Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

2010

# Consultation on Impact Metrics for the Risk Based Supervision of Financial Firms by the Central Bank and on Impact Based Levies

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# 1 Executive Summary

The mitigation of prudential risk and the prevention of customer loss are both key goals of the Central Bank of Ireland (Central Bank). In order to meet these challenges the Central Bank needs to optimise the allocation of its finite supervisory resources.

One of the Central Bank's priorities is risk-based supervision. It has made clear that:-

A. the Central Bank needs the right quantity and quality of resources to do supervision effectively, and that the level of supervisory engagement should be calibrated to the inherent risk profile of the firm in question;

B. supervisors need to make a more systematic and engaged assessment of risk at higher impact firms and this should involve a rigorous review and scoring of different aspects of risks; and

C. that the above would allow the Central Bank to have more clarity about its priorities in the supervisory relationship.

As part of its enhancement of risk-based supervision, the Central Bank is entering into a consultation process. Through this consultation paper interested parties are invited to submit proposals as to what indicators the Central Bank should use to calibrate the impact (a proxy for importance) of the c.15,000 firms that it regulates. The result of this consultation will be used alongside the Central Bank's own analysis of the most pertinent indicators to determine the metrics which will be used in its approach to supervision of different entities as well as the fees' blocks into which different institutions should fall.

In this consultation paper, the Central Bank sets out an approach to the use of regulated entity (firm) impact metrics so as to enhance the Central Bank's ability to fairly and consistently categorise the extent of loss that might ensue as a result of a failure at a specific regulated entity.

Clear impact categorisation of regulated firms within and across firm categories will allow the Central Bank to improve its targeting of supervisory resources. It may also provide an opportunity to better align funding of regulated entities with the cost of supervision.

In summary, this consultation aims to assist the Central Bank in its goal of developing an impact-influenced allocation of supervisory focus as well as, in the future, an impact-driven allocation of fees. Such an impact-influenced approach will assist the Central Bank to achieve better alignment of its activities with the goals of mitigating prudential risk and preventing customer loss.

## Legal

The Central Bank is conducting this consultation further to its obligations to regulate financial services firms under Section 14 of the Central Bank Reform Act 2010 which amends Section 5A of the Central Bank Act 1942 as detailed in Part 1, Schedule 1 of the Reform Act.

*Extract from Part 1, Schedule 1 of the Central Bank Reform Act 2010*

Item 21, Subsection (11)

Subject to subsection (10), the Bank shall perform its functions and exercise its powers in a way that is consistent with —

(*a*) the orderly and proper functioning of financial markets,

(*b*) the prudential supervision of providers of financial services, and

(*c*) the public interest and the interest of consumers.

With regard to the possibility of using the impact metrics to determine the fees paid to the Central Bank by each regulated firm, the Central Bank retains the power to prescribe and impose fees under Section 14 of the Central Bank Reform Act 2010 which amended Part 111A, Chapter 2A, Section 32 E of the Central Bank Act 1942 as outlined in the Reform Act.

*Extract from Part 1,Schedule 1 of the Central Bank Reform Act 2010*

Item 39, Subsection 32E

(1) The Commission[1] may make regulations prescribing fees for the purpose of any enactment that provides, by reference to this section or to section 33K (as in force at any time before the coming into operation of this section), for the payment of a fee.

(2) The Commission may make regulations providing for all or any of the following matters:

(a) the persons, or classes of persons, who are required to pay specified kinds of fees;

(b) the amounts of specified kinds of fees;

(c) the collection of fees.

.....

(7) The Commission may amend or revoke a regulation made under this section.

## Scope

The consultation covers all c. 15,000 entities which are regulated by the Central Bank.

[1] The Commission refers to the Central Bank Commission which is the Unitary Board of the Central Bank of Ireland and was formed under the Central Bank Reform Act 2010 to replace the Boards of the Central Bank and Irish Financial Services Regulatory Authority with a single fully-integrated entity.

## Consultation Process

The consultation will run for nine weeks from 22nd December until 24th February. Responses should be sent to Risk@centralbank.ie or by post to Miss Helen Guinane, Risk Division, Central Bank of Ireland, PO Box No. 559, Dame Street, Dublin 2.

# 2 What the Central Bank means by Impact and Probability Metrics

2.1 In the enhanced risk model which the Central Bank is currently developing, significant firms will be measured by both impact rating and risk probability rating. The primary goal of this consultation is to introduce and seek discourse about which measures are best suited to be used as components of a firm's impact rating for different firm categories.

2.2 **By impact we mean, in essence, size or ability to cause prudential harm or customer loss.** We are talking about how large a firm is in the context of the Irish and in some cases global economy, not how good it is or how risky it is. Another way of describing impact would be to talk about the ability of a financial firm, were it to fail on any dimension, to cause societal damage. It is expected that most if not all of the impact metrics used in deciding on a firm's impact rating will be quantitative once the right impact metrics have been chosen. The Central Bank's Supervisory Risk Committee may, under some conditions, deem it necessary to review impact ratings upwards for specific firms.

2.3 A question arises about how narrow the interpretation of impact should be. In its most restricted sense impact relates to a firm's prudential importance (size, interconnectedness and substitutability) and the extent of its dealings with retail customers. It may also be prudent to include some other issues or aspects in our definition of impact for some categories. Particularly for smaller firms that do not have a dedicated supervisor the authorisations that a firm holds may be part of a firm's impact rating. As an example, if a firm is authorised to hold client money, it might be proper to consider this fact when calculating its impact rating.

2.3.1 <u>Prudential or systemic impact:</u> There is some agreement on how to broadly define systemic risk. The G10 has described it as follows, "Systemic financial risk is the risk that an event will trigger a loss of economic value or confidence in, and attendant increases in uncertainly [sic] about, a substantial portion of the financial system that is serious enough to quite probably have significant adverse effects on the real economy" [2].

The academics George Kaufmann and Kenneth Scott have written "Systemic risk refers to the risk or probability of breakdowns in an entire system, as opposed to breakdowns in individual parts or components, and is evidenced by co-movements (correlation) among most or all the parts."[3].

January 2011 will see the establishment of the European Systemic Risk Board which will be responsible for macro-prudential oversight

[2] p.130 Group of Ten, Report on Consolidation in the Financial Sector, 2001.

[3] p.371 George G. Kaufman And Kenneth E. Scott, What Is Systemic Risk, and Do Bank Regulators Retard or Contribute to It?, The Independent Review, v. VII, n. 3, Winter 2003, ISSN 1086-1653, 2003.

of the EU financial system. Its work will inform regulators throughout the EU. Prudential impact has not received as much consideration as systemic risk but is probably best thought of as a term which encompasses both the systemic damage the failure of some firms can cause and the lesser damage the failure of smaller firms is likely to cause. The problems of large retail banks have had a systemic impact on the Irish economy. It is possible that the failure of some of the largest financial firms in other sectors might have a severe impact on the Irish economy which fall short of a systemic impact. Examples of impact metrics that might prove useful as proxies of overall impact are total assets, turnover, premium income etc. Different impact metrics will be necessary for different firm categories. The smaller firms, particularly those firms which do not extend credit, are unlikely to create systemic problems if they fail, but their failure may, nevertheless, badly affect some counterparties - including retail customers. While reputational risk is another concern of the Central Bank it is not easily quantified. The other metrics used are expected to function as a proxy for this specific sub-type of impact.

2.3.2 Customer impact: Certain impact metrics could be used as proxies for the firm's potential to cause losses for a large number of customers. Depending on the firm category, such metrics might be whether the firm is authorised to hold client money or has a significant retail presence. Numbers of sales staff, agents or branches could also give a strong indication of the customer reach of any given firm. Other metrics such as the number of customers, accounts or policies are clearly also likely to be of relevance where available.

**Figure 2-1**

**Risk-based supervision**
Impact:
The degree of prudential impact (size, interconnectedness, substitutability) and customer impact a firm might represent should a failure arise. This is important in order to calibrate the right level of ongoing supervisory attention.

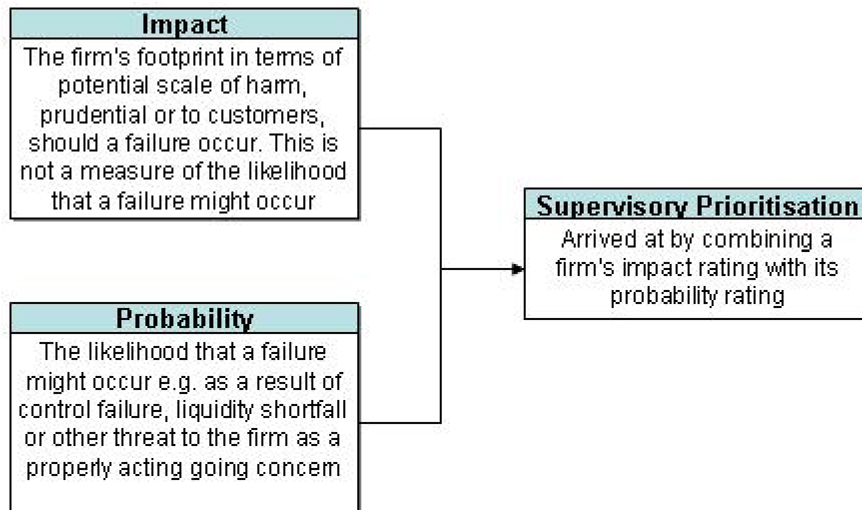
2.4 Probability ratings are separate from impact ratings and are concerned with likelihood of a firm having an adverse effect on the Central Bank's objectives. Whilst some measures of probability will be reliant on supervisory judgement, others (e.g. default rate on loans extended to customers) may be quantitative.

**Figure 2-2**

| **Risk-based supervision**<br>Probability:<br>The likelihood that a firm will suffer (or extent to which it is already experiencing) a material compliance or business failure. This is important in order to identify the firms most in need of immediate supervisory intervention. |
|---|

2.5 Combining the Central Bank's impact rating of a firm with its probability rating of a firm will give an indication of a firm's supervisory prioritisation (Figure 2.3 below).

**Figure 2-3**




2.6 To give an example, the total size of a bank's balance sheet might be regarded as an impact metric whereas the quality of its corporate governance would be regarded as a probability metric. The Central Bank would regard evidence of poor quality corporate governance as indicating that a firm is more likely to experience problems (either prudential or relating to customer treatment) than a firm with strong corporate governance.

# 3 Divisors, Impact Scores and Impact Ratings

3.1 It is the intention of the Central Bank to apply a **divisor** to each firm impact metric. The resulting **impact score** allows the impact of firms in different sectors to be compared using a common denominator. By divisors we mean, as an example, the number to divide total assets by for a firm to derive an impact score and consequently, an impact rating. Divisors would be applied on a firm category basis in the same fashion to all firms in that category. For examples see figure 3.1 below. Divisors allow regulators to reduce disparate impact metrics to a common impact score which works across different firm types. Divisors are a less exact science than deciding upon the correct impact metrics but the experiences of other regulators (e.g. APRA in Australia and the FSA in the UK) have been of successful implementations which enhanced the quality of regulation.

**Figure 3-1 – Example showing concept – divisors are illustrative only**

For an insurance company with gross premium of €700 million, a divisor of 9,000,000 could be applied to the impact metric, giving an impact score of 78.

I.e. impact score = 700,000,000/9,000,000 = 78

Similarly, for a Retail Bank with retail deposits to the value of €10.1 billion, a divisor of 90,000,000 could be applied, giving an impact score of 112.

I.e. impact score = 10,100,000,000/90,000,000 = 112

Referring to Figure 3.3 we see that the insurance firm would then get a Medium High impact rating whereas the retail bank would get a High impact rating.

3.2 It is likely that most firm categories will require more than one impact metric (e.g. Figure 3-2 below)

**Figure 3-2**

| Illustrative Impact Metrics by firm category | Illustrative Divisors |
|---|---|
| **Retail Bank metrics** | |
| Retail Deposits | 90,000,000 |
| Total Liabilities | 90,000,000 |
| Number of retail customers | 5,000 |
| | |
| **Credit Union metrics** | |
| Number of members | 5,000 |
| Total assets | 5,000,000 |
| | |
| **General insurance metrics** | |
| Gross premium | 9,000,000 |
| Gross liabilities | 9,000,000 |
| Number of policies | 5,000 |

In such cases the Central Bank could calculate the firm's overall impact score in a number of ways:

3.2.1 an average of all the individual impact scores;

3.2.2 a weighted average of the impact scores; and

3.2.3 the largest individual impact score.

The Central Bank's provisional preference is to use a simple average or weighted average of the impact scores to ensure that, for all categories of firm for which it is pertinent, a combination of prudential and consumer focused metrics influence the overall impact score a firm receives. One advantage of the weighted average approach is that it is more sensitive than a simple averaging of the impact scores different key metrics produce. For some categories of firm it is plausible that a certain metric or certain metrics may legitimately predominate when assessing impact.

*Question 1*

*Of the different approaches to the calculation of impact scores set out above do you have a view as to which method is preferable and why?*

3.3 This consultation paper is concerned with impact metrics as components of an impact score and ultimately an impact rating. The impact rating should be meaningful both within and across categories. As shown in figure 3.3 below the goal of the Central Bank is to arrive at a linear scale which gives the impact rating of a given firm regardless of industry category.

**Figure 3-3 – Illustration showing how the Central Bank might convert an impact score into an impact rating**

| Impact Rating | Low | Medium Low | Medium High | High |
|---|---|---|---|---|
| **Impact Score** | 0-20 | 20-50 | 51-100 | 100+ |

*Question 2*

*The Central Bank will clearly have to make judgements when deciding what divisors to apply to each impact metric in order to devise a set of impact scores which are correctly calibrated. Do you wish to suggest mathematical processes which the Central Bank should apply to ensure that it calibrates impact scores across sectors appropriately?*

# 4 Supervisory Engagement Models

4.1 The Central Bank plans to use impact-based models as part of its programme of risk-based supervision. Whilst the risk (the probability of either a serious prudential or consumer related event materialising at a firm) a firm poses is largely uncorrelated with size, as discussed in the previous sections of this paper, it is the case that the occurrence of such an event at a larger firm will have a far more material impact on the Irish economy and Irish citizens than an equivalent event at a small firm. Given this, the Central Bank believes it is necessary to adopt an enhanced long term approach to the supervision of all large (or high impact) firms.

4.2 Impact metrics will enable the Central Bank to categorise all firms into one of four ratings – High Impact, Medium High Impact, Medium Low Impact and Low Impact. The Central Bank's supervisors will engage with firms within each impact rating in a different way based upon risk priorities (see figure 4.1 below).

4.2.1 High Impact Firms – all high impact firms will be large but not all will be systemic. The financial crisis has clearly shown that banks have a higher tendency to be systemic than some other types of financial institution which are, in some respects, as large. At this stage in our thinking, the Central Bank would expect some 20 or so firms, or groups of firms, might be designated high impact. We have further work to do on this point. It is likely there will be a close alignment between these firms and those major institutions to whom the full governance requirements set out in the Corporate Governance Code[4] will apply. Each of these firms will have a dedicated supervision team who will work to understand the firm: its products, its business model, the quality of its governance as well as the pure financial aspects of the firm. Firms which are rated as high impact can expect to have close engagement with Central Bank officials. This does not mean that the Central Bank will cease to allocate resources according to the probability of a firm causing serious harm. It does, however, mean that there will be a defined minimum level of resourcing for high impact firms.

4.2.2 Medium High Impact Firms – these will be the next layer of firms below the high impact firms. Each of these firms will have an allocated supervisor but that individual may well be a supervisor of other firms as well. Each of these firms can expect to be subject to a regular programme of engagement and for the Central Bank to have a good working knowledge of the firm and its risks, with the Central Bank requiring improvements where the firm falls short of required standards.

[4] http://www.centralbank.ie/regulation/consultation-papers/Documents/CP41%20%20Corporate%20Governance%20Requirements/Corporate%20Governance%20Code%20for%20Credit%20Institutions%20and%20Insurance%20Undertakings.pdf

4.2.3 Medium Low Impact Firms – these firms are the next category down about whose management, business model, capital levels and products the Central Bank will wish to have reasonable knowledge. The riskier firms with this impact rating may be subject to periodic inspection visits and have a supervisor who spends an appreciable percentage of his or her time working on them. The less risky firms may be supervised largely through desk-based work and periodic thematic visits (which examine a narrow range of risks across a number of firms).

4.2.4 Low Impact Firms – these firms will constitute the bulk of the c. 15,000 regulated firms operating in Ireland. A combination of desk-based review of financial statements and thematic visits will be used to supervise these firms. It is envisaged that advances in the Central Bank's data processing capabilities, likely to be accompanied by electronic submission of returns by all firms, will increasingly allow for automated return checking with automatic flagging of high risk returns data to supervisory teams who will then undertake further analysis of firms where issues are flagged. As with all categories of firm, the Central Bank will continue to act on information coming to its attention which suggests that any firm is guilty of malpractice. It is likely that, for many of these firms, the Central Bank's focus will be on consumer-related issues because the prudential failure of firms in this category would cause only negligible risk to the State or its citizens as a whole. The Central Bank does not have and does not intend to create a "no failure" regime for the smaller firms it regulates.

4.3 The impact rating will therefore drive the Central Bank's engagement model for any given firm.

4.4 Whilst some aspects of figure 4.1 below are beyond the scope of this consultation we wish to give an illustration of the type of matrix that would result from a more risk-driven supervisory stance. Firms rated as High Impact would always be seen as of significant importance as a result of their scale, regardless of the quality of their management or type of business. By contrast some smaller MH (Medium High impact rating) or ML (Medium Low impact rating) firms might not be seen as high priority or even medium high priority if the probabilities of failure were ML (Medium Low) or L (Low). Firms rated as Low Impact would be unlikely to be seen as presenting a high risk to Central Bank objectives - even if failures occur.

**Figure 4-1 – Prioritisation of supervisory action using impact and probability ratings**

| High Probability | Medium Low Priority | Medium High Priority | High Priority | High Priority |
|---|---|---|---|---|
| Medium High Probability | Medium Low Priority | Medium High Priority | High Priority | High Priority |
| Medium Low Probability | Low Priority | Medium Low Priority | Medium High Priority | Medium High Priority |
| Low Probability | Low Priority | Low Priority | Medium Low Priority | Medium High Priority |
| Probability ↑ Impact → | Low Impact | Medium Low Impact | Medium High Impact | High Impact |

4.5 As noted above not all high impact firms will be systemic. Those firms that are systemic can expect especially rigorous prudential supervisory standards to apply in line with international requirements being developed by the Financial Stability Board and others. A judgement as to the size, interconnectedness and substitutability of a firm will be made in line with prevailing FSB guidelines both at point of authorisation, to assess suitability for licensing, and on an ongoing basis to calibrate prudential rules and supervisory intensity. Banks, investment banks and market infrastructure providers (such as central counterparties) are more likely to be represented in this category. As noted by the International Association of Insurance Supervisors and others, insurance companies will typically not evidence systemic characteristics due to the structure of their balance sheet. However, a number of insurance companies are likely to be in the high impact category.

# 5 Impact Derived Levies

5.1 The Central Bank currently segments the firms it regulates into fourteen industry categories for the purposes of levy setting. A financial service provider may hold more than one authorisation from the Central Bank and, therefore, fall into more than one industry category. In such cases, the financial services provider must pay the levy for each category in respect of which it holds an authorisation. For example, a credit union (Category F) may also hold a multi-agency intermediary authorisation (Category C) and is therefore obliged to pay the levy for both categories.

5.2 At present the Central Bank calculates the amount of the levy payable by individual regulated entities using a range of metrics. Full details of these are set out in *A Guide to Industry Funding Regulations 2010*[5]. For example, all life insurers with an Irish Head Office and life undertakings authorised in another non-EEA member state and operating in Ireland are currently liable for a minimum prudential levy of €6,000 and a variable prudential levy of 0.003895% of gross global premium income. In addition, they will also be liable for a minimum consumer levy of €1,000 and a variable consumer levy of 0.004185% of gross global premium income written on Irish risk business. An approach such as that used for life insurers clearly gives rise to a very graduated levy. Other sectors, such as credit institutions, are liable for levies based on broad bands which measure size according to metrics such as Pillar 1 capital requirements and/or volume of retail lending and retail deposit taking.

5.3 In essence, some impact metrics are already used in calculating the industry levy. The metrics are used in slightly different ways depending on into which of the fourteen industry categories a firm falls. The Central Bank is minded to move towards using impact scores as the basis for the setting of the levies it charges regulated firms each year. Under this approach the impact score, which would be derived from the most pertinent impact metrics (see Section 3.2 above), would be used as the principle determinant of the levy a firm paid. This would lead to a more uniform approach to setting the levy. If impact scores are accepted as the approach to allocating supervisory resources it seems both consistent and fair to apply the same approach to levies.

5.4 A firm's impact score will determine the regulatory engagement model for that firm, as set out in para. 4.2 above. The engagement model will determine the level of supervisory resource allocated to a firm and should determine the levy a firm pays. Where a supervisor or group of supervisors are allocated a number of medium high or medium low impact firms, the cost of their time and of other resources[6] which support them would be allocated across those firms proportionately. This would be in accordance

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[5] http://www.centralbank.ie/regulation/processes/industry-funding-levy/Documents/Central%20Bank%20%20Guide%20To%20Industry%20Funding%20Regulations%202010.pdf

[6] Including management costs.

with the levy allocation model the Central Bank sets out in this consultation document.

5.5 If the Central Bank used impact scores to determine the amount of the levy payable by individual regulated entities this would be unlikely to necessitate changing the fourteen industry categories it currently uses for a range of purposes. Further to this, it has been an important principle of the funding process that cross subsidisation between industry categories should be avoided to the extent reasonably possible. The Central Bank believes that a move to using impact scores to set fees is likely to enhance the linkage between the amount of the levy payable and the amount of regulatory resource consumed. This is because impact scores should accurately reflect the regulatory importance of a firm. Having the same impact score determine both the levy payable by an institution whilst strongly influencing the supervisory resource allocated to that institution, would appear to ensure greater alignment between the cost to the Central Bank of supervising that institution and the levy payable.

5.6 Clearly, depending on the impact metrics and divisors chosen to calculate an impact score for each category of firm, there may be some change in the balance of fees allocated to each industry category. This would appear to be fair to the extent that it also reflects a shift in supervisory resource within the Bank from one industry category to another, to better reflect the importance of that category as a whole. That said, the Central Bank appreciates that significant shifts in the levy between industry categories may need to be phased in over an extended period.

5.7 The absolute quantum of the levy and the move to industry paying for 100% of the budget[7] attributed to the Central Bank's supervisory activities is outside the scope of this consultation. The Department of Finance will consult separately on this matter.

*Question 3*

*Do you regard the Central Bank's plan to use impact metrics as a major determinant of the levies firms pay as fair? If not, why not?*

*a) Would you favour phasing in the changes in the weight of the net annual funding requirement attaching to different industry categories, should the introduction of levy setting by impact score alter the current balance of the net annual funding requirement between different industry categories?*

[7] Financial regulation in Ireland – past, present and future Speech by Mr Patrick Honohan, Governor of the Central Bank & Financial Services Authority of Ireland, at the Financial Services Ireland Annual Dinner, Dublin, 1 December 2009. http://www.bis.org/review/r091207c.pdf

# 6 Impact Metrics by Firm Type

6.1 Different classes of firm are likely to require different impact metrics. For example, different metrics are likely to be pertinent for the evaluation of financial intermediaries when compared with life insurance firms.

6.2 We set out below some metrics which we think are plausible for different types of firms regulated by the Central Bank. This list is not intended to be exhaustive so we would welcome suggestions for other metrics. Metrics are quantitative and would be allocated a divisor. We would be interested in external views as to the appropriateness of these metrics.

6.3 The calculation of impact scores is intended to be straightforward. The Central Bank does not intend to use more than three to five impact metrics per firm category. Some impact metrics might be seen as sensitive and the Central Bank does not intend a firm’s unique impact score to be public information. The Central Bank intends to share a firm’s impact rating with the firm.

6.4 We would be interested in views as to which metrics are the most useful, given the information provided above in sections 2-5.

| Category | Potential Impact metrics |
|---|---|
| **Category A: Credit Institutions** | |
| A1a – Credit Institutions authorised under Irish legislation and covered by the Credit Institutions (Financial Support) Scheme 2008 and their subsidiaries that are Credit Institutions authorised under Irish legislation<br><br>A1b – Credit Institutions authorised under Irish legislation and not covered by the Credit Institutions (Financial Support) Scheme 2008<br><br>A2 – Credit Institutions authorised in another EEA[8] state operating in Ireland on a **branch basis** (Group aspects considered as part of risk probability assessment e.g. group credit rating)<br><br>A3 – Credit Institutions authorised in another EEA state operating in Ireland on a **cross border basis** (Group aspects considered as part of risk probability assessment e.g. group credit rating) | • Asset quality<br>• Balance sheet size<br>• Concentration of lending<br>• Core tier I capital<br>• Diversified Funding Base<br>• Indebtedness to pension funds or insurance sectors<br>• Intra financial system assets[9]<br>• Intra financial system liabilities[10]<br>• Investments in other banks<br>• Irish corporate lending volume<br>• Number of branches<br>• Number of customers<br>• Number of products<br>• Number of sales staff<br>• Percentage Government shareholding<br>• Percentage of assets lent to other banks<br>• Percentage of loans in key sectors e.g. mortgages<br>• Retail clearing<br>• Retail deposit base<br>• Retail lending<br>• SME[11] deposit base<br>• Total assets<br>• Total capital requirement<br>• Total liabilities |
| **Category B: Insurance Undertakings** | |
| B1 – Life undertakings with Irish head office and life undertakings authorised in another non-EEA member state operating in Ireland<br><br>B2 – Life undertakings authorised in another EEA member state operating in Ireland on a branch basis | • Average contract size by premium<br>• Capital requirements (Solvency I or II)<br>• Gross level of reserves<br>• Number of policies<br>• Number of staff<br>• Premium income by business line<br>• Share of Irish market<br>• Total assets<br>• Total liabilities |

[8] European Economic Area

[9] Lending to financial institutions; Holdings of securities issues by other financial institutions; Reverse repos and positive net Over The Counter (OTC) derivative exposures; Securities lending; Unsecured settlement/clearing lines provided

[10] Deposits by financial institutions; Securities issues and held by other financial institutions; Repo and negative net derivative exposures; Securities borrowed; Unsecured settlement/clearing lines obtained.

[11] Small and Medium Enterprise

| Category | Potential Impact metrics |
|---|---|
| B3 – Life undertakings authorised in another EEA member state operating in Ireland on a cross border basis | |
| B4 – Non-life insurance undertakings with Irish head office (including captives)<br><br>B5 – Non-life insurance undertakings authorised in another EEA member state operating in Ireland on a branch basis<br><br>B6 – Non-life insurance undertakings authorised in another EEA member state operating in Ireland on a cross border basis | • Capital requirements (Solvency I or II)<br>• Gross assets<br>• Gross liabilities<br>• Gross/net technical provisions<br>• Gross/net written premium<br>• Number of contracts or policies<br>• Number of customers<br>• Number of staff<br>• Share of Irish market as a whole |
| B7a– Reinsurance undertakings with Irish head office (Life including composites)<br><br>B7b– Reinsurance undertakings with Irish head office (Non-life - including composites and captives) | • Aggregate exposures (global)<br>• Gross assets<br>• Gross liabilities<br>• Gross/net technical provisions<br>• Gross/net written premium by line of business<br>• Number of staff |
| **Category C: Intermediaries** | • Number of appointments<br>• Number of customers<br>• Number of customer facing advisors<br>• Number of staff<br>• Turnover |
| **Category D: Securities and Investment Firms** | |
| D1 – Designated Fund Managers | • Number of customers<br>• Number of staff<br>• Turnover |
| D2 – Receipt and transmission of orders and/or provision of investment advice; no client asset requirements imposed | • Number of customers<br>• Number of staff<br>• Turnover |
| D3 – Portfolio management; execution of orders; client asset requirements imposed | • Assets under management<br>• Client money value<br>• Number of customers<br>• Number of staff<br>• Turnover |
| D4 – Own account trading; underwriting on a firm commitment basis; client asset requirements | • Assets under management (client)<br>• Assets under management (firm) |

| Category | Potential Impact metrics |
|---|---|
| imposed; operation of multi-lateral trading facilities | • Client money value<br>• Number of customers<br>• Number of staff<br>• Turnover<br>• Underwriting volume |
| D5 – Stock Exchange Member Firms | • Assets under management (client)<br>• Assets under management (firm)<br>• Client money value<br>• Number of customers<br>• Primary dealer<br>• Turnover<br>• Underwriting volume |
| D6 – Non Retail Investment Firms | • Number of staff<br>• Turnover |
| **Category E: Collective Investment Schemes and Other Service Providers and UCITS Self Managed Investment Companies (SMICs)** | |
| E1a – Collective Investment Schemes (CIS) (Authorised Unit Trusts; Authorised Investment Companies; Authorised Investment Limited Partnerships; Non-Irish Authorised Schemes)<br><br>E1b – UCITS Self Managed Investment Companies (SMICs)<br><br>E2a – Non UCITS Managers (Delegating)<br><br>E2b – Administrators; UCITS and Non UCITS Managers; Trustees | • Assets under management<br>• Client money value<br>• Market share<br>• Number of customers<br>• Number of funds<br>• Number of staff<br>• Turnover |
| **Category F: Credit Unions** | • Industrial versus community union<br>• Investment in other credit institutions<br>• Number of members<br>• Regulatory reserves<br>• Total assets<br>• Total Loans<br>• Total savings |
| **Category G: Moneylenders** | • Assets<br>• Average loan size<br>• Liabilities<br>• Number of customers<br>• Number of staff<br>• Turnover |

| Category | Potential Impact metrics |
|---|---|
| **Category H: Approved Professional Bodies** | • Number of members conducting financial services business |
| **Category I: Exchanges** | As there is currently only one Regulated Market under category I it is not proposed to apply an impact metric to this category. Should that situation change we will revisit the matter and seek the views of the Regulated Markets concerned. |
| **Category J: Bureaux de Change and Money Transmitters** | |
| J1 – Bureaux de Change | • Commission income<br>• Market share<br>• Money throughput<br>• Number of customers<br>• Number of staff |
| J2 – Money Transmitters | • Commission income<br>• Funds held overnight<br>• Money throughput<br>• Number of staff |
| **Category K: E-Money Providers** | • Amount of money held<br>• Number of customers<br>• Total assets<br>• Total liabilities |
| **Category L: Default Assessment** | |
| **Category M: Home Reversion Firms and Retail Credit Firms** | |
| M1 – Retail Credit Firms | • Average account size<br>• Number of branches<br>• Number of customers<br>• Total assets<br>• Total liabilities |
| M2 – Home Reversion Firms | • Average account size<br>• Number of branches<br>• Number of customers<br>• Total assets<br>• Total liabilities |
| **Category N: Payment Institutions** | • Balance sheet size<br>• Number of branches<br>• Number of customers<br>• Total assets<br>• Total liabilities |

*Question 4*

*Do you think the impact metrics set out above are the appropriate impact metrics for each type of firm? Which two or three would you attach the greatest importance to in each firm category?*[12]

*Question 5*

*What other impact metrics should the Central Bank consider using for different types of firm?*

*Question 6*

*Should the Central Bank attach equal importance to the alternative impact metrics for different firm types you discuss in your responses to questions 4 & 5 above or should it attach more weight to one or another metric? If so, which ones?*

*Question 7*

*Should wholesale firms have different impact metrics from retail firms focused on consumers?*

- *a) If so why?*
- *b) If so, what should differ?*

*Question 8*

*Are there categories of firm above missing which you would expect to see covered separately?*

- *a) If so, what?*
- *b) If so, which metrics should the Central Bank use?*

*Question 9*

*Are there any impact metrics and divisors above, which, whilst they might be helpful for firm supervision, would be inappropriate for allocating a firm to fee block?*

- *a) If so, why?*

[12] Those responding should feel free to respond only for those categories of firms about which they have a good knowledge – we do not require every response to be comprehensive.

*Question 10*

*In terms of category of firm, should the Central Bank consider sub-dividing some of the firm types above and applying different divisors to different types of firm?*

a) *If so, which firms?*
b) *If so, what divisors?*
c) *What would be the logic for the sub division?*

# 7 Summary of Questions

*7.1* In addition to general comments we would welcome responses, by 24th February, to any or all of the specific questions set out below: *Of the different approaches to the calculation of impact scores do you have a view as to which method is preferable and why?*

*7.2 The Central Bank will clearly have to make judgements when deciding what divisors to apply to each impact metric in order to devise a set of impact scores which are correctly calibrated. Do you wish to suggest mathematical processes which the Central Bank should apply to ensure that it calibrated impact scores across sectors appropriately?*

*7.3 Do you regard the Central Bank's plan to use impact metrics as a major determinant of the levies firms pay as fair? If not, why not?*

*b) Would you favour phasing in the changes in the weight of the net annual funding requirement attaching to different industry categories, should the introduction of levy setting by impact score alter the current balance of the net annual funding requirement between different industry categories?*

*7.4 Do you think the impact metrics set out in Section 6 above are the appropriate impact metrics for each type of firm? Which two or three would you attach the greatest importance to in each firm category?*[13]

*7.5 What other impact metrics should the Central Bank consider using for different types of firm?*

*7.6 Should the Central Bank attach equal importance to the alternative impact metrics for different firm types you discuss in your responses to 7.4 and 7.5 above or should it attach more weight to one or another metric? If so, which ones?*

*7.7 Should wholesale firms have different impact metrics from retail firms focused on consumers.*

*7.7.1 If so why?*

*7.7.2 If so, what should differ?*

*7.8 Are there categories of firm above missing which you would expect to see covered separately?*

*7.8.1 If so, what?*

*7.8.2 If so, what metrics should the Central Bank use?*

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[13] Those responding should feel free to respond only for those categories of firms about which they have a good knowledge – we do not require every response to be comprehensive.

*7.9 Are there any impact metrics and divisors above, which, whilst they might be helpful for firm supervision, would be inappropriate for allocating a firm to fee block?*

*7.9.1 If so, why?*

*7.10 In terms of category of firm, should the Central Bank consider sub-dividing some of the firm types above and applying different divisors to different types of firm?*

*7.10.1 If so, which firms?*

*7.10.2 If so, what divisors?*

*7.10.3 What would be the logic for the sub division?*

# 8 Consultation Responses

8.1 Responses to the consultation should be sent to Risk@centralbank.ie or by post to Miss Helen Guinane, Risk Division, Central Bank of Ireland, PO Box No. 559, Dame Street, Dublin 2. Responses should be received no later than 24th February 2011.

8.2 The Central Bank intends to make all submissions available on its website. The Central Bank shall not publish any information which we deem potentially libelous or defamatory.

8.3 The Central Bank will accept no liability whatsoever in respect of any information provided which is subsequently released or in respect of any consequential damage suffered as a result.

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