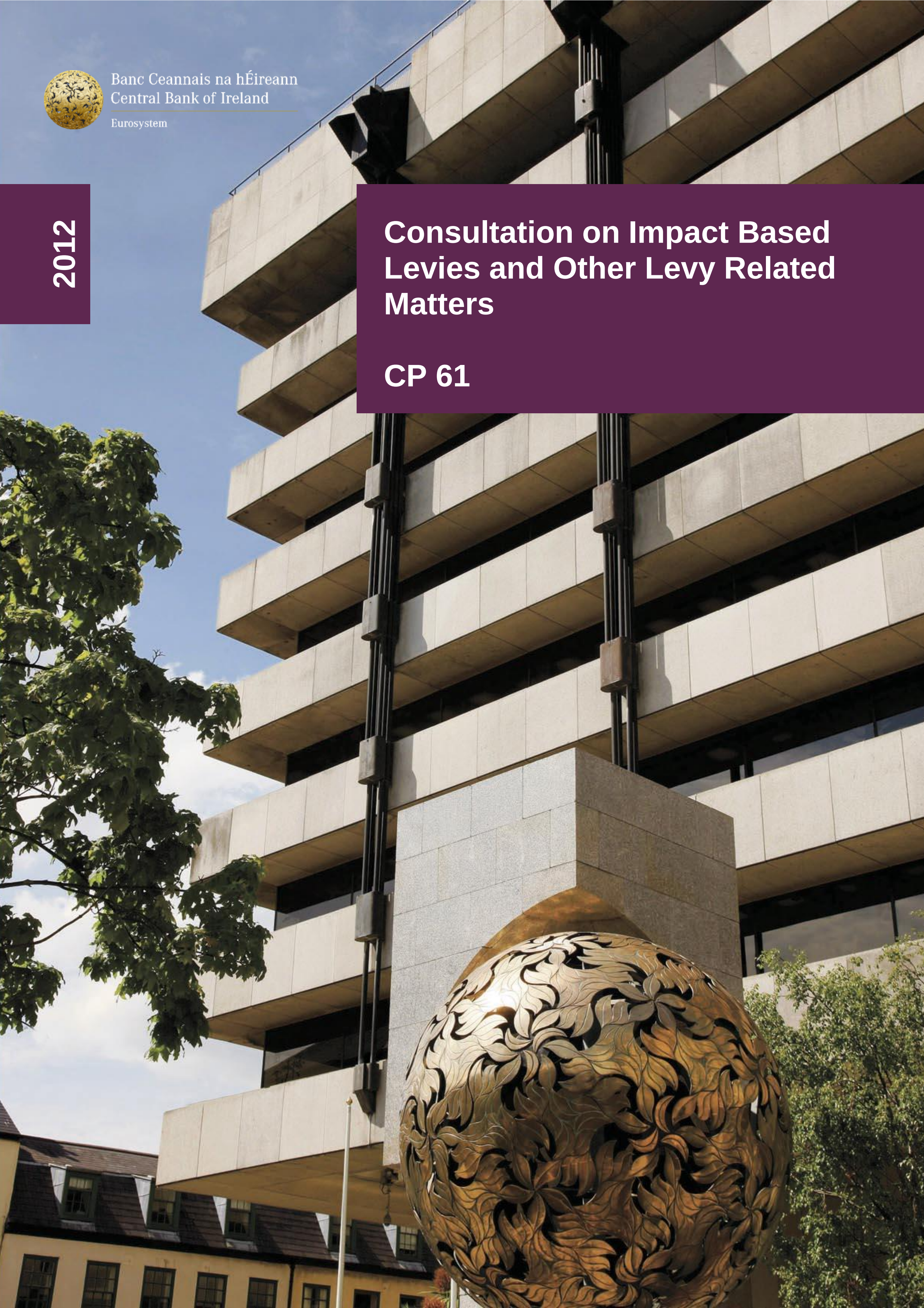


Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

2012

Consultation on Impact Based Levies and Other Levy Related Matters

CP 61

Contents

1 Executive Summary

The mitigation of prudential risk and 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 in the performance of its regulatory responsibilities.

Risk based supervision, which was introduced by the Central Bank in November 2011, seeks to ensure that those firms whose failure would pose most risk to the economy or to consumers are subject to the highest levels of supervision and that resources are allocated accordingly.

In this consultation paper the Central Bank proposes reforms to the levy calculation process designed to make the process more equitable and transparent.

The most significant reform is a logical extension of our view that the impact categorisation of regulated entities, within and across industry categories, allows the Central Bank to improve its targeting of supervisory resources. Given that the impact categorisation of a firm determines the number of supervisors allocated to it, the proposed approach provides an opportunity to more closely align the funding by regulated entities with the costs of supervision.

It is expected that the adoption of an impact based approach to the levy calculation process will, in the year following its implementation, lead to a reduction in the complexity of the process thereby leading to greater efficiency while at the same time facilitating earlier issue of the levy notices. The Central Bank intends to implement the proposed impact based levy calculation regime for the funding year 2013.

It is also proposed to introduce application fees for those firms seeking authorisation in respect of the provision of financial services. The proposed application fees will reflect the cost involved in the processing of applications. Further recommendations regarding the treatment of monetary penalties, pro-rata levies and unpaid levies are also incorporated into this consultation paper.

Legal

The Central Bank retains the power to prescribe and impose levies under Section 14 of the Central Bank Reform Act, 2010 (the “Act”) which amended Part 111A, Chapter 2A, Section 32D 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 32D

(1) The Commission may make regulations prescribing levies to be paid by persons who are subject to regulation under the designated enactments and designated statutory instruments.

(2) In particular, regulations under subsection (1) may provide for any of the following matters:

(a) The activities, services or other matters for which specified kinds of levies are payable;

(b) The persons, or classes of persons, who are required to pay specified kinds of levies;

(c) The amounts of specified kinds of levies

…………………

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

Scope

This consultation covers all entities regulated by the Central Bank of Ireland.

While the Governor and the Deputy Governor (Financial Regulation) have each expressed the view that the public sector (through the Central Bank) cannot continue indefinitely the practice of, in effect, discharging half of the costs of regulation, the proportion of funding provided by industry is primarily a matter for the Minister for Finance and is, accordingly, outside the scope of this consultation process.

Likewise, the absolute quantum of the annual funding requirement (details of which are submitted to the Minister for Finance for approval on an annual basis) is outside the scope of this consultation.

European Central Bank

It should be noted that the European Central Bank is currently considering the funding of the cost of financial regulation of credit institutions authorised within the Eurozone in the context of the proposed Single Supervisory Mechanism. Accordingly, this may have implications for the Central Bank's levy calculation process.

Consultation Process

The consultation will run for three months from 20 November 2012 until 22 February 2013. Responses should be sent to levyconsultation@centralbank.ie or by post to

Levy Consultation CP61
Industry Funding
Financial Control Division
Central Bank of Ireland
PO Box 9708
Dame Street
Dublin 2

2 Why do we have levies and why do we continue to need levies?

2.1 The Central Bank’s total funding requirement for financial regulation activity is determined on an annual basis by the resources required to discharge its legal responsibilities under designated enactments and designated statutory instruments.

2.2 By agreement with the Minister for Finance, the Irish financial services industry has, since 2004, funded approximately 50 per cent of the cost of financial regulation activity[1] carried out by the Central Bank. The balance of the total annual cost of financial regulation activity has been funded by the Central Bank in accordance with Section 32I of the Act.

2.3 The power to make regulations prescribing levies payable by regulated entities to the Central Bank to fund the proportion of financial regulation activity financed by industry is set out in Section 32D of the Act. These regulations, which take effect when they have been approved by the Minister for Finance, apply to all persons who are subject to regulation by the Central Bank.

[1] Further background on the proportion of the total cost of financial regulation activity funded by industry together with details of the current exceptions to the 50:50 funding arrangements are set out in Appendix A

3 Case for Impact based Levies

3.1 Risk based supervision, which was introduced by the Central Bank in November 2011, starts with the premise that not all firms would have the same impact on the economy or on consumers if they fail and that a regulator can deliver most value through focussing its energies on the firms which are most significant and on the risks that pose the greatest threat to financial stability and consumers.

3.2 PRISM (***P****robability* ***R****isk and* ***I****mpact* ***S****yste****M***) is the framework that the Central Bank has developed to apply risk based supervision. Under PRISM, financial service providers are categorised based on impact, a measure which indicates the degree of damage a firm could cause to the financial system, economy or consumers were it to fail. Irrespective of the likelihood of failure of a firm, the Central Bank will always devote a considerable amount of time to those firms which have the greatest potential impact and will allocate significant resources to understanding it and the risks it faces. Further details on PRISM, what it is and how it works, can be found in the information paper *PRISM Explained* on the Central Bank website. Impact categorisations are derived from empirical metrics taken from firms' financial returns submitted to the Central Bank (the impact metrics used by the Central Bank are listed in Appendix C of the information paper *PRISM Explained*).

3.3 The impact categorisation of a firm determines the number of supervisors allocated to that firm. This number includes those dedicated to direct supervision and those specialists within the Central Bank who provide expert advice and support.

Impact Category of Firm	**Supervisors allocated to Firm**[2]
Ultra-High	Eight
High	Between two and four supervisors
Medium-High	Between 50% and 100% of a supervisor
Medium-Low	Between 10% and 20% of a supervisor
Low	Sector specific

[2] The Central Bank plans to review these resourcing levels in the light of experience

3.4 In addition to these dedicated supervisory staff, the Central Bank ensures effective regulation through the deployment of other resources:

- specialist supervisory staff with technical expertise assist assigned supervisors with matters such as stress testing, credit and treasury analysis, resolution of non-viable firms and implementation of the EU/IMF Financial Measures Programme;
- specialist supervisory staff discharge the Central Bank's obligations in markets regulation, including market disclosure, insider trading and market manipulation, transaction reporting and prospectus review;
- there are dedicated teams for high-volume authorization areas, most notably approval of new funds;
- there is a dedicated team addressing consumer protection risks and policy;
- there are dedicated teams covering domestic and international prudential policy, including for banking, investment firms, insurance, markets, governance, auditing and accounting;
- there is a specialist team with responsibility for enforcement matters;
- there is a dedicated team for monitoring compliance with financial sanctions;
- there is a specialist anti-money laundering supervision team; and
- there is a specialist team monitoring unauthorized regulatory activity.

3.5 Our policy teams help us to effectively represent the Central Bank in European and international regulatory fora and to improve regulation when supervisors identify potential policy gaps in our regulatory practice and/or where sectoral issues identify the need to strengthen our regulatory toolkit.

3.6 It is considered unlikely that adoption of impact categories to determine the amount of the levy payable by individual regulated entities will necessitate changes to the fourteen industry categories currently in use by the Central Bank for a range of purposes. Under the proposed new approach to the levy calculation, the amount of the levy payable by individual regulated entities will be principally determined by the nature of the business being carried out by the firm and by its impact categorisation.

3.7 Clearly a change in the method of calculating the Industry Funding Levy to one based on impact categories may result in some changes to the balance of the annual funding requirement allocated to each industry category. This would appear to be fair to the extent that it also reflects a shift in the actual deployment of supervisory resources within the Central Bank, from one industry category to another.

3.8 The Central Bank intends to implement the proposed impact based levy calculation for the funding year 2013.

Do you agree with the Central Bank's proposal to use firms' impact categorisation under PRISM as the basis for the setting of the levies it charges regulated entities on an annual basis? If you disagree, what would you propose instead?

4 Allocation of the cost of financial regulation activity to industry funding categories

4.1 The main objectives of the Central Bank's cost allocation methodology include the production of financial regulation cost information for incorporation into the calculation of the Industry Funding Levy payable by regulated entities.

4.2 To date, the process of allocating the cost of financial regulation activity to industry funding categories has taken account of the activities involved in supervising each industry category. When costs cannot be directly allocated to an industry category, a basis considered appropriate by the Central Bank has been used to allocate such costs.

4.3 The methodology applied to the allocation of professional and support costs by the Central Bank aligns with that agreed by the European System of Central Banks' Committee on Cost Methodology (COMCO), which adheres to international best practice. The methodology and its outputs have previously been reviewed by our external auditors.

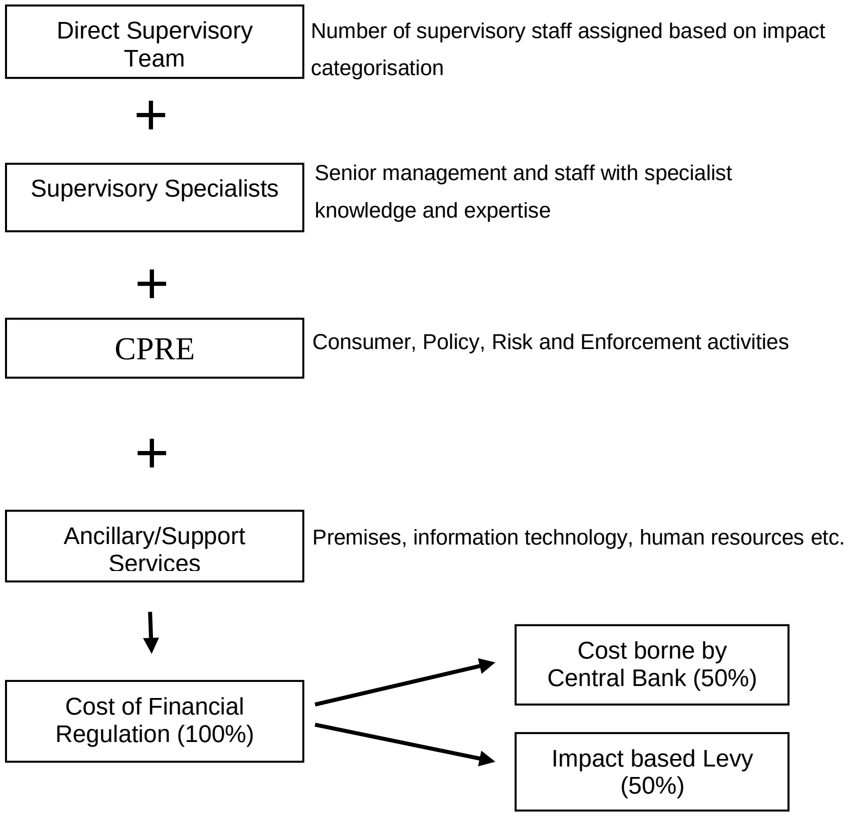
4.4 As outlined in paragraph 3.3 above, under PRISM the impact categorisation of a firm primarily determines the number of supervisors allocated to that firm. By extension, it is logical to allocate all costs of financial regulation activity (including the cost of financial regulation support activity such as enforcement, policy and risk) on a basis consistent with the firm's impact rating. This has the added benefit of reducing the subjectivity, and of increasing the level of transparency, associated with the levy calculation process.

4.5 In determining its appropriate level of supervisory resources, the Central Bank

- Uses the outputs of its PRISM model, involving a judgement of risk appetite and engagement which is approved by the Bank's Commission (Board);
- references analysis of peer resource levels for comparably sized markets; and
- uses management judgement based on the current tasks and challenges facing the financial services sector, including implementation of the EU/IMF Financial Measures Programme.

After a period of significant growth, approved staffing levels have levelled off in the past year and are expected to be broadly flat or slightly declining for the period of the Central Bank's next three-year strategy (subject to the assignment of new responsibilities).

4.6 *Components of the proposed impact based levy*



Do you agree with the Central Bank's proposal to allocate the cost of financial regulation activity on a basis consistent with the allocation of supervisory resources to regulated entities? If not, what cost allocation methodology would you propose?

5 Estimated impact of proposed reforms on annual levies payable by regulated entities

5.1 Clearly, a change in the method of calculating the Industry Funding Levy to one based on impact categorisation may result in some changes to the balance of the annual funding requirement allocated to each industry category. This is fair to the extent that it also reflects a shift in supervisory resources within the Central Bank, from one industry category to another.

5.2 Under the proposed new approach to the levy calculation process there will be a single levy rate per impact category within each industry category. We have set out in the table below the estimated levies that would have been payable in 2012 based on the new approach to facilitate comparison by each regulated entity of its 2012 actual levy with the estimated levy based on the impact based approach.

Estimated Levies that would have been payable in 2012 based on an Impact Based Approach to the Levy Calculation Process

	Ultra High €	High €	Medium High €	Medium Low €	Low €	Low Impact Managers & Funds €
Covered Credit Institutions (See Appendix A)	3,908,049	1,783,047	N/A	N/A	N/A	N/A
Other Credit Institutions	N/A	891,524	202,730	40,302	14,926	N/A
Insurance Undertakings	1,313,240	599,166	136,249	27,086	9,361	N/A
Intermediaries	N/A	N/A	N/A	N/A	847	N/A
Securities & Investment Firms (other than stockbrokers)	N/A	N/A	197,254	39,213	30,270	N/A
Members of Irish Stock Exchange	N/A	759,724	172,759	34,344	26,861	N/A
CIS and Fund Service Providers	N/A	N/A	194,016	38,569	29,820	See Section 6.1
Credit Unions	N/A	N/A	84,645	12,462	3,893	N/A
Moneylenders	N/A	N/A	N/A	N/A	8,693	N/A
Approved Professional Bodies	N/A	N/A	N/A	N/A	17,946	N/A
Bureaux de Change	N/A	N/A	N/A	N/A	30,270	N/A
Retail Credit/Home Reversion Firms	N/A	N/A	N/A	N/A	12,883	N/A
Payment Institutions	N/A	N/A	197,254	39,213	30,270	N/A

5.3 It is difficult at this juncture to draw general conclusions regarding the types of firm which will pay a lower levy under the new approach and those which will pay a higher levy in view of the fact that the amount of the levy currently payable is, for the majority of firms, dependent on tariff data, whether it be the level of their income or the level of regulatory capital, etc.

5.4 Nevertheless, we have set out below, for illustrative purposes only, a number of examples comparing the amount of the levy that might be expected to apply under an impact based approach to the levy process with the corresponding 2012 levy payable under the present levy calculation methodology.

Example 1: Credit Institution authorised under Irish legislation and not covered by the Credit Institutions (Financial Support) Scheme 2008 with Pillar 1 Capital Requirement of €950 million, and a total of retail lending and retail deposits of €8 million and which falls into the PRISM High impact category

5.5 In 2012 such an entity would pay a Prudential Levy of €363,868 plus a consumer levy of €35,914 resulting in a total levy payable of €399,782. The amount of the levy payable by such an entity under an impact based approach to the levy calculation process is currently estimated to be of the order of €891,524.

Example 2: Life Undertaking with Irish head office with Gross Global Premium Income of €4 billion, €3.95 billion of which relates to Irish risk business and which falls into the PRISM High impact category

5.6 In 2012 such an entity would pay a Prudential Levy of €315,680 plus a consumer levy of €115,748 resulting in a total levy payable of €431,428. The amount of the levy payable by such an entity under an impact based approach to the levy calculation process is currently estimated to be of the order of €599,166.

Example 3: Non-Life Undertaking with Irish head office with Gross Global Premium Income of €75 million, €1 million of which relates to Irish risk business and which falls into the PRISM Medium Low impact category

5.7 In 2012 such an entity would pay a Prudential Levy of €32,880 plus a consumer levy of €1,302 resulting in a total levy payable of €34,182. The amount of the levy payable by such an entity under an impact based approach to the levy calculation process is currently estimated to be of the order of €27,086.

Example 4: Reinsurance Undertaking with Irish Head Office with a combined total of gross premiums written and gross technical reserves of €800 million and which falls within the PRISM Medium Low impact category.

5.8 In 2012 such an entity would pay a levy of €31,684. The amount of the levy payable by such an entity under an impact based approach to the levy calculation process is currently estimated to be of the order of €27,086.

Example 5: Securities & Investment Firm engaged in portfolio management, execution of orders and client asset requirements imposed with a turnover of €35 million and which falls into the PRISM Medium Low impact category

5.9 In 2012 such an entity would pay a Levy of €143,507. This compares with an estimated levy payable under an impact based approach to the levy calculation process of the order of €39,213.

Example 6: Securities & Investment Firm receipt and transmission of orders and/or provision of investment advice and no client asset requirements imposed with a turnover of €25 million and which falls into the PRISM Low impact category

5.10 In 2012 such an entity would pay a Levy of €46,245. This compares with an estimated levy payable under an impact based approach to the levy calculation process of the order of €30,270.

Example 7: Intermediary with self-declared income of €800,000 and which falls within the Low impact category

5.11 In 2012 such an entity would pay a Levy of €1,800. This compares with an estimated levy payable under an impact based approach to the levy calculation process of the order of €847.

Example 8: Intermediary with self-declared income of €200,000 and which falls within the PRISM Low impact category

5.12 In 2012 such an entity would pay a Levy of €330. This compares with an estimated levy payable under an impact based approach to the levy calculation process of the order of €847.

Example 9: Umbrella-style Collective Investment Scheme with 6 sub-funds

5.13 In 2012 such an entity would pay a Levy of €4,400. This compares with an estimated levy payable under an impact based approach to the levy calculation process of the order of €2,690 (based on the Central Bank's recommended option as set out in Section 6.1 below).

6 Application of impact categorisation to certain sectors

6.1 Collective Investment Schemes (CIS) and Self Managed Investment Companies (SMICs) with umbrella structures

Under the Central Bank's current industry funding process, the levy payable by a CIS/SMIC with an umbrella structure has been capped at a minimum levy for the umbrella fund with an additional amount per sub-fund up to a maximum of five sub-funds. So, for example, in 2012 the maximum levy payable was €4,400 (i.e. a minimum of €2,025 per umbrella plus €475 per sub-fund to the maximum of five).

Under the impact-based approach to industry funding two options to the levy for umbrella funds were considered:

Option 1: Standard rate per sub-fund for all sub-funds within an umbrella structure.

Under this approach there is no proposed cap for sub-funds within an umbrella fund structure. On the basis of a per sub-fund levy of €542 it follows that all umbrella funds with eight or more sub-funds would pay a higher levy under this model with a maximum levy payable significantly greater than the €4,400 maximum levy that pertained in 2012.

Option 2: Minimum levy per umbrella plus additional levy per sub-fund subject to a maximum number of sub-funds.

Under this approach it is proposed to apply a levy of €1,190 to each umbrella fund plus an additional per sub-fund levy of €250 up to ten sub-funds and a further per sub-fund levy of €150 for sub-funds from eleven to the maximum number of twenty. Therefore, the maximum levy payable will be €5,190.

Following detailed consideration of these alternatives the Central Bank's preferred approach is option 2.

Do you agree with the Central Bank's proposal to apply a minimum levy per umbrella plus an additional levy per sub-fund subject to a maximum number of sub-funds (i.e. Option 2)? If not, what alternative approach would you propose and why?

6.2 Funding the cost of regulating the Credit Union sector

Since 2004 the amount of the levy payable by a credit union has been capped at a rate of 0.01 per cent of its total assets as at 30 September of the previous year. The balance of regulatory costs has been funded by the Central Bank in accordance with the provisions of the Central Bank Act, 1942 (as amended).

The cost of regulating the credit union sector has increased over recent years with the emergence of the necessity to increase the intensity of supervision of this sector. Given that total assets of the sector have remained relatively static, this has resulted in a significant reduction in the proportion of the total cost of funding provided by the sector as a whole. In particular, in 2012 the credit union sector contributed €1.398 million (15.5 per cent of the total cost incurred in regulating the sector), which is considerably less than the €4.516 million[3] they would have been due to pay under the 50:50 funding arrangement which applies to other industry categories. The gap between the level of funding provided by credit unions and the costs of regulating the sector is likely to widen further in view of the difficulties currently being experienced by the sector which have resulted in the deployment of increased regulatory resources.

Given the pressure on the public finances at the present time questions arise as to whether the existing level of public subsidy connected to the regulation of the credit union sector is justifiable and whether the sector should, over time, be required to fund a greater proportion of the cost of financial regulation, thereby reducing the burden on the taxpayer.

In this context, the Central Bank has considered three options as set out below.

Option 1: Maintain the status quo. Under this scenario, credit unions would continue to pay an annual Industry Funding Levy capped at 0.01 per cent of the value its total assets. On the basis of total assets as reported to the Central Bank this would result in levies ranging from €106 to €32,200.

Option 2: Require credit unions to fund the relevant proportion (currently 50 per cent) of the cost of financial regulation under an impact based approach to levy calculation. It is currently estimated that this would result in levies ranging from €3,800 (for credit unions falling within the PRISM Low impact category) to €52,000 (for credit unions falling within the PRISM Medium High impact category).

Option 3: Phase in the move to a 50 per cent funding of the cost of regulating credit unions under an impact based approach over a period of, for example, 5 years, commencing in 2016, which is the target date for conclusion of the work of the Credit Union Restructuring Board recommended by the Credit Union Commission, by gradually increasing the cap upwards from 0.01 per cent.

Following detailed consideration of these alternatives the Central Bank's preferred approach is option 3.

[3] Representing 50 per cent of the total cost of €9.032 million incurred in regulating the credit union sector in 2012

Do you agree that the credit union sector should be required to fund the relevant proportion (currently 50 per cent) of the cost of financial regulation that would apply under an impact based approach to the levy process? If not, what alternative approach would you propose and why?

Do you agree that this change be phased in over a period of 5 years? If not, what alternative approach would you propose and why?

7 Review of other significant practices and policies

7.1 Application Fees

The Consultation Paper (CP01) on the Funding of the Irish Financial Services Regulatory Authority, which was published in December 2003, was based on the assumption that the only industry funding mechanism under consideration at the time was periodic levies. It was, however, highlighted that this dependence on periodic (annual) levies might be reduced by introducing other fees for demand-driven services.

In view of the level of resources devoted on an on-going basis to the consideration of applications for authorisation, the Bank has concluded that the cost of those resources devoted to the consideration and processing of applications for authorisation should be borne not by those entities currently authorised in the particular industry category in question but by those who are driving the cost – namely, the applicants for authorisation.

To minimise the cost associated with the collection of relevant fees, and in recognition that resources are expended in considering applications regardless of whether an application is eventually granted or refused, the Bank is minded to impose the fee upon receipt of an application rather than upon granting of an authorisation. It follows that application fees will be payable at the time an application for authorisation is submitted and will not be refundable in the event that an application is withdrawn or refused. The amount of the application fee will take into account the cost to the Central Bank of processing an application.

Imposing an application fee rather than an authorisation fee might also be considered to deter applications from those entities who are not seriously interested in establishing in Ireland and those who are not fully satisfied that they can meet the requirements for authorisation.

A sample of illustrative proposed application fees is set out in Appendix C.

Do you agree with the Central Bank's proposal to impose an application fee in respect of each industry funding category proportionate to the average time taken to consider an application for authorisation? If not, what alternative would you propose?

Do you agree that such a fee should be payable at the time an application for authorisation is submitted and that it should be non-refundable in the event that an application for authorisation is withdrawn or refused? If not, what alternative would you propose?

7.2 Pro-rata levies

Since 2008 the Bank has imposed pro-rata levies on regulated entities in the year in which their authorisation is revoked. In addition, where new industry funding categories are introduced, provision has been included in the Funding Regulations for the year in question to impose pro-rata levies in respect of the part of the year in which the newly authorised entities will hold an authorisation from the Bank.

Following a review of policy we have decided to maintain this approach and to implement the imposition of pro-rata levies for all new authorisations in all industry funding categories.

> ***Do you agree with the Central Bank's proposal to maintain the policy of imposing pro-rata levies in respect of the period in relation to which a regulated entity holds an authorisation from the Bank? If not, what alternative do you propose?***

7.3 Unpaid levies

Given the current economic climate there is a danger of the number and value of levies outstanding reaching significant levels. This would have implications for the remaining authorised firms since the amount of any shortfall in income from levies (on a category by category basis) in a particular year as compared with the cost of regulating entities within that category is added to the budgeted cost for the subsequent year in order to arrive at the net annual funding requirement for the category in question. Accordingly, to ensure that levy-compliant firms are not required to subsidise non levy-compliant firms, the Bank strives to ensure maximum recovery of levies imposed.

Following completion of a review of the powers and remedies available to enforce payment of levies outstanding, the Bank intends to further strengthen its powers in relation to debt collection. In that context, the 2013 Industry Funding Regulations will include a power to impose a penalty on any and all firms who do not pay their levy within the time allowed in the Regulations (i.e. 28 days). Consideration is also being given to exploring other legal remedies available to the Bank to ensure compliance with the levy regulation including, but not limited to, the power to unilaterally revoke the authorisation of those regulated entities that fail to pay their levy.

7.4 Treatment of monetary penalties

Where the Central Bank has reasonable grounds to suspect that a 'prescribed contravention'[4] has been committed by a regulated service provider or person, it has the power to commence an inquiry to decide if the prescribed contravention has occurred and, if so, to determine the appropriate sanctions. These sanctions may include the imposition of appropriate monetary penalties on the regulated service provider or person in question. The Central Bank may also resolve prescribed contraventions by entering into a binding written settlement agreement with the financial service provider.

Alternative treatments of the income resulting from these penalties are possible and the Central Bank has considered the alternatives set out below:

Option 1: 100 per cent remittance of the value of monetary penalties to the Exchequer and, thereby, ultimately to the taxpayers of the Irish State. This is closely analogous to the approach taken by the Australian Securities and Investments Commission whereby fines imposed are paid into the government's consolidated revenue account.

Option 2: Offsetting the value of monetary penalties against the levies of the industry category to which they relate. An example of such treatment occurs in the United Kingdom with the Financial Services Authority using penalties to reduce the levies in the relevant industry sector. We understand, however, that this approach is currently under review.

While we would wish to emphasise that neither of the approaches outlined above provides any advantage or benefit to the Central Bank, we view the remittance of 100 per cent to the Exchequer (Option 1) as the most appropriate treatment for the income from monetary penalties.

Do you agree with the Central Bank's proposal to remit 100 per cent of the value of monetary penalties to the Exchequer? If not, how would you propose to treat monetary penalties?

[4] A prescribed contravention is defined in section 33AN of the Central Bank Act, 1942 as a contravention of:
- a provision of a designated enactment or designated statutory instrument, or
- a code made, or a direction given, under such a provision, or
- any condition or requirement imposed under a provision of a designated enactment, designated statutory instrument, code or direction, or
- any obligation imposed on any person by Part IIIC of the Central Bank Act, 1942 or imposed by the Central Bank pursuant to a power exercised under Part IIIC of the Central Bank Act, 1942.

8 Summary of questions

8.1 Do you agree with the Central Bank's proposal to use firms' impact categorisation under PRISM as the basis for the setting of the levies it charges regulated entities on an annual basis? If you disagree, what would you propose instead?

8.2 Do you agree with the Central Bank's proposal to allocate the cost of financial regulation activity on a basis consistent with the allocation of supervisory resources to regulated entities? If not, what cost allocation methodology would you propose?

8.3 Do you agree with the Central Bank's proposal to apply a minimum levy per umbrella plus an additional levy per sub-fund subject to a maximum number of sub-funds (i.e. Option 2)? If not, what alternative approach would you propose and why?

8.4 Do you agree that the credit union sector should be required to fund the relevant proportion (currently 50 per cent) of the cost of financial regulation that would apply under an impact based approach to the levy process? If not, what alternative approach would you propose and why?

8.5 Do you agree that this change be phased in over a period of 5 years? If not, what alternative approach would you propose and why?

8.6 Do you agree with the Central Bank's proposal to impose an application fee in respect of each industry funding category proportionate to the average time taken to consider an application for authorisation? If not, what alternative would you propose?

8.7 Do you agree that such a fee should be payable at the time an application for authorisation is submitted and that it should be non-refundable in the event that an application for authorisation is withdrawn or refused? If not, what alternative would you propose?

8.8 Do you agree with the Central Bank's proposal to maintain the policy of imposing pro-rata levies in respect of the period in relation to which a regulated entity holds an authorisation from the Bank? If not, what alternative do you propose?

8.9 Do you agree with the Central Bank's proposal to impose a penalty on any and all firms who do not pay their levy within the time allowed? If not, what alternative course(s) of action would you propose to ensure that all regulated entities pay their Industry Funding Levy?

8.10 Do you agree with the Central Bank's proposal to seek the power to unilaterally revoke the authorisation of those firms which continue to fail to pay their Industry Funding Levy? If not, what alternative would you propose?

8.11 Do you agree with the Central Bank's proposal to remit 100 per cent of the value of monetary penalties to the Exchequer? If not, how would you propose to treat monetary penalties?

9 Consultation responses

9.1 Responses to the consultation should be sent to levyconsultation@centralbank.ie or by post to

Levy Consultation CP61
Industry Funding
Financial Control Division
Central Bank of Ireland
PO Box 9708
Dame Street
Dublin 2

Responses should be received no later than 22 February 2013.

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

9.3 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.

Appendix A

Proportion of the cost of financial regulation activity currently funded by Industry

By agreement with the Minister for Finance, industry has, since 2004, funded approximately 50 per cent of the cost of financial regulation activity carried out by the Central Bank. The balance of the total annual cost of financial regulated activity been funded by the Central Bank in accordance with Section 32I of the Central Bank Act 1942, as amended. Current exceptions to this 50:50 funding arrangement are as follows:

Credit Unions: The amount of the levy payable by a credit union is currently capped at 0.01 per cent of total assets as at the end of September of the previous year.

Securities Market Supervision Costs: Since 2006 the Central Bank has, with the approval of the Minister for Finance, borne the full cost of certain securities market supervision activities[5] carried out within the Central Bank. The funding of these activities is being reviewed in the context of the unwinding of the delegation agreements with the Irish Stock Exchange.

Covered Credit Institutions: Since 2008 a supplementary levy has been imposed on credit institutions covered by the Credit Institutions (Financial Support) Scheme, 2008 (and subsequently the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009) and their subsidiaries that are credit institutions authorised under Irish legislation. This supplementary levy is designed to recoup the cost of certain review work carried out in relation to those institutions. These entities have, since 2010, also been required to fund 100 per cent of all costs associated with their prudential supervision.

[5] These costs relate to the cost of carrying out duties imposed on the Central Bank under the Market Abuse, Prospectus and Transparency Directives but which were, until the end of 2011, carried out by the Irish Stock Exchange under the terms of a delegation agreement between the Central Bank and the Irish Stock Exchange.

Appendix B

Current Methodology for Calculation of Industry Funding Levy

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 as a result fall into more than one industry category. In such cases the financial services provider must pay the appropriate 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 currently obliged to pay a levy for both categories.

The Industry Funding Levy is currently dependent on the industry categorisation of a financial services provider but is, in most cases, determined with reference to tariff data, the actual tariff data varying from one category to another. For example, all life insurers with an Irish Head Office were in 2012 liable for a minimum prudential levy of €10,000 and a variable prudential levy of 0.007642% of gross global premium income. In addition, they were also liable for a minimum consumer levy of €1,000 and a variable consumer levy of 0.002905% of gross global premium income written on Irish risk business. An approach such as that used for life insurers clearly gives rise to a 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 I capital requirements and/or volume of retail lending and retail deposit taking.

Full details of the calculation methods for all industry categories are published each year in the Central Bank's *Guide to Industry Funding Regulations*, copies of which are available **here**.

Appendix C

Illustrative sample of proposed Application Fees

Application Fee	Illustrative Examples
€2,000	• retail intermediary • standalone fund • moneylender • bureau de change
€5,000	• credit union • umbrella fund structure • captive insurance companies • payment institution providing money remittance services only
€15,000	• designated fund manager • non retail investment firm
€25,000	• e-money institution • other payment institution
€50,000	• credit institution • insurance undertaking • exchange • stock exchange member firm • clearing member firm • operation of multi-lateral trading facilities

www.centralbank.ie levyconsultation@centralbank.ie

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Bosca PO 9708, Sráid an Dáma, Baile Átha Cliath 2, Éire
PO. Box No 9708, Dame Street, Dublin 2, Ireland