



Banking & Payments
Federation **Ireland**

**BANKING AND PAYMENTS
FEDERATION IRELAND
SUBMISSION ON**

**“NEW METHODOLOGY TO CALCULATE FUNDING
LEVIES” CP108**

APRIL 2017

www.bpfi.ie

Introduction:

Banking and Payments Federation Ireland (BPFI) welcomes the opportunity to comment on the Central Bank of Ireland (CBI) consultation paper (CP 108) on “New methodology to calculate funding levies”. The aim of this consultation paper as outlined is to seek views on revised methodologies for calculating the industry funding levy for credit institutions.

BPFI members recognise the need for an adequately resourced financial regulator staffed by competent and effective people. We also recognise that CBI’s changed regulatory approach from principles-based to risk-based framework entailed changes in its cost structure. However, this has resulted in significant cost increases (€88m or 246%) from 2009 (€60.2) to 2016 (€148.2m). The scale of the development in regulatory costs is a significant issue for our members and we are concerned that the current approach to funding of financial regulation, could result in **inefficiencies** and **cost inflation** as costs are being simply passed onto regulated entities which have no capacity to influence the cost of regulation.

Levies should occur in a **cost effective**, efficient and consistent way with specific guidelines about design and implementation of cost recovery mechanisms. This also entails robust **budgetary controls** and prioritisation of tasks, as resources simply cannot cover everything and our members are concerned about the sheer scale of recent increases in regulatory fees.

We would suggest that regular key performance indicators should be produced around key cost drivers to ensure a rigorous cost discipline is maintained. Our members also believe that there should be a **multi-year budget approach** so that credit institutions can incorporate associated costs for future years without significant changes in the costs from one year to the next with reduced volatility.

Competitiveness:

BPFI members believe that the cost of regulation is becoming an important factor in Ireland over the past few years.

In line with new regulatory requirements coming down the tracks as part of the changing regulatory landscape in the EU, banks in Ireland are already facing significant additional costs. These include new funding requirements such as Single Resolution Fund and Deposit Guarantee Scheme, in addition to the increased domestic and international direct supervision costs. For example, it is estimated by the Department of Finance that the total aggregate contribution figure for the Single Resolution Fund for Irish licensed banks will increase from an estimated €75 million in 2015 to an estimated €225 million over the next eight years. This represents a significant burden to the financial services industry over the coming years.

Our initial discussions with the FIBI (Federation of International Banks in Ireland) members suggest that existing regulatory burden is significantly higher in Ireland compared with other competing jurisdictions. In many cases our international member's biggest competitors are their sister banks in a different jurisdiction. For these operations, winning the battle on costs and regulatory overhead is vital to winning business here.

Changing Regulatory Landscape:

A significant portion of CBI's responsibility in relation to banking supervision has been transferred to the ECB as part of the Single Supervisory Mechanism (SSM). In this context, we would have expected the creation of efficiencies within the CBI's supervisory teams to be used in other areas where activity is expected to increase. In addition BPFI member banks have already incurred significant additional costs due to the increased number of staff in the regulatory compliance functions. This is a direct result of the change in regulatory approach both domestically and internationally.

As part of SSM, credit institutions designated as significant by the ECB have to directly contribute to the funding of the budget of the SSM. For foreign banks operating in Ireland we believe that there will be a charge by headquarters associated with SSM fees. This leads to duplication of regulatory costs for these institutions as well as domestic significant banks which are expected to pay towards the CBI levy as well as the SSM levy.



Furthermore, it is likely that for any special projects arising in the context of financial regulation in Ireland or through the ECB SSM, costs will be recovered from banks separately if there are external consultants involved in these projects where there doesn't seem to be transparency in relation to the details of costs incurred.

Transparency/Accountability:

Our members believe that there is limited detail available in terms of the overall cost of regulation. Key information that would ensure a clear and transparent assessment of the current cost base in terms of efficiency and as a benchmark vis-à-vis other jurisdictions should be available covering the following areas:

- Full Time Equivalent by Regulatory Sector
- Average Cost per Employee (incl. pension costs)
- Variable and Fixed Overheads Breakdown
- Professional Support Services (Analysis by Service)
- Premises and Housing Costs

Role for Comptroller & Auditor General

Our members believe that the Central Bank of Ireland should be subject to similar arrangements with the Comptroller and Auditor General like other regulators with similar funding arrangements where they have to prepare financial statements in a form as may be approved by relevant Government Ministers and submit accounts in respect of each operating year to the Comptroller and Auditor General for inspection.

Role of Central Bank Commission

The Central Bank Commission was established in 2010 and is responsible for ensuring that the statutory functions of the Bank are properly discharged, with six external members appointed by the Minister for Finance. This Commission has different statutory powers however most of these are delegated to the Governor, Deputy Governor or an employee of the Central Bank. It is only where operational matters are brought before the Commission for decision that the Commission ensures that the Bank is acting in an appropriate manner consistent with its statutory functions and powers. We believe that this Commission should be given a stronger oversight role in terms of increased transparency and independent scrutiny of budget setting and performance reporting aligned with operating objectives.

International Experience:

In other jurisdictions “value for money” has been an integral part of the considerations during the preparation of regulatory funding mechanisms, such as in the UK. For example the PRA in the UK asks firms to complete an annual feedback survey and carries out internal reviews of the relevant areas if survey results are less favourable. We would like to further emphasise that there is no clear correlation between high spending regulators and successful ones.

Enforcement Fines:

Monetary fines are an important factor in encouraging regulated entities to maintain high standards and act as a significant deterrent. At the moment income from enforcement fines is fully remitted by the CBI to the Exchequer. We believe that these should instead be used to underpin the regulatory framework as is the case in some other jurisdictions.

Methodology:

BPFI members recognise the merits of the proposed move to align with the ECB’s methodology with the strict assumption that “total amount of annual fees” referred to in the consultation document (CP108) refers to 50% of the portion of the fee allocated to credit institutions category.

At the end of 2015, the Central Bank of Ireland employed c.1500 FTEs with c.700 of these assigned to Regulatory areas. It would be beneficial from a transparency perspective if the CBI can demonstrate the actual costs allocated to relevant functions charged with supervising different categories of institutions outlined in this consultation document.



Additionally, we would like to get clarity on the points outlined below:

1. The proposed criteria to determine Category A and B firms, other than being determined significant or less significant institutions under SSM. For example it is not clear the moment as to how institutions are classified as high priority within the LSIs.
2. Whether the CBI fee will be levied on each licenced entity, or whether it will be levied as per the SSM fee calculation i.e. one overall fee with adjustments for intragroup assets etc.
3. In the event that it is levied on each licenced entity, whether total assets and risk weighted assets for each entity within a bank will be adjusted accordingly in order to avoid double-exposure.
4. Whether the CBI will require an additional return from BPFi member banks for these calculations or whether the calculations will be based on the current online returns completed by our members.
5. Whether the CBI will provide the calculation annually in advance to our members for their information.
6. Whether the CBI will provide examples of our members' fee using the new methodology. Recalculation of the charges will be impossible for individual entities to reproduce independently or validate. This lack of transparency to be able to validate or assess the calculations is a concern for BPFi members.

About BPF

Banking and Payments Federation Ireland (BPF) is the voice of banking and payments in Ireland. Representing over 70 domestic and international member institutions, we mobilise the sector's collective resources and insights to deliver value and benefit to members, enabling them to build competitive sustainable businesses which support customers, the economy and society. Delivering a range of services through our specialist team, BPF also offers an Associate network through which we offer many of the benefits of membership to the leading professional service firms that provide related advisory and consultancy services.

Contacting us

BPF look forward to progressing the agenda set out in this submission in co-operation with the relevant stakeholders and is happy to meet with interested parties to discuss the contents of this document as necessary. Should you wish to contact BPF towards this end or for further information regarding the contents of this document, please contact:

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