Financial Services Ireland
Ibec

Funding levies Consultation 108 of 2017
Central Bank of Ireland
PO Box 9708
New Wapping Street,
North Wall Quay
Dublin 1

5th May 2017

Dear Sir/Madam

Thank you for the opportunity to discuss proposals on the Central Bank's levy methodology. Having consulted with our members, we have prepared the below response.

General

FSI welcomes confirmation from the Central Bank (CBI) that the current proposals are not designed to raise the industry levy in aggregate. It is also a positive step to see a move away from the very steep levy differentials between individual PRISM categories and we would like to acknowledge this movement to continuous levying by the CBI, similar to other EU jurisdictions (notably 'straight line recovery' by the Financial Conduct Authority in the UK).

These factors are particularly welcome given the current decision-making on relocation of some financial services activities within the EU, and the associated cost comparisons of various bases. Ireland's ability to attract and retain international financial services activities remains one of FSI's leading priorities. Together with the need for a well resourced, responsive, proportionate and robust regulator, our response to this consultation is framed in such a context.

While an increase in fees is not expected on an aggregate basis, we nonetheless note that fees will increase for some firms on an individual basis due to reallocation of costs based on risk. With that in mind, we would request the CBI to be mindful of the incremental cost of regulatory supervision taking place both via local and European mechanisms. For example, the CBI will be aware that the European Commission is consulting on operation of the European Supervisory Authorities, including some questions on the merits of new industry levying. The cost of supervision for firms at local level becomes more relevant at this time, so as not to tip Ireland's cost base over and above those of other EU Member States.

At a high level, we would make the following suggestions in relation to the Central Bank's levy process:

- The publication of an estimate of the CBI's total supervision costs for next 3 years would provide very useful context for financial planning. We would be concerned that any consultation on the *methodology* of fee calculation (based on the cost of supervision year-to-year), will become redundant if costs were to continue to rise without appropriate controls.
- The issuance (if not already done) of specific initiatives to control supervisory costs would also provide a useful and important tool for both industry and the CBI
- The Central Bank's proposed new levy arrangement redistributes cost of supervision based on risk. We would suggest that the funding mechanism could be further improved in respect of:
    - transparency - regarding the basis of levy charge and calculation and its alignment with the supervision of the payer; and
    - predictability – by supporting the ability of the payer to anticipate the levy payable each year and by seeking to reduce volatility (through as above, for example, the publication of a 3-5 year financial plan)

Credit Institutions

In respect of the proposal to introduce an ECB methodology with fixed and variable components, we would make the following observations.

- The 10% minimum fee is split equally amongst Significant Institutions (SI). We would propose this should instead be split in alignment with the weighting for the variable fee.
- It would be preferable to have greater information on the specific criteria ('high priority' and 'retail') which would be invoked as the basis for classification and reclassification of institutions, which can materially affect the level of assessment for levy.
- There appears to be no maximum individual total for Credit Institutions category A or B, and no apparent mechanism to prevent the largest payer in Cat B to be a larger individual payer than Cat A entities, which could arise depending on the number and size of SIs and Less Significant Institutions (LSI) entities reclassified in each group. Such a result would appear to be at variance with stated intention that the charge be equitable.
- As the methodology for Credit Institutions is based on the relative proportion of the payer's inputs versus all other payers, re-calculation of the charge will be impossible for individual entities to reproduce independently or validate. For the same reason, it would not be impossible for individual entities to predict future levies with any certainty. We would welcome a change to this proposal to introduce greater transparency.
- We would welcome the introduction of a tool to incorporate other quantitative or qualitative factors into the calculation, as these will have a bearing on the activity and stability of the entity under assessment (e.g. its level of support from parent, related parties,

voluntary or mandatory restrictions on its business model or mode of operations, i.e. whether in wind down, etc.).

EEA Levies
In respect of the proposal to impose levies on EEA investment firms, insurers and fund service providers, we are not aware of a precedent, and would request the CBI to establish whether peer regulators also impose such fees before finalising its proposal.

If you have any questions about this consultation, please feel free to contact either myself, or Audrey Crummy, details below.

Yours faithfully

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