

Levy Consulting CP61
Industry Funding
Central Bank of Ireland
PO Box 9708
Dame Street
Dublin 2

22 February 2013

Dear Sir/Madam

Consultation Paper 61, ("CP60") – Consultation on impact based levies and other levy related matters

We welcome the opportunity to make comment on CP61 issued by the Central Bank on 20 November 2012.

We note the commentary prepared and submitted by the Irish Funds Industry Association, ("IFIA"), of today's date and wish to align ourselves with the comments contained within that document. Whilst we could have a number of comments on various aspects of the Bank's consultation paper, most of these are covered by the IFIA paper. The following are, however, a number of general comments and also some specific comments, pertaining to the "Summary of Questions" set out on page 21 of CP61.

General comments

Under "Scope" on page 3, the document reminds us that CP61 covers all entities regulated by the Central Bank of Ireland, ("CBI"). As has been commented on before, not least by the Deputy Governor of CBI on more than one occasion, the international funds industry services sector based in Ireland has a world leading reputation for excellence, efficiency and probity, justifiably earned over the past 25 years. Therefore, we consider it essential that any additional supervisory costs, which may occur owing to requirements to more intensively monitor the domestic financial services industry, should not also fall on our industry, which daily competes in an ultra-competitive international specialised environment.

While the "Scope" section suggests that the absolute quantum of the annual funding requirement is "outside the scope of this consultation", we wish to take this opportunity to strongly agree with the IFIA that:

"....the significant sums being invested in this framework should be assembled against metrics and performance indicators which the Central Bank should develop and share with all stakeholders."

In this regard also, we consider that the abolition of the industry panel, (which along with the consumer panel provided an essential external independent level of review and check on the financial regulator and its resource allocation, its cost base and the efficiency with which it of

fulfilled its mission), was a retrograde step and that such a level of third party check should be reinstated.

The establishment of transparency of function, engagement and meaningful KPIs can only be to the advantage of both the regulator and the industry. The interests of the consumers and investors, who at the end of it all are the people we all work for and who ultimately pay for both the products and their regulation are best served by the most effective and cost efficient regulation.

We note that following a meeting with CBI on 12 February, it was confirmed that the effect of the updating of the resource allocation for low impact fund service providers, such as ourselves, would be to reduce the estimated levy for this category from the €29,820 referred to in CP61 at page 12 to no more than €10,000. We welcome this clarification as we were convinced that this original level had been a mistake, as the suggested levy was on a par with members of the Irish Stock Exchange and securities and investment firms, who routinely deal with client monies and who's business models are fundamentally different from a risk perspective than those engaged in fund administration.

Finally, we note the comments of IFIA that the industry represented by IFIA (who's members all derive their livelihoods from not only the €1.2 billion of Irish funds, but also from the non-Irish domiciled funds administered here) are "variously regulated", not only by CBI, but also by other industry bodies such as accounting institutes, or the Law Society. The accounting bodies in turn are also regulated by a number of Government entities, and we understand that it is proposed that this will also be the case for the legal profession going forward.

It remains the situation, however, that post CP61 implementation, certain funds service providers will be directly contributing to the CBI levy system and others will continue not to have to make such direct payments.

Responses to consultation questions

8.1

We agree with the use of impact categorisation under PRISM as the basis for the setting of levies.

We note, in this context, that the amount of the levy payable will be principally determined by:

- the nature of the business being carried out, and;
- its impact categorisation

Under PRISM, impact is defined as the degree of damage a firm could cause to the financial system, economy, or consumers were it to fail. The "impact metrics" used within PRISM are further explained in the CBI's information paper, "PRISM Explained", where fund administration companies are included under the Category E of Appendix C with collective investment schemes and other service providers and UCITS and self-managed investment companies.

We have considered this issue for some time and would be of the view that the common metrics used within this category of turnover and "assets under management" are potentially not correct for such a broad group of related entities. The risks which pertain to a large fund failing are not the same as were a small administrator to fail. Where an administrator goes out of business, there are plenty of competitors who can pretty immediately step into its shoes, at no loss to investors. The failure of a fund is a different story altogether.

Similarly, the failure of a custodian, with the implications for asset protection, ownership and recovery are fundamentally different to where an administrator goes out of business.

How this is resolved could be the subject of further discussion with CBI, in which we would be happy to participate. However, our point is that the risks associated with fund administrators are substantially different and less than those relating to some of the other players in Category E.

8.2

We agree in principal that the allocation of the costs of financial regulation activity be done on a basis consistent with the allocation of supervisory resources to regulated entities.

We concur with IFIA, however, in saying that it is difficult to comment in the absence of a clear understanding of the weightings and methodologies used by CBI. We also agree with IFIA that the “tasks and challenges” caused by the “EU/IMF Financial Measures Programme” has no relevance to the funds services industry in Ireland.

We note that the CBI in determining its appropriate level of supervisory resources will have reference to “peer resource levels for comparably sized markets”. If this means that the CBI will benchmark itself against the supervisory infrastructure and costs of competitor jurisdictions, than we would strongly support this and be happy to assist in the derivation and monitoring of such comparisons.

8.6

We support the comments of IFIA concerning application fees for funds and fund service providers proportionate to the appropriate time for such application to be processed and for the application fee to be credited against the first year’s annual funding levy.

8.7

We agree that the application fee be payable at the time of application and cannot envisage many circumstances where such a fee was justifiably refundable.

We trust the above is of assistance and are available should you have any queries, follow up, or questions on our submission.

Yours sincerely,

John MD McCann

Managing Director