

Chapter 4

Periodic fees

Definition of annual income for the purposes of calculating fees in fee blocks A.13, A.14, A.18, A.19, A.23 and B. Service Companies, UK Recognised Investment Exchanges, Multilateral Trading Facilities, Organised Trading Facilities, Regulated Benchmark Administrators and Claims Management Companies

Annual income definition

General definition for all relevant fee-blocks (other than where the firm is an operator of a UK Recognised Investment Exchange, a Multilateral Trading Facility, an Organised Trading Facility a Regulated Benchmark Administrator or a Claims Management Company)

"Annual income" for a particular fee block (the "relevant fee block") is the gross inflow of economic benefits (i.e. cash, receivables and other assets) recognised in the *firm's* accounts during the reporting year in respect of, or in relation to, the provision in the *UK* of the *regulated activities* specified in FEES 4 Annex 1A R Part 1 as belonging to the relevant fee block .

The figure should be reported for the relevant fee block without netting off the operating costs or business expenses, but including:

(a) all brokerages, *commissions*, *fees*, and other related income (for example, administration *charges*, overrides, profit shares etc) due to the *firm* in respect of, or in relation to, the provision in the *UK* of the *regulated activities* specified in FEES 4 Annex 1A R Part 1 as belonging to the relevant fee block and which the *firm* has not rebated to *clients* or passed on to other *firms* (for example, where there is a commission chain).

PLUS:

(b) any ongoing *commission* from previous business received by the *firm* during the reporting year.

PLUS:

(c) the "fair value" of any goods or services the *firm* provided to *clients*. This is the *commission equivalent* or an estimate of the amount the *firm* would otherwise have received for any *regulated activity* under (a) above, but for which it has made a business decision to waive or discount its charges.

Definition for UK Recognised Investment Exchanges

"Annual income" for a UK *recognised investment exchange* is the gross inflow of economic benefits (i.e. cash, receivables and other assets) recognised in the *firm's* accounts during the reporting year in respect of, or in relation to activities that comprise a necessary part of an exchange's business as an investment exchange. This should include all revenues the *firm* derives from operating *multilateral trading facilities* and *organised trading facilities*.

For the purposes of calculating annual income of the UK *recognised investment exchange* include amounts received in relation to the operation of its markets; access to those markets; the submission, management and execution of orders; quotes or transactions on those markets; the supply of pre-and post- trade transparency information about those markets; fees for *admission to trading* or listing; membership of connectivity charges; fees for order execution or management; trade reporting; market data and any other relevant revenue streams.

Definition for firms operating Multilateral Trading Facilities and Organised Trading Facilities

This refers to firms operating a multilateral trading facility or organised trading facility.

"Annual income" for an operator of a *multilateral trading facility* or *organised trading facility* is the gross inflow of economic benefits (i.e. cash, receivables and other assets) recognised in the *firm's* accounts during the reporting year in respect of, or in relation to activities that comprise a necessary

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part of the *firm's* business as an operator of a *multilateral trading facility* or *organised trading facility*.

For the purposes of calculating annual income of the operator of a *multilateral trading facility* or *organised trading facility* include amounts received in relation to the operation of its markets; access to those markets; the submission, management and execution of orders; quotes or transactions on those markets; the supply of pre-and post-trade transparency information about those markets; fees for *admission to trading* or listing; membership of connectivity charges; fees for order execution or management; trade reporting; market data and any other relevant revenue streams.

Where the firm is a Regulated Benchmark Administrator

"Annual income" for a *regulated benchmark administrator* is the gross inflow of economic benefits (i.e. cash, receivables and other assets) recognised in the *firm's* accounts during the reporting year in respect of, or in relation to activities in the *UK* that comprise a necessary part of its business as a *regulated benchmark administrator*.

Where the sales and marketing of a benchmark are undertaken by a separate legal entity, the *regulated benchmark administrator* is responsible for identifying the relevant income and reporting it to us as its own income. To avoid double counting, the *regulated benchmark administrator* should report only the income from sales and exclude any amount paid to it from that income to pay for its expenses as a *regulated benchmark administrator*.

Where the firm's regulated activities are carried on by an appointed representative of the firm

The *firm's* annual income must include income received by an *appointed representative* carrying a *regulated activity* in a relevant fee block on behalf of the *firm*.

The *appointed representative's* annual income must be calculated in the same way as the *firm's*. However, to avoid double counting, the *appointed representative's* annual income must not include any income also recognised in the *firm's* accounts, including income recognised as a result of a commission sharing arrangement with the *appointed representative*.

Where the relevant fee-block is fee-block A.18

For the purposes of calculating annual income for fee-block A.18, also include the following:

(d) for any *home finance mediation activity* carried out by the *firm* for which it receives payment from the lender or provider on a basis other than that in (a), the value of all new mortgage advances and amounts provided under other *home finance transactions* resulting from that activity multiplied by 0.004;

PLUS:

(e) if the *firm* is a *home finance provider*, the value of all new mortgage advances and amounts provided under other *home finance transactions* which are *regulated mortgage contracts*, *home purchase plans*, *home reversion plans* or *regulated sale and rent back mediation activity*, multiplied by 0.004m, excluding mortgage advances and *home finance transactions* which result from *home finance mediation activity* carried on by another *firm*, where payment has been made by the *home finance provider* to that other *firm* under (a);

PLUS:

(f) for *firms* whose *permission* includes *administering regulated mortgage contracts*, but not *entering into a regulated mortgage contract* and *firms* whose *permission* includes *administering a home finance transaction* but not *entering into a home finance transaction*, and in either case whose *permission* does not include *advising on a home finance transaction*, the relevant amounts are multiplied by 0.15.

Where the relevant fee-block is fee-block A.19

For the purposes of calculating annual income for fee-block A.19, also include the following:

(g) in relation to any activities in (a), for any *insurance distribution activity* carried out by the *firm* for which it receives payment from the *insurer* on a basis other than that in (a), the amount of *premiums* receivable on its *contracts of insurance* multiplied by 0.07;

PLUS:

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(h) if the *firm* is an *insurer* in relation to the activities in (a), the amount of *premiums* receivable on its *contracts of insurance* multiplied by 0.07, excluding those *contracts of insurance* which:

- result from *insurance distribution activity* by another *firm*, where payment has been made by the *insurer* to the *firm* under (a); or
- are not *general insurance contracts* or *pure protection contracts*.

AND

(i) for the purposes of calculating annual income for fee-block A.19:

- the provision in the UK of the *regulated activities* specified in FEES 4 Annex 1A Part 1 as belonging to the relevant fee block includes the provision of activities that would have been *insurance distribution activity* in relation to *general insurance contracts* or *pure protection contracts* if they had been carried on after 13 January 2005 or, in relation to *connected travel insurance contracts*, from 1 January 2009; - a reference to a "*firm* " includes a reference to any *person*, including a *connected travel insurance intermediary*, who carried on activities which would be *insurance distribution activity* (in respect of *general insurance contracts* or *pure protection contracts*) if they had been carried on after 13 January 2005 or, in relation to *connected travel insurance contracts*, from 1 January 2009. Guidance on the interpretation of this definition is presented in FEES 4 Annex 13 G.

Where the firm is a Claims Management Company (fee-block claims management company)

Income is defined as turnover.

"Turnover" means the sum of the amounts paid to, or received by, an authorised *claims management company* in respect of *regulated claims management activities* in *Great Britain*, including:

- (j) charges, commission, the share of any compensation, fees and subscriptions;
- (k) the monetary value of any services received by the *claims management company* where it makes no payment for those services or where the payment received is worth less than the monetary value of the services; and
- (l) the monetary value of any advertising in respect of the *claims management company* that it has not paid for out of funds referred to in sub-paragraphs (j) and (k).