



**31 January 2013**

Peter Cardinali  
Finance and Operations – Fees Policy  
Financial Services Authority  
25 The North Colonnade  
Canary Wharf  
London, E14 5HS

**By email: cp12\_28@fsa.gov.uk**

Dear Mr. Cardinali,

***Re: BVCA Regulatory Committee's concerns about the FSA's approach to the introduction of income as the tariff base for certain intermediary fee-blocks***

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### **Introduction**

This letter sets out some concerns which the Regulatory Committee of the British Private Equity and Venture Capital Association (the "BVCA") has about the FSA's approach to the introduction of income as the tariff base for certain intermediary fee-blocks. While we also have concerns about the use of income as the tariff base, particularly given the complexity of the calculations involved and the disproportionate fee increases for firms in such fee-blocks which have a high income to CF30 Approved Person ratio, it is not our intention to set out these concerns here as we appreciate that the relevant policy decisions have already been made. Instead, we set out our concerns as they relate to the FSA's approach to what is, in effect, a fundamental change in its fees policy.

### **The BVCA**

The BVCA is the industry body and public policy advocate for the private equity and venture capital industry in the UK. The BVCA Membership comprises over 250 private equity, midmarket and venture capital firms with an accumulated total of approximately £32 billion funds under management; as well as over 250 professional advisory firms, including legal, accounting, regulatory and tax advisers, corporate financiers, due diligence professionals, environmental advisers, transaction services providers and placement agents.

### **Key concerns**

We appreciate that the FSA consulted on proposals to replace the headcount of Approved Persons with income as the tariff base for certain fee-blocks, including fee-blocks A.12, A.13 and A.14 (fee-blocks to which a number of the BVCA's members belong), in *Regulatory fees and levies*:

*Policy Proposals for 2012/13 (October 2011) ("CP 11/21")*. CP 11/21 did not, however, include an impact assessment and there was no indication of how significant the impacts on fees may be for firms in these fee-blocks ("**Intermediary Firms**"). In Handbook Notice 118 (March 2012) ("**HN 118**"), the FSA noted that, "*[t]o address the concerns respondents [to CP 11/21] raised regarding expected increases in fees for some firms, we are undertaking further impact assessment and will consult further in our October 2012 fees policy CP*". The FSA also noted that, together with the outcome of the impact assessment, it would provide indicative fee-rates in its October 2012 fees policy Consultation Paper to allow firms to consider the impacts on their own fees and, "*[i]n the light of the consultation responses to the October 2012 CP proposals, and subject to FSA Board approval, those proposals will be finalised and feedback provided in February 2013*".

It therefore appeared, from HN 118, that Intermediary Firms would have the opportunity to review the impact assessment and indicative fee-rates, consider the effects of the proposals on their own fees and, if necessary, submit a response to the FSA setting out any concerns before the proposals were finalised. This has not, however, been the case. The proposals were not subject to further consultation before they were transposed into the FSA Handbook in December 2012. *Regulatory fees and levies: Policy Proposals for 2013/14 (October 2012) ("CP 12/28")* merely confirmed that income would be introduced as the tariff base for Intermediary Firms and Chapter 6 (*Introduction of income as tariff base for some intermediary fee-blocks – impact analysis*) of CP 12/28 was not subject to formal consultation.

Given the very significant impact which the introduction of income as the tariff base is likely to have on certain Intermediary Firms, particularly those with a high income to CF30 Approved Person ratio, we do not think that the process followed by the FSA has been fair, transparent or provided firms with sufficient opportunity to fully analyse the effects of the proposals and make representations to the FSA where appropriate. It has only been since CP 12/28 was published that Intermediary Firms have been able to assess, with any degree of certainty, the impact which the introduction of income as the tariff base is likely to have but there has been no consultation by the FSA in respect of the relevant parts of CP 12/28.

Many of the BVCA's members will be significantly affected by the changes. By way of example, an Intermediary Firm in fee-block A.13 that has an annual income of £10 million and 10 CF30 Approved Persons is likely to see its fees increase by over £50,000 from £11,915 to £65,600 (the latter figure is calculated using a fee-rate of £6.56 per £1,000 of annual income (£6.56 being near the mid-point of the FSA's indicative range of fee-rates)). This is a very considerable increase in fees and, in our view, Intermediary Firms should have had an opportunity to make representations to the FSA following the publication of CP 12/28. While we appreciate that the FSA (or FCA) will consult upon the applicable fee-rates in a Consultation Paper in April, even if the final fee-rates are towards the lower end of the indicative ranges in CP 12/28, this will still impact significantly upon a number of Intermediary Firms.



While we accept that the relevant changes have now been made to the FSA Handbook, we hope that, should similarly fundamental changes to the FSA's (or the FCA's or PRA's) fees policy take place in the future, such changes will be subject to a fuller and more transparent consultation process.

We would be happy to discuss any of the issues we have raised in this letter.

Yours sincerely,

A handwritten signature in black ink, reading 'Margaret Chamberlain'. The signature is written in a cursive, flowing style.

Margaret Chamberlain  
Chair - BVCA Regulatory Committee