Irish Stock Exchange

Irish Stock Exchange Response to the Joint Public Consultation Paper
Funding the Cost of Financial Regulation

The Irish Stock Exchange (ISE) welcomes the opportunity to comment on this joint Department of Finance and Central Bank consultation.

Our response focuses primarily on the very real competiveness issues facing the Irish market and also comments on the fees levied on the ISE itself as a market operator.

We strongly support the Department of Finance's goal of growing and developing the international financial services sector as set out in the Government's IFS2020 Strategy. We agree with the Department's view that central to achieving this challenging objective is the need to foster a competitive financial services sector in Ireland. Ireland remaining competitive internationally is essential to attracting and retaining foreign firms and to developing domestic financial services. Control of the costs imposed on market participants is of critical importance in achieving this goal. Markets globally remain intensely competitive and, against this backdrop, the breadth, depth and impact of the regulatory burden in both the EU and in Ireland have increased very significantly over the last five years.

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.**

   Regulatory cost is an increasingly material proportion of the overall cost of doing business in Ireland. It is a key aspect of competitiveness and the components of this cost must be critically assessed on an ongoing basis and their level benchmarked to other jurisdictions. The appropriateness and fairness of any costs to be allocated to industry needs to be carefully considered.

   The ISE supports retaining the current funding model, which in monetary terms for market participants has increased by 131% between 2009 and 2014. This increase, combined with associated regulatory spend, is the single greatest source of inflation in the ISE's overall cost base. We therefore strongly disagree with any proposal to move towards a 100% recovery from industry.

   At this juncture of the economic and reputational recovery of Ireland, it is important to maintain Irish competiveness and to sustain the momentum of recovery. We still have very significant ground to make up, for example, the position of Dublin as a Global Financial

Centre, as rated by the Global Financial Centres Index published this month ranks Dublin 46 out of 84 centres, significantly lower than its ranking of 10th in 2009.

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.**

   Any increase in regulatory funding costs will typically be passed onto consumers as regulated entities seek to cover their costs. Consumers are already paying increased levies for various insurance products, significantly higher levels of personal taxes such as USC and DIRT and higher capital gains and inheritance taxes. Stamp Duty of 1% uniquely disadvantages investors in the Irish equity market versus all of its competitors.

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?**

   Yes. The Exchequer benefits very significantly overall from the employment, corporate and other taxes paid by the financial services sector.

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?**

   No. See our response to question one.

5. **Do you consider it appropriate that a move to full funding should commence in 2016? If you disagree, what would you propose instead?**
   No. Retain the current funding model.

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 our response to question five.

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?**

   The current basis of allocation provides some incentive for cost control. In relation to the fees levied on the ISE as a market operator, it is essential to remember that the ISE invests heavily, on an ongoing basis, in maintaining and further enhancing overall market integrity as well as in discharging specific statutory regulatory responsibilities. These costs are fully absorbed by our business. This additional burden needs to be taken into account when arriving at an appropriate level of funding.

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.**

   See our response to question seven.

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?**

   No, other than as stated above.