

**MORTGAGE FIRMS AND INSURANCE INTERMEDIARIES (FEES)
INSTRUMENT 2004**

Powers exercised

- A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 156 (General supplementary powers);
 - (2) section 157(1) (Guidance); and
 - (3) paragraph 17(1) of Schedule 1 (Fees).
- B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on 31 October 2004 (in part) and 14 January 2005 (in part). To the extent that a provision relates to any regulated activity in relation to a long-term care insurance contract or a regulated mortgage activity, it comes into force on 31 October 2004. Otherwise it comes into force on 14 January 2005.

Amendments to the Supervision manual

- D. The Supervision manual is amended in accordance with Annex A to this instrument.

Amendments to the Professional Firms sourcebook

- E. The Professional Firms sourcebook is amended in accordance with Annex B to this instrument.

Amendments to the Authorisation manual

- F. The Authorisation manual is amended in accordance with Annex C to this instrument.

Citation

- G. This instrument may be cited as the Mortgage Firms and Insurance Intermediaries (Fees) Instrument 2004.

By order of the Board
20 October 2004

Annex A

Amendments to the Supervision manual

In this Annex underlining indicates new text, striking through indicates deleted text.

Transitional provisions

(1)	(2)	(3)	(4)	(5)	(6)
	Material to which the transitional provision applies		Transitional provision	Transitional provision: dates in force	Handbook provision: coming into force
...					
16	...				
17	<u>SUP 20.4.4R(4)</u>	<u>R</u>	<u>The periodic fee modification set out in SUP 20.4.4R(4) does not apply to the A.2, A.18 and A.19 activity groups until 1 April 2005.</u>	<u>From 31 October 2004 to 31 March 2005</u>	<u>1 April 2002</u>

...

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Activity groups, tariff bases and valuation dates applicable

Part 1

...

SUP Table:

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Activity group	Fee-payer falls in the activity group if
...	...
A.13 Advisory arrangers, dealers or brokers (not holding or controlling client money or assets, or both)	<p>(1) it is an <i>authorised professional firm</i> and ALL the <i>regulated activities</i> in its <i>permission</i> are limited to <i>non-mainstream regulated activities</i>;</p> <p>OR</p> <p>(2) its <i>permission</i>:</p> <p>(a) includes one or more of the following, in relation to one or more <i>designated investments</i>:</p> <ul style="list-style-type: none"> • <i>dealing in investments as agent</i>; • <i>arranging (bringing about) deals in investments</i>; • <i>making arrangements with a view to transactions in investments</i>; • <i>dealing as principal in investments</i> where the activity is carried on as a matched principal broker, <i>oil market participant</i>, <i>energy market participant</i> or <i>local</i>; • <i>advising on investments (except pension transfers and pension opt-outs)</i>; • <i>advising on pension transfers and pension opt-outs</i>;

	<ul style="list-style-type: none"> • <i>advising on syndicate participation at Lloyd's</i>; <p>(b) BUT NONE of the following:</p> <ul style="list-style-type: none"> • <i>effecting contracts of insurance</i>; • <i>carrying out contracts of insurance</i>; • <i>safeguarding and administration of assets</i>; • <i>arranging safeguarding and administration of assets</i>; <p>AND</p> <p>(c) MUST EITHER, in connection with its <i>designated investment business</i>:</p> <ul style="list-style-type: none"> • have a <i>requirement</i> that prohibits the <i>firm</i> from holding or controlling <i>client money</i>, or both; <p>OR</p> <ul style="list-style-type: none"> • if it does not have such a <i>requirement</i>, only holds or controls <i>client money</i> (or both), arising from an agreement under which <i>commission</i> is rebated to a <i>client</i>; <p>...</p>
...	...

...

Part 2

This table indicates the tariff base for each fee-block. The tariff base is the means by which we measure the 'amount of business' conducted by a *firm*.

Activity group	Tariff-base
...	...
A.2	<p>Not applicable. [Note: will be made to come into effect from 31 October 2004.]</p> <p><u>NUMBER OF MORTGAGES ENTERED INTO AND ADMINISTERED</u></p> <p><u>The number of new mortgage contracts entered into;</u></p> <p><u>AND</u></p> <p><u>The number of mortgage contracts being administered, multiplied by 0.5.</u></p> <p><u>Notes:</u></p> <p>(1) <u>For 2004/05 and 2005/06 firms have supplied this data on their 'HSF1' or 'variation of permission' application form.</u></p> <p>(2) <u>In this context a "mortgage" means a loan secured by a first charge over residential property in the <i>United Kingdom</i>. For the measure of the number of contracts being administered, each first charge counts as one contract, irrespective of the number of loans involved.</u></p> <p>(3) <u>Mortgages administered include those that the <i>firm</i> administers on behalf of other <i>firms</i>.</u></p>
...	...
A.18	<p>Not applicable. [Note: will be made to come into effect from 31 October 2004.]</p> <p><u>ANNUAL INCOME</u></p>

	<p>(a) <u>the net amount retained by the <i>firm</i> of all brokerages, fees, commissions and other related income (eg administration charges, overrides, profit shares) due to the <i>firm</i> in respect of or in relation to <i>mortgage mediation activity</i> (or activities which would have been <i>mortgage mediation activity</i> if they had been carried out after 30 October 2004);</u></p> <p><u>Plus</u></p> <p>(b) <u>for any <i>mortgage mediation activity</i> carried out by the <i>firm</i> for which it receives payment from the lender on a basis other than that in (a), the value of all new mortgage advances resulting from that activity multiplied by 0.004;</u></p> <p><u>Plus</u></p> <p>(c) <u>if the <i>firm</i> is a <i>mortgage lender</i>, the value of all new mortgage advances which are or would be <i>regulated mortgage contracts</i> if they had been made after 30 October 2004 (other than those made as a result of <i>mortgage mediation activity</i> by another <i>firm</i>), multiplied by 0.004.</u></p> <p><u>Notes on annual income:</u></p> <p>(1) <u>For 2004/05 and 2005/06 <i>firms</i> have supplied this data on their 'HSF1' or 'variation of permission' application form.</u></p> <p>(2) <u>For the purposes of calculating annual income, "net amount retained" means all the commission, fees, etc. in respect of <i>mortgage mediation activity</i> that the <i>firm</i> has not rebated to customers or passed on to other <i>firms</i> (for example, where there is a commission chain). Items such as general business expenses (eg employees' salaries, overheads) should not be deducted.</u></p> <p>(3) <u>The <i>firm</i> must include in its income calculation, on the same basis as above, earnings from those who will become its <i>appointed representatives</i> immediately after <i>authorisation</i>.</u></p> <p>(4) <u>Reference to a "<i>firm</i>" above also includes reference to any <i>person</i> who carried out activities which would be <i>mortgage mediation activity</i> if they had been carried out after 30 October 2004.</u></p>
A.19	<p>Not applicable. [Note: will be made to come into effect from 31 October 2004.]</p> <p><u>ANNUAL INCOME</u></p> <p>(a) <u>the net amount retained by the <i>firm</i> of all brokerages, fees, commissions and other related income (eg administration charges, overrides, profit shares) due to the <i>firm</i> in respect of or in relation to <i>insurance mediation activity</i> (or activities which would have been <i>insurance mediation activity</i> if they had been carried out after 13 January 2005) in relation to <i>general insurance contracts</i> or <i>pure protection contracts</i>;</u></p> <p><u>Plus</u></p> <p>(b) <u>in relation to the activities set out in (a), for any <i>insurance mediation activity</i> carried out by the <i>firm</i> for which it receives payment from the <i>insurer</i> on a basis other than that in (a), the amount of <i>premiums</i> receivable on the <i>contracts of insurance</i> resulting from that activity multiplied by 0.07;</u></p> <p><u>Plus</u></p> <p>(c) <u>if the <i>firm</i> is an <i>insurer</i>, in relation to the activities set out in (a), the amount of</u></p>

	<p><u>premiums receivable on its contracts of insurance multiplied by 0.07, excluding those contracts of insurance which:</u></p> <p>(i) <u>result from insurance mediation activity by another firm, where a payment has been made by the insurer to the firm under (a); or</u></p> <p>(ii) <u>the insurer reports in, and pays a fee under, the A.4 activity group; or</u></p> <p>(iii) <u>are not general insurance contracts or pure protection contracts.</u></p> <p><u>Notes on annual income:</u></p> <p>(1) <u>For 2004/05 and 2005/06 firms have supplied this data on their 'HSF1' or 'variation of permission' application form.</u></p> <p>(2) <u>For the purposes of calculating annual income, "net amount retained" means all the commission, fees, etc. in respect of insurance mediation activity that the firm has not rebated to customers or passed on to other firms (for example, where there is a commission chain). Items such as general business expenses (eg employees' salaries, overheads) should not be deducted.</u></p> <p>(3) <u>The firm must include in its income calculation, on the same basis as above, earnings from those who will become its appointed representatives immediately after authorisation.</u></p> <p>(4) <u>Reference to a "firm" above also includes reference to any person who carried out activities which would be insurance mediation activity (in respect of general insurance contracts or pure protection contracts) if they had been carried out after 13 January 2005.</u></p>
...	...

Part 3

This table indicates the valuation date for each fee-block. A firm can calculate its tariff data by applying the tariff bases set out in Part 2 with reference to the valuation dates shown in this table.

Activity group	Tariff-base
...	...
A.2	<p>Not applicable. [Note: will be made to come into effect from 31 October 2004.]</p> <p><u>Number of mortgages entered into in the twelve months ending 31 December.</u></p> <p><u>AND</u></p> <p><u>Number of mortgages being administered on 31 December.</u></p>
...	...
A.18	<p>Not applicable. [Note: will be made to come into effect from 31 October 2004.]</p> <p><u>Annual income (AI) for the financial year ended in the calendar year ending 31 December.</u></p>
A.19	<p>Not applicable. [Note: will be made to come into effect from 31 October 2004.]</p> <p><u>Annual income (AI) for the financial year ended in the calendar year ending 31 December.</u></p>
...	...

Annex B

Amendments to the Professional Firms sourcebook

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Table: Fees payable by Designated Professional Bodies

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Notes

- (1) The FSA register will include details of exempt professional firms carrying out insurance mediation activity.
- (2) In addition to the periodic fees shown above, the sum of £50,000 will be due from the designated professional bodies, divided between the bodies in proportion to the number of exempt professional firms each has on the FSA register on 14 January 2005. This is a contribution towards the costs of developing this part of the FSA register.
- (3) Each of the designated professional bodies will be invoiced for the appropriate amount in January 2005. The invoices must be paid on or before 28 February 2005.

Annex C

Amendments to the Authorisation manual

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Part 2 – Complexity Groupings

Straightforward cases

Activity grouping	Description
...	...
<u>A.18</u>	<u>Mortgage lenders, advisers and arrangers (excluding mortgage lenders)</u>
<u>A.19</u>	<u>General insurance mediation</u>

Moderately complex cases

Activity grouping	Description
A.1	<u>E-money issuers only</u>
<u>A.2</u>	<u>Mortgage lenders and administrators</u>
...	...

...