

Via Email: levyconsultation@centralbank.ie

CP108 Consultation
Central Bank of Ireland
North Wall Quay
Dublin 2

4 May 2017

Consultation Paper 108 – New Methodologies to Calculate Funding Levies

Dear Sir / Madam,

The Irish Association of Investment Managers (IAIM) welcomes the opportunity to respond to Consultation Paper 108 on the methodology used to calculate funding levies for regulated financial services firms (CP108). The members of the IAIM are primarily, though not exclusively, levied as investment firms, and our comments are limited to the proposed changes in respect of such firms.

The IAIM fully supports the proper resourcing of high quality financial regulation in Ireland, and agrees with the general goals referenced in the consultation paper that the funding model should be transparent and predictable, and should equitably allocate the costs of regulation. We also support the goal of reducing threshold effects by moving to a more continuous model for the calculation of levies. However, the association has concerns in respect of several areas, and our observations are set out below.

General

We acknowledge that the focus of the CP108 consultation process is the methodology for allocating the cost of financial regulation among firms, rather than determining the total budget of the CBI. It is a cause of concern among firms, however, that regulatory costs have risen and continue to rise dramatically. While the methodology for determining how costs are shared is relevant, any assessment of the impact of a change in the levy model can only be meaningful if it examines the actual changes in levies that firms face, and is set against the actual spending of the Central Bank on financial regulation activity.

Accordingly, while it is understandable that the illustrative parameters for levy calculation were selected based on the current CBI budget, we note that changes in 50/50 industry funding may represent an immediate increase of 30% in the levies that firms pay, in addition to the general increase in the CBI's expenditure. We further note that the CBI has indicated that there are a

significant number of unfilled vacancies within financial regulation operations, and that while challenges continue to be faced in filling these vacancies, costs will continue to rise as they are filled.

While aspects of the cost base of the Central Bank that are included in the industry levy represent direct engagement with firms, other aspects are of a public policy nature, and/or arise from shared resources that are also used by non-regulatory CBI functions. It is our view that it is not appropriate that these costs are levied solely on the industry, and we are concerned that a move to full industry funding will ultimately lead to this scenario.

Further, there is extremely limited industry input into or oversight of the CBI's cost base and operational arrangements, and accordingly it is not possible for the industry to have an informed view regarding the appropriateness or otherwise of the CBI's budget. Given that firms are being levied in excess of €75m, we believe that it is reasonable that appropriate consultative measures should take place with industry in respect of that budget, and not simply on how it is allocated among firms.

Transparency & Equitable Allocation of Costs

It is our understanding of the funding levy model that the intent behind the allocation of levies between different industry sectors is based on the cost to the CBI of regulating those sectors, and that similar considerations apply in respect of how costs are allocated across different PRISM impact categories.

However, in the absence of published information, it is difficult to verify or consider the extent to which cross-subsidisation is taking place between sectors or between sizes of firms within impact categories. It is also not clear how the costs of shared resources, including enforcement, are passed on to different sectors. It is also not clear whether the changes in the funding model will also indicate a change in the regulatory engagement model used with firms, and, if not, whether the link between cost of regulation and regulatory levies will be maintained.

Predictability

As the CBI is aware, up until now firms were not aware of their PRISM impact score, and were not in a position to predict whether their PRISM category might change. It is a welcome development that these impact scores are now being shared with firms. However, the basis for the calculation of impact scores is still not transparent to firms, nor is it clear if and when the score is recalculated. This creates difficulties in (a) budgeting appropriately for the levy, and (b) considering what impact new business or changes in existing business models may have on a firm's levy. This information is extremely relevant to firms, and providing clear guidance on the regulatory cost of business lines will assist firms in making reasoned decisions regarding the scope of their regulated activity. This should, in turn, provide benefits to the CBI in minimising resourcing requirements.

While the reduction in threshold effects is welcome, the change in calculation methodology will result in a one-off rebalancing of the levy structure that may be significant for some firms, in particular in the context of the overall increase in the industry contribution. Solely on the basis of the change in methodology, a firm at the margin of Medium-Low and Medium-High PRISM categories would face a change in levy from €51,450 to €177,231. When the overall changes in the cost base and funding contribution are taken into account, the levy could rise to in excess of €250,000.

In practical terms, the timing of the levying determination and notification makes it very difficult for firms to appropriately budget for the costs involved, and this issue will be exacerbated due to the changes this year.

Accordingly, we ask that the following be made available by the CBI:

- The parameters and factors used in determining firm's impact scores, and the methodology and timetable used;
- A breakdown of regulatory costs by sector and by PRISM category;
- An indication of whether the PRISM category-based engagement model will continue to apply, and if so, to what extent ongoing industry levies will be linked to actual costs.

Further, we request that:

- Appropriate measures are taken to phase the changes, in particularly where significant increases are being applied;
- On an ongoing basis, that an earlier determination of the levies is made to facilitate proper budgeting by firms.

We thank you for the opportunity to input into the consultation process, and are available to meet to elaborate on the points above should it be useful.

Yours sincerely,

Brendan Bruen

CEO