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Submission in respect of CBI Consultation Paper 61 on Impact-Based Levies and Other Levy-Related Matters

To Whom It May Concern:

Financial Services Ireland welcomes the opportunity to make a submission in respect of CP61 on proposed changes to the CBI's industry funding levy. Having consulted with our membership, we enclose responses to a number of the questions set out in the Consultation Paper.

FSI would welcome the opportunity to meet with the CBI at its convenience to discuss the contents of CP61 together with this submission.

Yours faithfully,

Brendan Bruen
Director
Financial Services Ireland

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General Notes

We have not commented on the overall size of the CBI's budget. It is not immediately clear whether the indicative levels outlined in the Table at page 12 of CP61 reflect any change in this.

Q1: Do you agree with the CBI's proposal to use firms' impact categorisations under PRISM as the basis for the setting of the levies it charges regulated entities on an annual basis?

We understand the CBI's motivation for the use of PRISM categorisation as a basis for the setting of levies, and agree that it is reasonable that there should be a correlation between the fees levied and the resources used by the CBI in dealing with firms, which themselves reflect the risk and impact of the firm. However, we are concerned that basing levies on PRISM categorisation alone is not the most appropriate way of pursuing this aim.

Firms within single PRISM categories may have very different profiles, and very different regulatory resourcing needs. The ranges noted by the CBI in the staff assignments per category reflect this on a supervisory level, but there are likely to be significant differences in non-supervisory resource allocations as well. For example, the resources of the policy and enforcement divisions may be applied quite differently to those envisaged by PRISM for primary supervision. Work relevant to consumer protection may have a very limited relevance to firms operating in international markets, while specific international issues might, conversely, not have as significant an impact on entities operating in the domestic market.

Even within the supervisory resource allocations, as the CBI has made clear¹, supervisors make judgments on the risks posed by individual firms within each PRISM category. Firms assume different positions within each PRISM category based on the relevant factors. Firms may be located at the margins of a category, and different firms may require specialist skills or a level of seniority that is not applicable elsewhere. The setting of a single levy rate per overall category therefore does not seem reconcilable with these considerations.

The lack of granularity in this approach raises two concerns. First, where firms at opposing ends of the same PRISM category would pay the same levy despite significant differences between their impact and risk profiles, and second, where a very significant change in levy occurs due to a small change in risk or impact profile that pushes a firm into a higher category. The broad nature of the PRISM categorisations, at least in the majority of cases, will also not reflect internal risk mitigation measures.

At present, the change between categories is very significant, and may have an impact on behaviour that is undesirable. For example, a cross-border life insurer, currently in Medium Low, would pay €27,086. A change in categorisation to Medium High would result in €136,249 (an increase of 503%). The approach risks influencing firm behaviour and business development, particularly for firms that are already at the higher end of Medium Low. Any proposed product development would have to be balanced against a fivefold increase in the firm's regulatory levy should the expansion 'tip' it into Medium High.

It is our view that while PRISM may be a suitable tool for the allocation of supervisory resources, it will only provide a proportionate and accurate measure for the setting of levies where allowance is made for a greater granularity. We believe that a solution can be found which would address the CBI's preference to introduce a supervisory resources-based levy. This could take the form of either a hybrid model, combining the proposed approach under CP61 with the CBI's current basis for calculation; or a more nuanced division of PRISM categories.

Q6: Do you agree with the CBI'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?

¹ 'Prism Explained – How the Central Bank of Ireland is Implementing Risk-Based Supervision', November 2011, p. 12.

See below response to Q7

Q7: 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?

FSI disagrees with the proposal to introduce an application fee, and would have particular concern as to the level of fees detailed in Appendix C of CP61. For example, at €50,000 for insurance undertakings and other entities, these appear to be out of line with those imposed by other regulators. Malta and Luxembourg have much lower base application fees, with Luxembourg's fee payable only where the request is granted and the licence accepted.

It is our view that Ireland should encourage new applications for business, and use the absence of an application fee to do so. This applies even where an application is not particularly well-developed, and where Ireland is one of several potential locations under consideration. The approach of the CBI in such a situation will influence perception of the jurisdiction among international groups, and the signalling effect of introducing significant application fees would be to discourage inward investment and to damage the perception of Ireland as an international financial services centre. It should be noted that, even when not particularly well-developed, inward applications bring economic benefits to the jurisdiction through the use of local advisors.

In a situation where fees were introduced that were significantly higher than other jurisdictions (as is presently suggested by Appendix C of CP61), this would not only put Ireland at a competitive disadvantage, but call into question the efficiency of the process. Should the CBI determine to introduce fees, it is our view that these should be refundable upon reaching a certain degree of completeness, regardless of the final success of the application.

Q10: Do you agree with the CBI's proposal to seek the power to unilaterally revoke the authorisation of those firms which continue to fail to pay their industry funding levy?

FSI agrees in principle, but suggests that measures to deal with situations of financial hardship should be adopted where appropriate.

Q11: Do you agree with the CBI's proposal to remit 100 per cent of the value of monetary penalties to the Exchequer?

FSI welcomes the proposal to change the use and destination of industry fines, which currently are used to offset the CBI's regulatory costs. This will remove any conflict of interest in the CBI's funding and any perceived additional incentive for the CBI to impose monetary fines.

FSI believes it would be reasonable to remit the value of fines relative to the current funding structure of the CBI's regulatory activities, i.e. 50% of their value to the Exchequer and the remaining 50% to reduce the funding levy on industry.