APTI

The Association of Pension Trustees of Ireland

CP 95 Public Consultation

Financial Services Division

Department of Finance

Government Buildings

Upper Merrion Street

Dublin 2.

25th, September 2015

Re: CP95 APTI Submission CP95 – Public Consultation

Dear Sir / Madam,

Please find enclosed the Association of Pensioneer Trustees submission in relation to the consultation paper CP95.

I trust you find this in order, please do not hesitate to contact Tommy Neilson on 01- 614 8092 or indeed myself on 01-4546730.

Kind Regards,

Paul Ryan

Chairman

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The voice of the Professional Trustee

Joint Public Consultation Paper

Department of Finance and the Central Bank of Ireland

Funding the Cost of Financial Regulation

Submission by the Association of Pension Trustees In Ireland (APTI)

1. **Any change from the current funding arrangement would have to have due regard for the competitiveness of the industry. Do you consider that there are any particular competitiveness issues to be taken into consideration in revising the funding approach? Please state clearly your reasons for any such issues, their quantification and suggestions on how they may be addressed.**

First of all, it should be noted that there is not necessarily a dichotomy between industry funding on one hand and funding by the tax payer on the other. Industry funding is also ultimately underwritten by the tax payer, namely those who directly or indirectly buy financial services or those who directly or indirectly benefit from the existence of a strong financial services sector in Ireland. Therefore, the question of funding of financial services ought to be framed in a broader policy context of the future of the Irish financial services sector. Consideration must be given to items such as:

- If, from an international competitiveness point of view, it is in in the country's interest to generally increase the cost of financial services;
- if, given the international dimension of most financial services, an increase of financial levies would influence the decision of international financial service providers to locate in Ireland (regulatory arbitrage);
- if, from a transparency point of view, it would be preferable to introduce a financial transaction tax which gives consumers full visibility on the cost of financial regulation instead of a further opaque levy;
- if the success of the Irish funds industry , with all the benefits in terms of additional employment, should be emulated and replicated by adopting a coherent policy in relation to funding and the benefit to the State of accepting some of the costs.

APTI is of the view that other areas of the financial services industry have the potential of emulating the international success of the funds industry, only if a coherent policy approach is adopted. The success of jurisdictions such as Malta (for pensions) and the UK (for insurance) have been achieved through a coordinated approach at legal, fiscal and administrative level aiming at attracting foreign investment. Such investment, like the funds industry in Ireland, directly benefits the tax payers of the countries in question at a scale which undoubtedly exceeds the question of funding of regulation by taxpayers or by the industry. Accordingly, APTI is of the view that the question ought to be broadened from the narrow scope of the question asked.

2. **Any change from the current funding arrangement would have to have due regard to consumers and tax payers. Do you consider that there are any particular consumer or tax payer issues to be taken into consideration in revising the funding approach? Please state clearly your reasons for any such issues and suggestions on how they may be addressed.**

A. APTI notes that many pension providers are subject to dual regulation and supervised by two regulatory authorities, namely the Central Bank of Ireland and the Pensions Authority who both impose levies. There is a considerable overlap between the two regulatory authorities the cost of which should not be shouldered by tax payers who have the foresight to put in place measures to provide for their retirement.

It is worth noting that the Minister for Social Protection on many occasions have highlighted that the cost of pension provision is too high. An increase of 100% on levies imposed will unquestionably have the effect of increasing the cost of pension provision.

In our view, it is unreasonable to suggest that the Pensions Industry and, ultimately, the consumer should shoulder the cost of the inability of the Pensions Authority and the Central Bank to agree a common regulatory framework.

3. Do you consider it appropriate for taxpayers to continue to fund a significant proportion of the cost of financial regulation activity? If you disagree, what would you propose instead?

As stated above, it is in the interest of the Exchequer that consumers take voluntary measures to countermand future liabilities of the State through the making of private pension provision. In addition, pension investment is generally perceived as a stabilising factor on financial markets. Accordingly, we see little reason for increasing the levies for pension business and would suggest that if the cost of financial regulation overall should be assumed by the industry itself, that the brunt of the increased regulation is born by those whose activities necessitate increased financial regulation in the first place, namely funds, insurance and banks.

4. Do you consider it appropriate that industry be required to fully fund the cost of financial regulation activity? If you disagree, what would you propose instead?

We suggest that the cost of regulation be implemented in a transparent manner. The cost of increased financial levies will ultimately be assumed by consumers but in a very non-transparent manner.

Accordingly, we suggest that shortfall be covered by a financial transaction tax. In this manner, consumers have full transparency as to the cost of financial regulation. It brings the cost of financial regulation out in the open. A transaction tax has the additional benefit of putting the comparatively bigger burden on those for whose benefit additional regulation is needed and, furthermore, it is in line with policies considered in other European countries.

5. **Do you consider it appropriate that a move to full funding should commence in 2016? If you disagree, what would you propose instead?**

A financial transaction tax could be phased in rapidly.

In view of the proposed scale of the increase, additional financial levies ought to be phased in over a period of 3-5 years allowing the financial providers to make provisions for this increase in their cost base (ultimately through pricing hikes on consumers).

6. **Do you consider it appropriate that a move to full funding should take place in a single step in 2016? If you disagree, what would you propose instead?**

See above.

7. **Do you consider it appropriate that any revision in the proportion of funding provided by industry should continue to apply uniformly across all industry funding categories? If you disagree, what would you propose instead?**

APTI notes that the emerging international obligations which no doubt will drive up the costs of regulation relate to funds, insurance and banking. This is understandable as these sectors of financial services repeatedly have been quoted as central to causing the instability in financial markets which ultimately lead to the financial meltdown of 2008. Hence, the need for increased regulation.

However, the Pensions Industry is not in that category. Indeed, the pensions industry is currently a domestic industry which, in view of the long term strategies necessarily adopted by investors and the industry as a whole is perceived as a stabilising factor of the domestic market. Accordingly, while many pension providers are subject to supervision by the Central Bank, we are of the view that pension business ought to be either exempt from these new measures or a rebate should be given for levies remitted to the Pensions Authority.

In any event, the main brunt of increased financial regulation ought to be borne by those whose activities necessitate further regulation.

8. **Do you consider that there are any particular industry funding categories which warrant a derogation or alternative funding approach? Please state clearly your reasons for such a view.**

As stated above, we are of the view that the pensions industry by and large is a stabilising factor on financial markets, and which is already subject to regulation by the Pensions Authority and whose activities benefit the common good by alleviating the Exchequer from future liabilities and, accordingly, there is no legitimate reasons for increasing the cost of regulation in relation to pensions and pensions-related services.

9. **Are there any other considerations that you think should be taken into account in seeking to come to a decision on a move to full industry funding? If so, what are they?**

APTI is concerned about the industry – and the country – receiving value for money for the increased financial levies. We are of the view that that the dependency of the Central Bank on funding from the Exchequer exposes the Central Bank to political scrutiny from the Government since the funding has to be made available every year, through the Budget. We are concerned that the inherent scrutiny would cease if the Central Bank becomes fully industry-funded. There would no longer be any incentive for Central Government or the Oireachtas to procure value for money for tax payers' funds.

If a 100% funding model is put in place measures would have to be taken to procure financial oversight and guarantee value for money.

25th October 2015 (Tommy Nielsen)

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