

Consultation Paper

# Fee Rate Proposal 2015



Guernsey Financial  
Services Commission

## Executive Summary

This Consultation Paper sets out the Fee Rate Proposal for 2015 by the Guernsey Financial Services Commission (the Commission).

The Commission is proposing that, **other than in respect of anomalies**, fees for all sectors should be increased by an average of 1.33%.

With regard to anomalies, last year the Commission set out proposals to address these over a two year period – 2014 and 2015. The Commission is proposing to implement the second stage of this two-year approach from January 2015 with the most significant manifestation of this in the insurance sector, where the fee for large life insurance companies rises to £40,000.

In respect of Non-Regulated Financial Services Businesses (NRFSBs), the Commission is proposing to increase the current annual fee level for all NRFSBs to £1,225 and to increase the application fee for the registration of NRFSBs to £3,675. This is in order to more adequately reflect the costs associated with their registration as well as the Commission's anti-money laundering and counter terrorist financing supervision obligations.

It is also proposed that the application process for full fiduciary licences should be aligned with the level of the lowest income band for full fiduciary licensees (£6,030) to reflect the significant amount of work involved in the licence application process.

Finally, the Commission is proposing to remove the staged fee of up to £5,000 for new, innovative and complex applications which it introduced at the beginning of 2014.

## The Commission's Commitment - fees in context

In 2013, the Commission indicated that it intended to increase fee rates by no more than 2% per annum for the three years 2013, 2014, and 2015. By this the Commission meant that the budget forecast for each year would be increased by no more than 2% in aggregate; even if individual fees rose by a different amount. The Commission is delivering on this commitment.

For 2015, a blended rate of increase of 2%, **including** the addressing of all anomalies, is proposed (1.33% without anomalies).

The estimated fee income for 2014 is £12.51 million (2013: £12.51 million) and the Commission's proposals as set out in this Consultation Paper would result in 2015 fee income increasing to £12.75m, based upon current estimates for new licensees and licence surrenders. It should be noted that aggregate fee income also includes adjustments for estimated new licensees and surrenders by existing licensees.

## Strategic Overview

A guiding principle is that fee rates should be aligned with the cost of regulation where practical. The Commission wishes to ensure that those firms whose fees have moved materially out of alignment with their associated supervisory costs should be charged more appropriately.

Fees for applications, which may be few in number in some sectors, should be aligned with the front end resource costs, which can be considerable.

Fees from the investment business sector constitute around 40% of the 2015 budget. This has been a consistent annual figure. The banking and fiduciary sectors at the Commission are in net budgetary deficit - both in the past and in the 2015 budget. The Commission accepts that it may be unrealistic to expect all sectors to provide a consistent flat budget outturn, given that both fee income and some costs (for example

enforcement) are difficult to predict and therefore control. The Commission also recognises that there is inevitable volatility in sector outturn, depending on year-to-year business.

The overarching objective remains to provide some re-balancing of fee income away from the investment business sector whilst charging fees to certain firms which are more in line with the associated regulatory cost. The proposals in this Consultation Paper serve these ends.

## Managing Controllable Expenditure

The Commission is committed to closely managing its controllable expenditure, including personnel costs - as demonstrated by the decision to close the defined benefit Public Sector Pension Scheme to future service entitlement and the absence of a pay increase for staff in 2014.

The centralisation of some supervisory processes and the move towards increased automation are other areas where the Commission continues to increase efficiencies.

## Maintaining Reserves

During 2015 the Commission plans to run a controlled, balanced budget. However, the Commission needs an appropriate level of reserves to cope with regulatory emergencies and to enable it to engage, whenever necessary, through the various legal processes. The policy is to retain sufficient reserves to cover six months of operating expenditure.

Following the closure of the defined benefit Public Sector Pension Scheme to new contributions the Commission forecasts not only a significant saving in current pension service costs from 1 July 2014, but also a reduction, over time, in its exposure to the financial volatility associated with the Scheme.

## Sentinel Program

The Sentinel Program encompasses a series of transformation projects designed to support high quality and proportionate risk based supervision. The key elements of the Program are firstly the Probability and Risk Impact System (PRISM) and secondly the delivery of Online Submissions. Both elements are supported by a Data Warehousing project. The necessary capital expenditure for Sentinel is financed from cash reserves. The Commission believes this investment is essential in order for it to remain a credible regulator, reduce costs, drive efficiency gains and enable better management oversight of core activity.

## Proposal

**Including all anomalies, a blended rate of increase of 2% is proposed for 2015.**

- Excluding anomalies, fees should rise for all sectors (except NRFSBs – see below) by an average 1.33%, raising £166,000.
- The fee income from anomalies should be £84,000 in 2015 (£48,000 for fiduciary and £36,000 for insurance).

## Anomalies

In 2013 the Commission identified areas within banking, fiduciary, insurance and NRFSBs where material anomalies in fee structures exist. No material anomalies are considered to exist in respect of investment fees.

## **Banking**

The new approach introduced in 2014 took into account asset size and the degree of risk as defined by whether a licensee is a branch or a subsidiary and whether it serves the retail market. In 2014 the minimum fee was set at £34,000.

For 2015 there will continue to be a minimum fee (£34,440) for small banks rising incrementally for bigger banks with more than £1 billion total assets, to a fee of £52,250. For all banks there will be a 25% premium added for a subsidiary (because of ICAAP work) *or* a 25% premium for a retail branch. This reflects the need for the Commission to undertake more supervisory work on a subsidiary than on a branch and on a bank where there are retail customers – for example to cover conduct issues.

The forecast for banking annual fees in 2014 is £1.66 million but, following the surrender of two licences, the 2015 fee income will decrease to £1.61 million, despite the application of a proposed 1.33% increase to the base fees.

## **Fiduciary**

The majority of fees are based on fiduciary related turnover for those holding a fiduciary licence. Two new fee bands were introduced in 2014. These are: Band 6 (greater than £7 million) and Band 7 (greater than £10 million). The increase in annual fees to £30,000 and £35,000 respectively for these two new fee bands was to be phased equally over two years and will take full effect in 2015. Over the two year period it is anticipated this will have raised additional fee income of around £90,000 p.a.

Although the annual fee increases for existing full fiduciary licensees is proposed to be 1.33%, it has become apparent that the application fee of £2,005, even after a 1.33% increase, is disproportionate to the significant amount of work involved in the licence application process. Consequently, the Commission proposes that the application fee should be brought in line with the level of the lowest income band for full fiduciary licensees. This is £6,030 and mirrors the policy for new banking licences. In addition it is proposed that the application fee for personal fiduciaries should be increased materially to align it with the front end resource costs.

Requests for discretionary exemptions are few in number on an annual basis, but the current fee of £880 is not representative of the underlying work required prior to granting the exemption. The fee of £880 should rise to £1,000.

## **Insurance**

In its 2013 Consultation Paper, the Commission set out the rationale for specific fees for large life insurance companies where the fee did not align with the supervisory cost. The staged increase in the fee will take full effect in 2015, rising to £40,000 from the 2014 level of £30,000.

Similarly, the increase in the annual fee for large general insurers to £15,000 will take full effect in 2015, rising from the 2014 level of £8,950.

The above mentioned measures will raise additional fee income of £72,000 p.a. by 2015.

## **Non-Regulated Financial Services Businesses (NRFBSs)**

The Commission is obliged to register certain types of financial services businesses. Currently both the annual fee and the initial registration is £1,116. Registration can be a relatively straightforward task (e.g. for business wholly within the Bailiwick) but often the costs associated with initial registration, combined with the ongoing supervisory obligations in respect of anti-money laundering and counter terrorist financing, can be considerable. The Commission's experience is that the current application fee and annual

fee of £1,116 respectively can be significantly below the costs it incurs, therefore it is proposing to increase the annual fee to £1,225 and the application fee to £3,675.

At the same time, however, the Commission is proposing to remove the staged fee of up to £5,000 for new, innovative and complex applications which was introduced at the beginning of 2014.

## **Application Fees**

It is proposed that application fees not already mentioned should rise by approximately 1.33% in 2015. Some exceptions to this will apply as outlined above, for example certain fiduciary licensees and NRFSBs. Based on current forecasts, such increases will raise additional fee income of approximately £12,000.

Income from application fees overall is about 8% of total fee income so any percentage increase has limited impact, compared with the ongoing stock of licences. Application fees have been included in the overall fee income estimate.

The Commission does not charge for licence surrenders.

Penalty fees for late submissions have been included in the overall fee estimate, but this category comprises less than 1% of the total fee income.

## **Consultation**

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

The provisions in this Consultation Paper affect all licensees, collective investment schemes, registered businesses, individuals and applicants for licences or registration, in accordance with applicable laws and regulations.

The Commission invites comments on this Consultation Paper which should reach us by no later than Friday 19<sup>th</sup> September 2014. Responses should either be emailed to the Chief Operating Officer at [feeconsultationresponses@gfsc.gg](mailto:feeconsultationresponses@gfsc.gg), or be marked for his attention and sent to:

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## **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
- Bailiwick Insurance Intermediary Association
- Guernsey Association of Trustees
- Institute of Directors
- NED forum

## Appendix B - Tariff changes

### Tariff – Banking Sector

	Current fee 2014	Proposed fee for 2015
<b>Application fee</b>	£34,000	£34,440
<b>Annual licence fees:</b>		
Assets band:		
Total assets below £500 million	£34,000	£34,440
Total assets below £500 million plus 25% as a retail branch or subsidiary bank	£42,500	£43,050
Total assets of £500 million below £1,000m		
2014 - in range between £34,000 and £51,575	variable price	
2015 - in range between £34,440 and £52,250		variable price
Total assets of £1,000 million and above	£51,575	£52,250
<u>Premiums added to all annual licence fees:</u>		
plus 25% premium for a Guernsey subsidiary bank	£12,895	£13,065
Or		
plus 25% premium for a retail branch bank (if both characteristics apply, only one applies)	£12,895	£13,065
Branches outside the Bailiwick	£12,895	£13,065

## Tariff – Insurance Sector

	Current fee 2014	Proposed fee for 2015
<b>Application fees:</b>		
Insurance Manager	£4,800	£4,860
Insurance Manager – Lloyd’s	£2,637	£2,670
Insurer/Reinsurer/Captive	£5,155	£5,222
Protected/Incorporated Cell Company	£5,155	£5,222
Cell of a PCC/ICC	£1,455	£1,474
Domestic Insurer	£2,904	£2,942
Intermediary	£4,850	£4,915
(addition of licence categories)	£174 to £1,665	£176 to £1,687
Member of association for travel insurance	£1,329	£1,345
<b>Annual fees:</b>		
Insurance Managers – pure	£4,554	£4,613
Insurance Managers – commercial	£7,623	£7,722
Insurance Manager – Lloyd’s	£2,638	£2,672
Insurer/Reinsurer/Captive	£5,155	£5,222
Protected or Incorporated Cell Company	£5,155	£5,222
Cell of a PCC or ICC	£1,685	£1,708
Transformer cell	£767	£777
Dormant cell	£135	£137
Life Insurer (from/to)	£5,155 to £30,000	£5,222 to £40,000
Domestic Insurer (turnover < £12,000)	£431	£437
Domestic Insurer (turnover £12,000+)	£2,904 to £8,950	£2,942 to £15,000
Intermediary (base fee)	£2,342	£2,372
Intermediary (licence type)	£174 to £1,665	£176 to £1,687
Intermediary (turnover level)	£1,655 to £6,650	£1,677 to £6,737
Member of association for travel insurance	£1,329	£1,346
<b>Other fees:</b>		
Conversion of a company to a regulated PCC or ICC	£973	£986
Conversion of a regulated PCC to a regulated ICC	£973	£986
Conversion of a PCC or ICC to a regulated non-cellular company	£973	£986



## Tariff – Fiduciary Services Sector

	Current fee 2014	Proposed fee for 2015
<b>Application fees:</b>		
Personal licence	£880	£1,760
Full licence Joint applicant	£530	£537
Full licence	£2,005	£6,030
Personal discretionary exemption	£440	£446
Company/partnership discretionary exemption	£880	£1,000
Consent to use a name	£1,675	£1,697
<b>Annual licence fees:</b>		
Personal fiduciary licence	£993	£1,006
<b>Full fiduciary licence</b>		
<i>Turnover band (annual):</i>		
1. Under £250,000	£5,953	£6,030
2. £250,000 to £1 million	£9,910	£10,440
3. £1,000,001 to £2 million	£20,180	£20,445
4. £2,000,001 to £4 million	£22,300	£22,590
5. £4,000,001 to £7 million	£24,465	£24,785
6. £7,000,001 to £10 million	£27,200	£30,000
7. Over £10 million	£29,700	£35,000

## Tariff – Investment Sector

	Current fee 2014	Proposed fee for 2015
<b>Application fees:</b>		
Open-ended Collective Investment Schemes Schemes*	£3,165	£3,205
New classes of existing schemes*	£665	£674
Non-Guernsey schemes	£1,020	£1,034
Designated Territories scheme notification (EX) (Jersey schemes remain at nil)	£1,020	£1,034
Closed-ended Collective Investment Schemes Schemes*	£3,165	£3,205
Licensees	£2,140	£2,170
<b>Annual fees:</b>		
Open-ended Collective Investment Schemes Schemes*	£3,165	£3,205
Additional classes*	£204	£207
Non-Guernsey schemes	£510	£517
Designated Territories scheme (EX)	£510	£517
Closed-ended Collective Investment Schemes Schemes*	£3,165	£3,205
<b>Licensees</b>		
Designated Persons of open-ended schemes	£3,060	£3,100
Principal Managers of open-ended schemes	£1,530	£1,550
Designated Managers of closed-ended schemes	£3,060	£3,100
Managers of closed-ended schemes	£1,530	£1,550
Investment exchanges	£60,000	£60,800
Other Licensees	£3,060	£3,100

\* *Authorised and Registered*

## Tariff – Non-Regulated Financial Services Businesses and Prescribed Businesses

	Current fee 2014	Proposed fee for 2015
<b>Application fee</b>	£1,116	£3,675
<b>Annual fees:</b>		
Base fee	£1,116	£1,225
Fee for 1-5 additional outlets	£60	Nil
Fee for 6-10 additional outlets	£132	Nil
Fee for 11-15 additional outlets	£204	Nil
Fee for more than 15 additional outlets	£264	Nil

The tariff for Prescribed Businesses is detailed below:

Number of full time or full time equivalent staff	Current fee	Revised for 2015
1-5	£604	£612
6	£696	£705
7	£788	£798
8	£880	£891
9	£972	£984
10	£1,064	£1,077
11	£1,156	£1,170
12	£1,248	£1,263
13	£1,340	£1,356
14	£1,432	£1,449
15	£1,524	£1,542
16	£1,616	£1,635
17	£1,708	£1,728
18	£1,800	£1,821
19	£1,892	£1,914
20	£1,984	£2,007
21	£2,076	£2,100
22	£2,168	£2,193
23	£2,260	£2,286
24	£2,352	£2,379
25 or more	£2,444	£2,472