

## **Financial Services Compensation Scheme levies for specified deposit-taker defaults – July 2016**

This note sets out in one place information relevant to the estimates concerning the 2008/09 banking defaults, including an explanation on how the levy is calculated and an overview of the levies for each year.

In 2008, the FSCS borrowed £20.4bn to fund the costs of compensating or transferring the accounts of consumers in the failure of five banks, referred to as the Specified Deposit-taker Defaults (SDDs).<sup>1</sup> The SDD loans were financed under facilities originally provided by the Bank of England, and subsequently refinanced by HM Treasury.

For the period until 31 March 2012, the FSCS had been repaying the interest of the loan at a rate of 12 months LIBOR plus 30 basis points. Following the refinancing of the loans at 29 March 2012, interest was charged on each outstanding loan at the higher of:

- 12 month LIBOR plus 100 basis points; and
- the relevant gilt rate published by the Debt Management Office.

The relevant gilt rate is set on the last business day of each month, using the rate published by the UK Debt Management Office applicable to public sector lending from the National Loans Fund for a maturity as close as possible to the relevant loan. The NLF rates can be accessed here: [http://www.dmo.gov.uk/index.aspx?page=PWLB/NLF\\_Rates](http://www.dmo.gov.uk/index.aspx?page=PWLB/NLF_Rates)

The 2012 refinancing provided for the terms of the loan agreement to be reviewed every three years. As a result of the latest review, it has been agreed that interest rates should, with effect from 31 March 2015, be charged at the higher of:

- 12 month LIBOR plus 111 basis points; and
- the relevant gilt rate published by the Debt Management Office.

The maturity date of the relevant gilt rate has also been revised in the 2015 review, such that it now represents the expected weighted average life of the outstanding loan.

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<sup>1</sup> Bradford & Bingley plc (B&B), Heritable Bank plc (Heritable), Kaupthing Singer & Friedlander Limited (KS&F), Landsbanki 'Icesave' (Icesave) and London Scottish Bank plc (London Scottish). It also includes contribution to the action taken in respect of the Dunfermline Building Society in 2009.

The FSCS allocates these costs to firms based on their respective share of the tariff measure and uses the following formula:

$$\text{Firm's SDD levy} = \frac{\text{Firm's protected deposits}}{\text{Industry protected deposits}} \times \text{SDD interest}$$

The interest amount is determined on an annual basis. Firms are also required to report their protected deposits on an annual basis. Once a firm has established the protected deposits it holds, it can estimate its SDD levy by completing the above formula with the information stated in the table below.

			SDD levy on industry			Basis of allocation to firms	
Invoicing date	Payable by	Year for which levy is raised	Interest rate used for SDD interest	SDD interest payment (a) (d)	SDD loan principal repayment (a)	Tariff measure (Industry Protected Deposits , IPD) <sup>(a)</sup>	Cut off date for determining IPD (as at ...)
July 2009	1 Sep 2009	2008/09	12 month LIBOR +30bp	£390m	--	£941,066m	31 Dec 2007
July 2010	1 Sep 2010	2009/10	12 month LIBOR +30bp	(b)£377m	--	£991,707m	31 Dec 2008
July 2011	1 Sep 2011	2010/11	12 month LIBOR +30bp	£338m	--	£1,034,808m	31 Dec 2009
July 2012	1 Sep 2012	2011/12	12 month LIBOR +30bp	£362m	--	(e) £890,707m	31 Dec 2010
July 2013	1 Sep 2013	2012/13	Greater of 12 month LIBOR +100bp and the relevant gilt rate	£429m	--	£927,816m	31 Dec 2011
		2013/14			£363m	£975,008m	31 Dec 2012
July 2014	1 Sep 2014	2013/14	Greater of 12 month LIBOR +100bp and the relevant gilt rate	£446m	--	£975,114m	31 Dec 2012
		2014/15			£299m	£1,007,170m	31 Dec 2013
		2014/15			£100m(e)	£1,007,170m	31 Dec 2013
July 2015	1 Sep 2015	2014/15	Greater of 12 month LIBOR +100bp and the relevant gilt rate	£397m	--	£1,007,019m	31 Dec 2013
		2015/16			£353m	£1,036,104m	31 Dec 2014
July 2016	1 Sep 2016	2015/16	Greater of 12 month LIBOR +111bp and the relevant gilt rate	£337m	--	£1,034,773m	31 Dec 2014

tbc	tbc	2016/17	tbc	tbc	--	£1,063,233m	31 Dec 2015
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(a) Rounded to nearest million

(b) Includes £34m relating to 2008/09

(c) The level of protected deposits has substantially decreased from the previous 2010/11 levy year given the changed definition of *protected deposits* (see [FEES 6 Annex 3](#)) which came into force on 31 December 2010. This change meant that deposit takers could report amounts under the covered deposit limit (then £85,000) per depositor per authorised deposit taker if the information on each depositor was part of the Single Customer View. Deposit takers had to report the total amount of deposits within accounts excluded from the SCV, i.e. beneficiary/trust accounts, dormant accounts, accounts under sanction or accounts subject to legal dispute.

(d) SDD interest payments are raised for the previous year ending 31 March.

(e) Interim levy contributing to the costs of resolution in respect of Dunfermline Building Society.

#### *Levy period 2008/09*

The 2008/09 SDD interest was £390.2m and was levied in July 2009 with a payment due date of 1 September 2009, with a further £34m (for this period) levied in July 2010. Other SDD costs relating to 2008/09 of £15.7m were levied in July 2009. These additional costs included expenses concerning processing claims, verifying compensation paid, eligibility etc.

#### *Levy period 2009/10*

The FSCS announced £377.4m interest costs to 31 March 2010 (this included £34m in respect of 2008/09 SDD interest not levied). The amount of SDD interest and associated management costs levied in June 2010 was £374.4m. The adjustment of £3m represents £5.6m due back to firms for amounts levied in 2009 but not spent, less management costs of £2.6m for 2010/11. The total amount of all industry protected deposits (IPDs) for the period ending 31 December 2008 is included in the table above. This was the amount to calculate firm specific SDD levies for 2009/10.

#### *Levy period 2010/11*

The amount of levy raised for 2010/11 was £338.8m. This amount was made up of £334.4m for the loan interest to 31 March 2011 and £4.4m to cover costs of interest on B&B validation adjustments. Other management expenses in relation to this were £2.6m, which was included in the SDD amount levied to firms in July 2010 as explained above.

#### *Levy period 2011/12*

The SDD interest costs for 2011/12 were £362m. Invoices were issued in July 2012. The estimated management expenses in relation to SDD was £2.9m, which was included in the 2011/12 fees and levies invoices. The total IPD as at 31 December 2010 is stated in the table above.

#### *Levy period 2012/13 and 2013/14*

When the loans were agreed in 2008, FSCS and HM Treasury committed to reviewing the potential repayment schedule after three years in the light of prevailing market conditions. In March 2012, FSCS reached an agreement with HMT, the details of which are available on the [FSCS website](#). They are useful to provide indications as to the likely charges that firms can expect.

The FSCS expects to receive full re-payment of the debt of £15.6bn owed to it by Bradford and Bingley (B&B) as the residual assets of the bank are wound up. The agreement provided for the interest rate to increase to the greater of the 12 month LIBOR plus 100 basis points, and the relevant gilt rate published by the Debt Management Office, from 1 April 2012 onwards. As a result, the SDD interest cost for 2012/13 increased to £429m. Due to tariff data resubmissions FSCS collected an additional £1m for 2011/12 SDD interest costs. It used this surplus to offset the payment to HM Treasury of £429m for 2012/13 and so the interest levy was set at £428m.

The FSCS announced that in 2013/14 it expected the first of three annual capital instalments to be £363m. This sum represented one third of the expected capital shortfall on non-B&B FSCS loans at 31 March 2016, when the loan terms were due to expire. Unlike the SDD interest levies, which are levied in July each year for the previous levy year, the repayments of the principal constitute compensation costs and are levied in the levy year in which they apply.

The first instalment of £363m was levied to repay the balance of the loan principal that was not expected to be recovered. Firms have been invoiced for both levy components in July 2013.

*Levy period 2013/14 and 2014/15*

The FSCS announced in its April 2014 outlook that the second of three annual instalments to repay the capital element of FSCS loans was set at £299m. FSCS also announced an interim levy to contribute to the costs of resolution in respect of Dunfermline Building Society at £100m. The interest costs for 2013/14 were £446m. Firms have been invoiced for all levy components in July 2014.

*Levy period 2014/15 and 2015/16*

The £750m levy was used to pay the loan interest costs for 2014/15 of £397m, the third and final capital repayment for the loans in respect of the Icelandic banks (totalling £118m) and a second contribution of £235m to the costs of resolution of Dunfermline Building Society.

*Levy period 2015/16*

The £337m levy will be used principally to pay the loan interest costs for 2015/16 for the outstanding loan on Bradford & Bingley. The current capital balance remains at £15,654m. The interest rate was the subject of a periodic review and for 2015/16 increased to the greater of 12 month LIBOR plus 111 basis points and the relevant gilt rate published by the Debt Management Office.