



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# New Methodology to Calculate Funding Levies payable by Moneylenders

## Consultation Paper CP117 2018

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# Objective

The aim of this consultation is to elicit views on a revised methodology for calculating the Industry Funding Levy payable by Moneylenders<sup>1</sup>.

## 1. 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.

Sections 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 recovery 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.

Since 2017, Industry has, with certain exceptions<sup>2</sup>, funded 65 per cent of the costs incurred by the Central Bank for financial regulation. The case for full industry funding was addressed in a separate consultation ([Consultation Paper 95 \(2015\)](#)). It is Central Bank strategy to seek to move towards full industry funding in time, subject to approval by the Minister for Finance. It should be noted that any future changes in this regard may impact the levy parameters proposed in this consultation.

## 2. The Case for a New Levy Methodology

Following a public consultation in 2012, the method for calculating industry funding levies payable by moneylenders was reformed, with effect from 2013, to one based on PRISM impact scores<sup>3</sup>. The Central Bank adopted a tiered approach in relation to the levies payable by moneylenders, with the relevant tier being determined by the regulated entity's impact score under PRISM. To address concerns regarding sharp threshold effects, the number of tiers was increased from four to five in 2015.

Applying this approach, levy rates in 2017 are tabulated below:

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<sup>1</sup> Moneylenders licensed in accordance with the Consumer Credit Act, 1995 (as amended)

<sup>2</sup> For an overview of the firm categories currently exempt from the 65% (50% until 2017) funding rule, see [Consultation Paper 95 \(2015\)](#).

<sup>3</sup> [CP61: Consultation on Impact Based Levies and Other Levy Related Matters, 2012](#).

**Table 1: PRISM –derived Risk Impact Bands and levies for Moneylenders in 2017**

Impact Category	Low					
	Band	1	2	3	4	5
Impact Score	≤ 10.5	10.6 - 13.0	13.1 - 15.0	15.1 - 30.0	≥ 30.1	
Levy	€1,161	€4,590	€11,638	€43,353	€168,491	

The data in Table 1 illustrates that the largest threshold effects in monetary terms currently occur when a firm moves from Bands 3 to 4 or from Band 4 to 5. In such instances, the 2017 levy payable increased from €11,638 to €43,353 and from €43,353 to €168,491 respectively. It should be noted that the number of firms in the two highest impact Bands is very small. However, threshold effects also occur between the other bands. In addition, the impact score range within each band can be subject to change on an annual basis.

Concerns have been expressed to the Central Bank by some firms operating in this category that the levies based on PRISM impact scores give rise to opaque threshold effects which should be remedied.

In order to eliminate the threshold effect and increase the transparency of levies payable, while maintaining the principle that larger firms should pay higher levies than smaller ones, the Central Bank proposes a new levy methodology.

### 3. Proposed Methodology

The proposal is that, from the levy year 2018, firms will be charged a levy comprising

- a minimum levy (M); plus
- a variable levy, set as a percentage (P) of reported turnover from regulated activity (I) in excess of a threshold (T).

The total levy calculation is derived from the following formula:  $M + [(I - T) * P]$

The minimum and variable levies will be determined annually and will be calibrated in order to recover the relevant proportion of costs attributable to moneylenders in a given year.

Based on turnover from regulated activity previously provided by moneylenders and the overall funding levy that the Central Bank set out to raise from the industry in 2017, we estimate that, using the proposed new methodology, the 2017 levy rates would have been as set out in Table 2 below:

**Table 2: 2017 levy rates restated to reflect the proposed change**

Minimum Levy	<b>M</b>	€1,161
Income	<b>I</b>	Turnover from regulated activity
Turnover Threshold (T) <i>after which variable levy applies</i>	<b>T</b>	€60,000
Percentage	<b>P</b>	0.356%

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

		Example 1	Example 2	Example 3
Minimum Levy	M	€1,161	€1,161	€1,161
Turnover for regulated activity less Threshold	I T	€60,000 <u>€60,000</u>	€650,000 <u>€60,000</u>	€50,000,000 <u>€60,000</u>
Excess liable to variable rate	M - T	€0	€590,000	€49,940,000
Variable Rate	P	x 0.3560%	x 0.3560%	x 0.3560%
Variable Levy		€0	€2,100	€177,786
<b>Total Levy (Minimum + Variable)</b>		<b>€1,161</b>	<b>€3,261</b>	<b>€178,947</b>
Actual 2017 Levy		€1,161	€4,590	€168,491
<b>Impact (Proposed v Old Methodology)</b>		<b>No change</b>	<b>€1,329 saving</b>	<b>€10,456 increase</b>

#### Example 1:

*A moneylender with less than €60,000 turnover in respect of regulated activity that fell into Band 1 in 2017 under the existing methodology.*

In this case there is no change, the firm would have paid €1,161 in 2017 under the existing and proposed methodologies.

#### Example 2:

*A moneylender with €650,000 turnover in respect of regulated activity that fell into Band 2 in 2017 under the existing methodology.*

In 2017 the levy for such a firm was €4,590, while based on the new methodology the levy would have been €3,261.

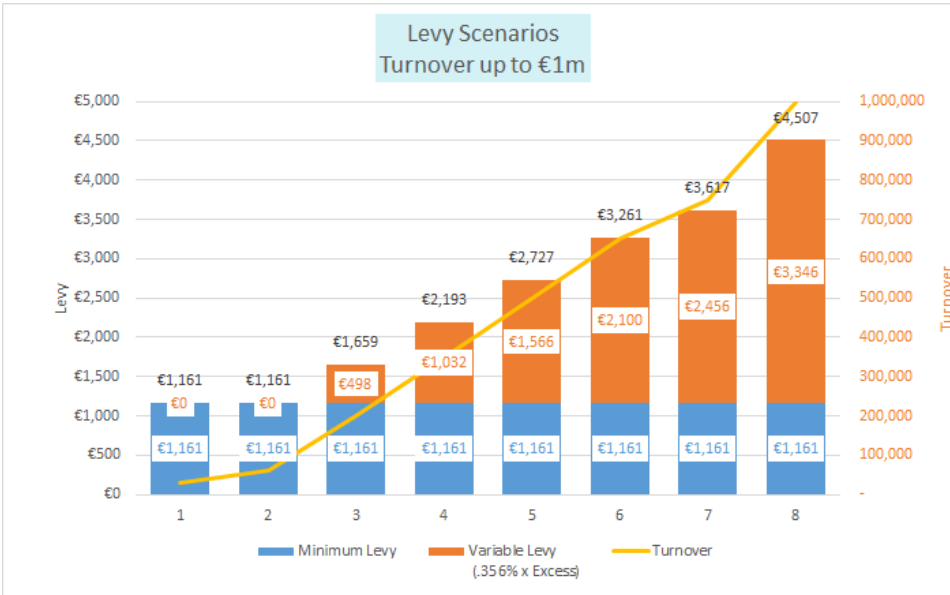
#### Example 3:

*A moneylender with €50,000,000 turnover in respect of regulated activity that fell into Band 5 in 2017 under the existing methodology.*

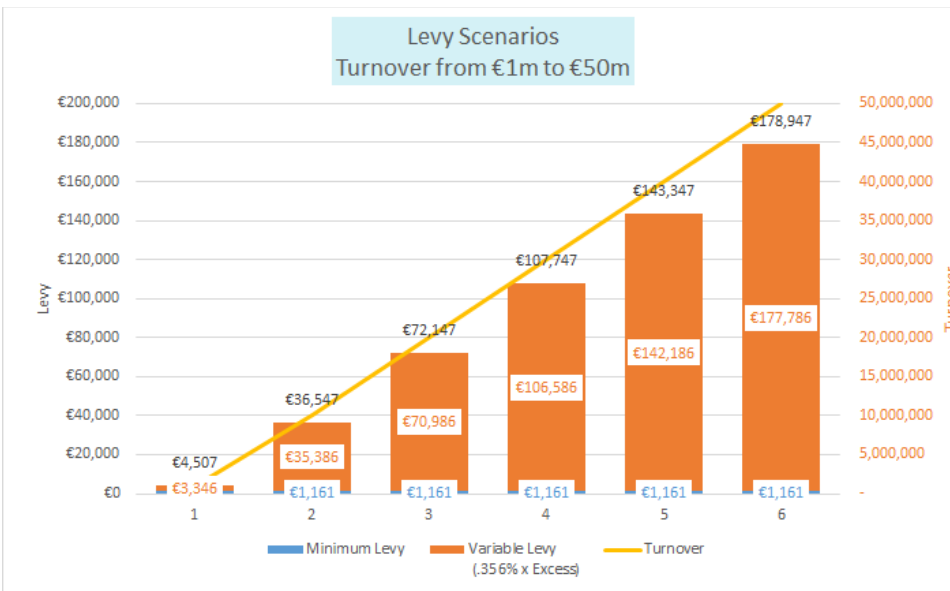
In 2017 the levy for such a firm was €168,491, while based on the new methodology the levy would have been €178,947.

The graphs below set out the estimated levies for different levels of turnover that would have been payable in 2017 based on the revised methodology.

**Graph 1: Estimated 2017 levies using the new methodology where turnover from regulated activity is less than €1 million**



**Graph 2: Estimated 2017 levies using the new methodology where turnover from regulated activity is between €1 million - €50 million**



## 4. Consultation question

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

## 5. The Consultation Process

This public consultation process will run from **22 March 2018 to 17 May 2018**. 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. Therefore, 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 Moneylenders’**

and send it to:

Moneylenders Consultation 2018  
Industry Funding  
Central Bank of Ireland  
PO Box 9708  
Dublin 1

Or by e-mail to: [levyconsultation@centralbank.ie](mailto:levyconsultation@centralbank.ie)

**Please ensure to include contact details if you are responding by post.**



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