Irish Association
of Investment
Managers
35 Fitzwilliam Place
Dublin 2
Tel: +353 (0)1 676 1919
Fax:+353 (0)1 676 1954
Email: info@iaim.ie

By Email: funding@finance.gov.ie

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Funding the Cost of Financial Regulation – Public Consultation
Financial Services Division
Department of Finance
Government Buildings
Upper Merrion Street
Dublin 2

Consultation on Funding the Cost of Financial Regulation – CP 95

The Irish Association of Investment Mangers ("IAIM") is pleased to respond to this significant consultation.

IAIM represents institutional investment managers, both domestic and international, who are engaged in 'front office' investment activities in Ireland.

The industry faces a challenging regulatory horizon as many EU legislative instruments are due to be implemented over the coming years. The costs, at individual firm level, of implementing these new requirements are very significant and their complexity is acknowledged in the Consultation Paper.

The possible further costs associated with a move towards full industry funding would present significant competitive challenges to our members.

Our responses to the questions posed are set out below. We are available to discuss our responses at your request.

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.**

   The Government's strategy 'IFS 2020' launched in March of this year eloquently sets out the importance of the International Financial Services industry in terms of jobs, contribution to the Exchequer (estimated at €2 billion per annum) and its broad footprint across the country. The Strategy document also highlights the competitive challenges facing the sector. While these challenges are varied one is, undoubtedly the cost of regulation.

The Consultation document identifies, for example, the significant cost to the Central Bank of implementing the wide range of EU regulation across the entire sector. Every member state is faced with these costs however in many competing jurisdictions the underlying sector is larger, both in terms of absolute scale and the number of regulated firms capable of absorbing these costs.

Data from the Central Bank indicates that the total value of assets managed in Ireland is approximately €350 billion; of which approximately €100 billion is on behalf of Irish residents and €250 billion on behalf of foreign residents. Data from UK Trade and Industry indicates that comparable data for the UK is total assets managed of €9 trillion of which €3 trillion is domestic and €6 trillion managed on behalf of international clients. Self evidently the impact of full industry funding on the much smaller industry in Ireland is more costly than in the UK – our major competitor.

The entire investment management sector in Ireland would not rank in the top 30 Global investment management firms (Source: IPE).

The sensitivity of the sector to regulatory costs is best illustrated by an example. In Luxemburg regulatory costs are recouped by a levy on individual funds i.e. directly from the ultimate customer. The levy imposed in that jurisdiction on 'Money Market Funds' was so uncompetitive that a significant proportion of such funds moved to Ireland. Such was the impact that the levy was immediately reduced in that country.

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.**

The value to the taxpayer of the International Financial Services sector is acknowledged to be in the region of €2 billion per annum. The sector, as IFS 2020 acknowledges, is international, mobile and extremely competitive. The public policy choice is whether an annual investment, by the State of €67 million (i.e. the difference between current industry funding and actual costs) is appropriate to support an industry contributing €2 billion annually to the taxpayer.

Increased costs imposed on firms must, ultimately, be borne by the customer. It is not possible to comment further about the impact on consumers. However we note that, despite the number of investment firms authorised in Ireland under MiFID and AIFMD, less than 50 contribute the vast majority of the levies which support 'Fund A' of the Investor Compensation Company. Again this suggests that the underlying number of firms dealing with consumers, and upon whom increased costs would fall, is small compared to other jurisdictions.

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?

and

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?

and

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

and

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?

Our composite comments on these questions is as follows:-

The international financial services sector is a significant contributor to the economy both in terms of jobs and contribution to the Exchequer. The sector proved resilient during the period since 2007 and did not contribute to the 'financial crisis' in Ireland.

The impact of a move to full funding is considerable and undoubtedly will pose competitive challenges. In absolute terms a "Medium High" investment firm would see its impact levy increase from €197,000 to €430,000 (Ignoring the significant and undesirable proposal to have industry fund the Bank's pension fund deficit).

The value to the taxpayer of supporting the regulatory infrastructure necessary for the international financial services sector must be judged in relation to its significant contribution to the economy and indeed to the overall surplus generated by the Central Bank of Ireland.

The Consultation document acknowledges the significant costs associated with the implementation of new EU regulations. As noted earlier such costs are common in all member states but have significantly lower impact, at firm level, in larger jurisdictions. Should the policy choice be made to move to full industry funding we believe it should be implemented over a period of years commencing when the current 'bulge' of EU level regulation has been fully implemented by the Central Bank.

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?

and

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.

There are many sub-sections within the IFS sector each facing differing competitive challenges. It seems likely therefore that a uniform approach will have differing implications for competitive pressures, impact on consumers and on the attractiveness of Ireland as an IFS centre. IAIM represents investment managers and can comment specifically only on that funding category.

As set out in the answer to Question 1 our sector is small compared to our largest competitor – the UK. Over the coming years the Consultation paper highlights that "the regulatory horizon is particularly demanding for our particular industry" given the major pieces of EU legislation to be implemented. The impact of full funding on our industry (which in its entirety is smaller than any of the top 30 Global Investment Managers) will be particularly onerous compared to our principal competing jurisdictions.

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?

Should a decision be taken to move to full industry funding regulated firms would have no role in assessing annual budgets prepared by the Central Bank and no means by which to assess the performance of the regulatory function or to benchmark it against competing jurisdictions.

In the context of good governance we believe that the Board of the Central Bank should include two nominees with a background in financial services regulation who would be capable of the necessary informed assessment and challenge of the performance of those charged with the management of the financial regulation function.

Yours faithfully,

Frank O'Dwyer
Chief Executive