanded fee base, the current fee tariff is forecast to generate income of £106,000 in 2011 and 2012, leading to expected net deficits of £180,000 and £103,000.

3.10.3 In light of these forecast deficits for the NR-FSB/PBs, the Commission proposes revising the current tariff of annual and application fee levels upwards for 2011 in order to cover direct costs.

3.10.4 Costs associated with monitoring the NR-FSB/PB sector are now separately identified and include the direct costs of two members of staff, together with a share of overhead expenses. Direct costs for 2011 are projected to be £132,000, comprising staff costs. Staff complement remains unchanged for 2012 .

3.10.5 NR-FSBs pay a set application and annual fee (plus an amount for any additional outlets). PBs pay a base registration or an annual fee (the annual fee is not payable in the year of registration) plus an amount depending on the number of FTE staff they employ up to a maximum of 25. The Commission proposes revising the current tariff of application and base annual fee levels of non-regulated financial services businesses upwards for 2011 by £208. For PBs, an increase of £115 in the base registration/annual fee and of £17 for each FTE employee is proposed.

3.11 Tariff changes – Non-Regulated Financial Services Businesses and Prescribed Businesses

3.11.1 For NR-FSBs, the rates for application and annual fees currently vary between £882 and, depending on the number of outlets, £1,092.

3.11.2 The increase in the tariff for NR-FSBs is detailed below:

	Current Fee	**2011 Revised Fee**
Application fee	£882	£1,090
Annual fees:		
Base fee	£882	£1,090
Fee for 1-5 additional outlets	£52	£60
Fee for 6-10 additional outlets	£105	£130
Fee for 11-15 additional outlets	£157	£200
Fee for more than 15 additional outlets	£210	£260

3.11.3 For PBs, the rates for registration and annual fees currently vary between £475 and £1,935, depending on the number of FTE employees.

3.11.4 The increase in the tariff for PBs is detailed below:

Number of full time or full time equivalent staff	**Current Fee**	**2011 Revised Fee**
1-5	£475	£590
6	£548	£680
7	£621	£770
8	£694	£860
9	£767	£950
10	£840	£1,040
11	£913	£1,130
12	£986	£1,220
13	£1,059	£1,310
14	£1,132	£1,400
15	£1,205	£1,490
16	£1,278	£1,590
17	£1,351	£1,680
18	£1,424	£1,770
19	£1,497	£1,860
20	£1,570	£1,950
21	£1,643	£2,040
22	£1,716	£2,130
23	£1,789	£2,220
24	£1,862	£2,310
25 or more	£1,935	£2,400

3.12 Background – All Divisions

3.12.1 An annual fee is still due even if the licence to which it relates is surrendered or otherwise cancelled in January of the year of charge.

3.12.2 The fee for amalgamations and outward migrations, which is not separately described in the Divisional sections above, has remained unchanged since the year 2000.

3.13 Tariff changes – All Divisions

3.13.1 Where licences are issued other than on 1 January, the pro-rata fee for the balance of the initial calendar year will be based upon the number of calendar months or part of calendar month. For example, a licence issued on 5 February 2011 will attract a pro-rata fee of 11/12 of the appropriate annual fee.

3.13.2 The fee for amalgamations and migrations has changed as follows:

	Current Fee	**2011 Revised Fee**
Amalgamations and migrations	£1,500	£2,500

APPENDIX A

List of representative bodies who have been sent this consultation paper

- States of Guernsey Policy Council
- States of Guernsey Commerce and Employment Department
- States of Alderney Policy and Finance Committee
- Chief Pleas of Sark General Purposes and Advisory Committee
- Guernsey Finance
- Chamber of Commerce Guernsey
- Guernsey International Business Association
- Association of Guernsey Banks
- Guernsey Investment Fund Association
- Guernsey Investment Managers and Stockbrokers Association
- Guernsey International Insurance Association
- Guernsey Association of Trustees
- Institute of Directors