



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

2016

New Methodology to Calculate Funding Levies for Retail Intermediaries

Consultation Paper CP 102

Contents

	Page
1. Objective	2
2. Introduction	2
3. The Case for a New Levy Methodology	2
4. Consultation question	4
5. The Consultation process	5

1. Objective

The aim of this consultation is to elicit views on a revised methodology for calculating the Industry Funding Levy for retail intermediaries.

2. Introduction

The Central Bank of Ireland's ("the Central Bank") total funding requirement for financial regulation activity is determined on an annual basis by the resources required to discharge its legal responsibilities under domestic and EU law.

Section 32D and 32E of the Central Bank Act 1942, as amended, provide that the Central Bank Commission may make regulations relating to the imposition of levies and fees on the financial services sector in respect of the recoupment of the costs of financial regulation. Regulations made under Sections 32D and 32E of the Central Bank Act 1942, or any amendment or revocation of these regulations, do not take effect until approved by the Minister for Finance. The industry currently funds 50% of the costs incurred by the Central Bank for financial regulation with certain exceptions.¹

This consultation does not concern itself with the case for full industry funding, an issue that has been the subject of Consultation Paper 95 (2015) and is ultimately a decision of the Government. It should be noted that any future changes in this regard may impact the levy parameters proposed in this consultation.

3. The Case for a New Levy Methodology

Following a public consultation in 2012, the method for calculating industry funding levies for retail intermediaries was reformed to one based on PRISM impact categories as from 2013.² However, in 2014, to address concerns regarding threshold effects the Central Bank revised its methodology and the number of impact bands was increased from three to seven for retail intermediaries. Effectively, the range of impact scores covered by Band 2 in 2013 was expanded into five separate bands (Bands 2 to 6). The bands, impact scores and associated levies which applied in 2015 are illustrated in Table 1.

¹ For an overview of the firm categories currently exempt from the 50% funding rule, see Consultation CP 95: Funding the Cost of Financial Regulation, 2015.

² CP61: Consultation on Impact Based Levies and Other Levy Related Matters, 2012.

New Methodology to Calculate Funding Levies for Retail Intermediaries

Table 1. Impact Bands and levies for retail intermediaries in 2015

Impact Score	Band 1 < 50.2	Band 2 50.2 – 50.4	Band 3 50.5 – 51.0	Band 4 51.1 – 51.4	Band 5 51.5 – 52.3	Band 6 52.4 – 53.0	Band 7 ≥ 53.1
Levy	€685	€1,465	€1,924	€2,475	€3,845	€7,875	€35,265

As can be seen from Table 1, the largest threshold effect in 2015 occurred when a firm moved from Band 6 to Band 7, in which case the 2015 levy payable increased from €7,875 to €35,265. It should be noted that the number of firms in the two highest impact Bands is very small, about one per cent of the overall firm population. However, threshold effects also occur between the other bands. In addition the impact scores within each band and the levy amount for each band are subject to movement each year.

Representations have been made to the Central Bank by retail intermediaries and their representative bodies that the levies based on PRISM impact scores were subject to opaque threshold effects which should be remedied.

In order to remove the threshold effect and increase the transparency of levies paid by retail intermediaries, while maintaining the principle that larger intermediaries pay higher levies than smaller ones, the Central Bank proposes a new levy methodology. The proposal is that from the levy year 2016, retail intermediaries are charged a levy comprised of a flat element plus a variable element, set as a percentage of reported income from commissions and fees that exceed a threshold. The flat and variable elements will be determined annually.

According to calculations by the Central Bank, based on 2015 figures, the overall funding levy from the industry using the proposed methodology would have been set as follows in order to levy the same aggregate amount:

Flat element (A):	€685
Threshold (T):	€685,000 of reported commissions and fees (RCF)
Percentage (P):	0.1%

The levy in 2015 would have been calculated using the following formula:

$$A + \text{Max}(\text{RCF}-T;0)*P$$

Three examples of how this new methodology would work in practice are set out below:

1. *Example 1: A retail intermediary with less than €685,000 income from commissions and fees that fell into Band 1 in 2015 under the existing methodology.*

In this case there is no change, the firm would have paid €685 in 2015 under the proposed methodology.

2. *Example 2: A retail intermediary with €1,000,000 income from commissions and fees that fell into Band 2 in 2015 under the existing methodology.*

In 2015 the levy for such a firm was €1,465, while based on the new methodology the levy would have been €1,000.

3. *Example 3: A retail intermediary with €10,000,000 income from commissions and fees that fell into Band 6 in 2015 under the existing methodology.*

In 2015 the levy for such a firm was €7,875, while based on the new methodology the levy would have been €10,000.

The results from the examples above are tabulated as follows:

	Example 1	Example 2	Example 3
Commissions and Fees	€500,000	€1,000,000	€10,000,000
<i>Commissions and Fees above €685,000 threshold</i>	<i>N/A</i>	<i>€315,000</i>	<i>€9,315,000</i>
Flat levy element	€685	€685	€685
Variable element (0.1% on commissions & fees > €685,000)	€0	€315	€9,315
Proposed levy illustration under new methodology	€685	€1,000	€10,000
Actual 2015 levy	€685	€1,465	€7,875
Impact	No change	€465 Decrease	€2,125 Increase

4. Consultation question

The Central Bank would like your views on this proposed methodology. If you do not agree with this approach please propose alternatives.

5. The Consultation Process

This public consultation process will run from 26 April 2016 to 24 May 2016. Any submissions received after this date may not be considered.

The Central Bank intends to make submissions available on its website after the deadline for receiving submissions has passed. Because of this, please do not include commercially sensitive material in your submission, unless you consider it essential. If you do include such material, please highlight it clearly so that reasonable steps may be taken to avoid publishing that material. This may involve publishing submissions with the sensitive material deleted and indicating the deletions.

Despite the approach outlined above, the Central Bank makes no guarantee not to publish any information that you deem confidential. So be aware that, unless you identify any commercially sensitive information, you are making a submission on the basis that you consent to it being published in full.

Please clearly mark your submission 'New Levy Methodology for Retail Intermediaries' and send it to:

Retail Intermediary Funding Consultation 2016
Central Bank of Ireland
PO Box 9708
Dublin 2
E-mail: levyconsultation@centralbank.ie

Please include contact details if you are responding by post.

T +353 1 224 4022 F +353 1 224 4033 www.centralbank.ie funding@centralbank.ie



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

PO. Box No 9708, Dame Street, Dublin 2, Ireland