Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

2013

A Guide to the 2013 Industry Funding Regulations

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Summary

This guide is intended to provide a user-friendly guide as to how the industry funding levy for 2013 is calculated. The guide is divided into five sections:

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Section 1 sets out the background to the levy and summarises the 2013 Industry Funding Regulations

Section 2 Significant Changes in 2013

Section 2 sets out significant changes to the levy calculation process together with changes to the categorisation of regulated ***financial service providers*** which occurred in 2013.

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If you have queries regarding the 2013 Industry Funding Levy please refer to the **FREQUENTLY ASKED QUESTIONS** section in the Industry Funding Levy area of our website **www.centralbank.ie** or you can e-mail the funding section at **funding@centralbank.ie**.

Section 1 – Background to the 2013 Regulations

1.1 The Regulations referred to in this Guide are the Central Bank Act 1942 (Section 32D) Regulations 2013. The objective of the Regulations is to raise approximately 50 per cent[1] of the budget attributed to the ***Bank***'s financial regulation activities directly from the ***financial service providers*** it regulates. Accordingly, the Regulations apply to all persons who are subject to regulation by the ***Bank***.

1.2 The government gave the power to raise such a levy to the ***Bank*** Commission under the Central Bank Reform Act, 2010. In accordance with the legislation the Commission has sought, and obtained, the approval of the Minister for Finance of its 2013 levy proposals.

1.3 The Regulations, as amended, were signed into law by the Governor on 17 September 2013 and became effective on that day. As of that date, all ***financial service providers*** are liable to pay an annual levy. The levy must be paid no later than 28 days from the date on the levy notice.

1.4 A ***financial service provider*** may hold more than one authorisation from the Bank and, therefore, fall into more than one ***industry funding category***. In such cases, the ***financial service provider*** must pay the levy for each category in respect of which it holds an authorisation. For example, a credit union (Category F) may also hold a multi-agency intermediary authorisation (Category C) and is therefore obliged to pay the levy for both categories.

Collection of the Levy

1.5 The Bank sends almost all ***financial service providers*** a levy notice after the Regulations are made. However, even if a ***regulated entity*** does not receive a levy notice, it is still legally obliged to pay the levy calculated in accordance with the appropriate ***industry funding category*** in the Regulations. Any such ***financial service provider*** should request a copy levy notice by e-mail from **funding@centralbank.ie.**

1.6 **Options for payment** are available on our website at **www.centralbank.ie**. The preferred method of payment is direct debit or electronic funds transfer (EFT). To ensure that payments are dealt with efficiently, all payments made by EFT must include **details of the levy notice number and/or the account number**. Failure to include the required details may result in the EFT payment being returned at the ***financial service provider's*** expense. Payment by cheque will also be accepted and should be made payable to IFSRA No. 1 account.

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[1] Credit Institutions which were admitted to the Eligible Liabilities Guarantee Scheme 2009 are required to fund 100 per cent of supervisory costs.

Pro-Rata Levies

1.7 Each ***financial service provider*** will be liable to a levy for the portion of the year in respect of which it holds an authorisation from the ***Bank***. It follows that ***financial service providers*** authorised in 2013 will be liable to a levy covering the period from date of authorisation to 31 December 2013. Similarly, ***financial service providers*** whose authorisation is revoked during the course of 2013 will be liable to a levy covering the period 1 January 2013 to the date on which the relevant authorisation is revoked.

Appeals

1.8 A ***financial service provider*** may appeal the levy amount to the Deputy Governor (Financial Regulation) to change the amount of the levy where it considers that the amount is incorrectly assessed but must do so no later than 21 days following the date of the levy notice. A ***financial service provider*** may only dispute **the amount** of assessment. A ***financial service provider*** cannot dispute an amount correctly calculated from the Schedule to the Regulations.

1.9 Any such appeals must be in writing and must:

- dispute the calculation of the levy because of either
  - an incorrect figure, or
  - an incorrect ***industry funding category/categories***;
- set out the grounds of the appeal in detail;
- be accompanied by the amount of required levy contribution that is not in dispute; and
- include any supporting documentation or representations where relevant.

1.10 Once an appeal has been considered and the **financial service provider** has been notified of the decision, it must pay the balance of the levy owing (if any) within 10 days of the date of notification.

Recovery of the Levy

1.11 If a ***financial service provider*** fails to pay the levy by the required date the ***Bank*** may take steps to recover the amount of the levy. Recovery action may include court proceedings.

Records

1.12 A ***financial service provider*** must keep all records on which the levy has been calculated for so long as the Regulations stipulate. The Regulations stipulate that this requirement is applicable for a period of six years.

Section 2 – Significant Changes in 2013

Introduction of Impact Based Levies

2.1 Risk based supervision, which was introduced by the ***Bank*** in November 2011, starts with the premise that not all ***financial service providers*** will have the same impact on the economy or on consumers if they fail and that a regulator can deliver most value through focussing its energies on the firms which are most significant and on the risks that pose the greatest threat to financial stability and consumers.

2.2 ***PRISM*** is the framework that the ***Bank*** has developed to apply a risk based approach to supervision. Under ***PRISM***, ***financial service providers*** are categorised based on impact, a measure which indicates the degree of damage a firm could cause to the financial system, economy or consumers were it to fail.

2.3 Supervisory resources are currently being allocated by the ***Bank*** on the basis of ***impact categorisation*** and so the ***Bank*** announced in its Feedback Statement on Consultation Process and Other Levy Related Matters its intention to introduce, in 2013, a revised approach to the levy calculation process designed to more closely align the funding by regulated entities of the costs of financial regulation on a basis consistent with the deployment of its supervisory resources i.e. on the basis of ***impact categorisation***. Under this revised calculation methodology regulated ***financial service providers*** will pay a levy in 2013 based on the activities in respect of which they have been authorised (***industry funding category***) and their ***impact categorisation***. Furthermore, those entities with the highest impact within an ***industry funding category*** will pay the highest levies while those with the lowest impact will pay the least.

2.4 Credit Unions will continue to be levied on the basis of 0.01 per cent of total assets.

Levies payable by *Low Impact regulated entities* in certain *Industry Funding categories* under the Revised Calculation Methodology

2.5 Concerns were expressed during the consultation process that the introduction of a single flat rate levy for ***low impact regulated entities*** in certain ***industry funding categories*** which failed to take account of size, volume of business and/or ability to pay would lead to a regressive levy. Following consideration of the arguments the Bank considered it appropriate to refine its new impact based levy calculation methodology by implementing a tiered approach to the levies applicable to such ***low impact*** firms (such as intermediaries) with the relevant tier being determined by the firm's ***impact score*** under ***PRISM***[2]**.**

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[2] This tiered approach will apply in 2013 to intermediaries, moneylenders and payment institutions. Please see Section 3, Tables 6, 13 and 18 for further details.

2.6 There are three exceptions to this general rule as follows:

- where the ***regulated entity*** has been newly authorised and is not yet due to submit an **On-Line Regulatory Return**: in such cases the firm will be liable to pay the minimum Industry Funding Levy applicable to the category in question;
- where the ***regulated entity*** holds a dual authorisation and it has not previously been required to submit an **On-Line Regulatory Return** in respect of its intermediary authorisation: in such cases the firm will be liable to pay the minimum Industry Funding Levy applicable to the category in question
- where the regulated entity has failed to submit its ***On-Line Regulatory Return*** in accordance with regulatory requirements: in such instances the regulated entity will be liable to a default levy amounting to €3,600.

Collective Investment Schemes and Self- Managed Investment Companies with Umbrella Structures

2.7 From 2013, Collective Investment Schemes and Self-Managed Investment Companies with Umbrella Structures will be liable to a levy amounting to €1,435 in respect of each umbrella fund together with an estimated additional amount of €235 per sub-fund up to ten sub-funds and a further €135 per sub-fund from eleven to the maximum number of twenty. It follows that the estimated maximum levy payable will be €5,135[3].

Credit Institutions and Insurance Undertakings

2.8 Credit institutions and insurance undertakings authorised under Irish legislation will no longer be subject to prudential and consumer levies. Instead they will be subject to a single impact based levy. Credit institutions admitted to the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 may also, however, be subject to a supplementary levy (see section 3).

2.9 As branches of credit institutions may engage with Irish resident individuals or household and branches of insurance undertakings may write Irish risk business they will be subject to a levy designed to contribute towards the cost of consumer protection regulation[4].

[3] Please see Section 3, Table 11 for further details.
[4] Please see Section 3, Tables 3 and 5 for further details

Changes to Industry Funding Categories

2.10 In order to more accurately reflect the level of resources devoted to the authorisation and on-going supervision of:

- ***regulated entities*** primarily engaged in the execution of a large volume of buy and sell orders using proprietary algorithmic trading software technology; and
- ***regulated entities*** that either operate a trading platform or provide clearing and/or settlement services to market participants

It has been deemed appropriate to create two new industry funding sub-categories:

High Volume Algorithmic Trading Firms (D9); and
Market Infrastructure Firms (D10).

Consequent to this change, the former ***industry funding sub-categories*** D7, D8 and Ì will not be operable in 2013.

Section 3 – Calculation of the Levy

Category A: Credit Institutions

A1a – Credit Institutions authorised under Irish legislation that were admitted to the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the "*ELG Scheme institutions*") and their subsidiaries that are Credit Institutions authorised under Irish legislation

Each credit institution within this category shall be liable to pay the levy contribution corresponding to its ***impact category*** as set out in Table 1 below

Table 1					
Impact Category	***Ultra High***	***High***	***Medium High***	***Medium Low***	***Low***
Levy	€4,118,456	€1,868,749	N/A	N/A	N/A

Where, however, a credit institution is a member of a ***Credit Institution Group***, the ***Credit Institution Group*** shall transfer the levy amount applicable to the ***Ultra High Impact*** category to the ***Bank*** on behalf of all its constituent members, with the proportion of the ***Credit Institution Group*** Levy for which an individual constituent member is liable being calculated according to the following formula:

$$A = B/C * D$$

Where:

A = proportion of the ***Credit Institution Group*** Levy for which the individual constituent member is liable; and

B = levy amount which the individual constituent member would be obliged to pay if it were not being assessed as part of a ***Credit Institution Group***; and

C = total sum of B for all individual constituent members of the ***Credit Institution Group***; and

D = ***Credit Institution Group*** Levy (i.e. the ***Ultra High Impact*** category levy).

For example, in the case of a notional ***Credit Institution Group*** with three constituent members, each one of which fall within the ***High Impact*** category, the total levy payable by the ***Credit Institution Group*** will be €4,118,456 (the ***Ultra High Impact*** category levy) and each individual constituent member's proportion of this levy liability will be:

€1,868,749 / (€1,868,749*3) * €4,118,456 = €1,372,819

In addition, the ***ELG Scheme institutions*** listed below shall be charged specific costs (these specific costs shall be paid by each of the named ***ELG Scheme institutions*** for, and on behalf of, each of its subsidiaries that are credit institutions authorised under Irish legislation):

ELG Scheme Institutions

Allied Irish Bank plc.
The Governor and Company of the Bank of Ireland
Permanent TSB plc.

A1b – Credit Institutions authorised under Irish legislation and not included in Industry Funding sub-category A1a

Each credit institution within this category shall be liable to pay the levy contribution corresponding to its ***impact category*** as set out in Table 2 below.

Table 2

Impact Category	***Ultra High***	***High***	***Medium High***	***Medium Low***	***Low***
Levy	N/A	€757,029	€173,095	€34,410	€16,042

A2 – Credit Institutions authorised in another EEA state operating in Ireland on a branch basis

A3 – Credit Institutions authorised in another EEA state operating in Ireland on a cross border basis

In recognition of the fact that Credit Institutions authorised in another EEA state operating in Ireland on a branch basis may engage with Irish resident individuals or households they will be subject to a levy designed to contribute towards the cost of consumer protection regulation. The amount of such levy is set out in Table 3 below.

Table 3					
Impact Category	***Ultra High***	***High***	***Medium High***	***Medium Low***	***Low***
Levy	N/A	N/A	N/A	N/A	€12,032

Similarly, credit institutions authorised in another EEA state operating in Ireland on a cross border basis are obliged to pay the levy amount set out in Table 3 above. No levy notices will be issued.

Category B: Insurance Undertakings

B1 – Life undertakings with Irish head office and life undertakings authorised in another non-EEA member state operating in Ireland

B4 – Non life undertakings with Irish head office

B7 – Reinsurance undertakings with Irish head office

Such institutions shall be liable to pay the levy contribution corresponding to its ***impact category*** as set out in Table 4 below.

Table 4					
Impact Category	***Ultra High***	***High***	***Medium High***	***Medium Low***	***Low***
Levy	€1,223,409	€555,122	€126,929	€25,233	€8,369

B2 – Life undertakings authorised in another EEA member state operating in Ireland on a branch basis

B3 – Life undertakings authorised in another EEA member state operating in Ireland on a cross border basis

B5 – Non life undertakings authorised in another EEA member state operating in Ireland on a branch basis

B6 – Non life undertakings authorised in another EEA member state operating in Ireland on a cross border basis

As branches of insurance undertakings operating in Ireland may write Irish risk business they will be subject to a levy designed to contribute towards the cost of consumer protection regulation. The amount of such levy is set out in Table 5 below.

Table 5					
Impact Category	***Ultra High***	***High***	***Medium High***	***Medium Low***	***Low***
Levy	N/A	N/A	N/A	N/A	€6,277

Similarly, insurance undertakings authorised in another EEA state operating in Ireland on a cross border basis are obliged to pay the levy amount set out in Table 5 above. No levy notices will be issued.

Insurance Undertaking Groups

Where an insurance undertaking is a member of an ***Insurance Undertaking Group***, and where the ***Bank*** has objectively determined by reference to ***PRISM*** and the resources the ***Bank*** expends on supervising the members of such an ***Insurance Undertaking Group***, that it is necessary that such ***Insurance Undertaking Group*** shall pay the levy amount applicable to the ***Ultra High Impact*** category (and where the ***Bank*** has notified each member of such ***Insurance Undertaking Group*** of this determination in writing), the proportion of the ***Insurance Undertaking Group*** levy for which an individual constituent member is liable will be calculated according to the following formula:

$$A = B/C * D$$

Where:

A = proportion of the ***Insurance Undertaking Group*** levy for which the individual constituent member is liable; and

B = levy amount which the individual constituent member would be obliged to pay if it were not being assessed as part of an ***Insurance Undertaking Group***; and

C = total sum of B for all individual constituent members of the ***Insurance Undertaking Group;*** and

D = ***Insurance Undertaking*** Levy (i.e. the ***Ultra High Impact*** category levy).

For example, in the case of a notional ***Insurance Undertaking Group*** with three constituent members, each one of which fall within the ***High Impact*** category, the total levy payable by the ***Insurance Undertaking Group*** will be €1,223,409 (the ***Ultra High Impact*** category levy) and each individual constituent member's proportion of this levy liability is:

€555,122 / (€555,122*3) * €1,223,409 = €407,803

Where an insurance undertaking is a member of an ***Insurance Undertaking Group***, but does not receive written notification from the ***Bank*** that it is a constituent member of an ***Insurance Undertaking Group*** then it shall be liable to pay the levy contribution corresponding to its ***impact category***.

Category C: Intermediaries

As outlined in paragraph 2.5 above, the ***Bank*** has adopted a tiered approach in relation to the levies payable by intermediaries with the relevant tier being determined by the firm's ***impact score*** under ***PRISM***. Intermediaries shall be liable to pay the levy contribution corresponding to its ***impact score*** as set out in Table 6 below.

Table 6			
Impact Category	***Low***		
Impact Score	**< 50.5**	**≥ 50.5 – 65.0**	**≥ 65.1**
Levy	€475	€1,150	€24,000

Intermediaries newly authorised in 2012 and not yet due to submit an ***On-Line Regulatory Return*** shall be liable to pay the minimum Industry Funding Levy applicable to this category of €475.

On the other hand, intermediaries that have failed to submit their ***On-Line Regulatory Return*** in accordance with regulatory requirements shall be liable to a default levy amounting to €3,600. This default levy will be cancelled, however, and replaced with a levy calculated in accordance with the entity's ***impact score*** following submission of its ***On-Line Regulatory Return***.

Category D: Securities and Investment Firms

D1 – Designated Fund Managers

D2 – Receipt and Transmission of Orders and/or Provision of Investment Advice; no Client Asset Requirements imposed

D3 – Portfolio Management; Execution of Orders; Client Asset Requirements imposed

D4 – Own Account Trading; Underwriting on a Firm Commitment Basis; Client Asset Requirements Imposed

D6 – Non Retail Investment Firms

A ***regulated entity*** falling within any of the above categories of Securities and Investment Firms authorised by the ***Bank*** shall be liable to pay the levy contribution corresponding to its ***impact category*** as set out in Table 7 below.

Table 7

Impact Category	*Ultra High*	*High*	*Medium High*	*Medium Low*	*Low*
Levy	N/A	N/A	€209,684	€41,684	€9,944

D5 – Stock Exchange Member Firms

A Member Firm of the Irish Stock Exchange that has been authorised by the ***Bank*** shall be liable to pay the levy contribution corresponding to its ***impact category*** as set out in Table 8 below:

Table 8

Impact Category	*Ultra High*	*High*	*Medium High*	*Medium Low*	*Low*
Levy	N/A	N/A	€227,251	€45,176	N/A

D9 – High Volume Algorithmic Trading Firms

A ***High Volume Algorithmic Trading Firm*** that has been authorised by the ***Bank*** shall be liable to pay the levy contribution corresponding to its ***impact category*** as set out in Table 9 below:

Table 9					
Impact Category	***Ultra High***	***High***	***Medium High***	***Medium Low***	***Low***
Levy	N/A	N/A	N/A	€132,953	N/A

D10 – Market Infrastructure Firms

A ***Market Infrastructure firm*** that has been authorised by the Bank shall be liable to pay the levy contribution corresponding to its ***impact category*** as set out in table 10 below:

Table 10					
Impact Category	***Ultra High***	***High***	***Medium High***	***Medium Low***	***Low***
Levy	N/A	N/A	€248,750	€49,450	N/A

Category E: Collective Investment Schemes and Other Service Providers and UCITS Self Managed Investment Companies (SMICs)

E1a – Collective Investment Schemes (CIS) (Authorised Unit Trusts; Authorised Investment Companies; Authorised Investment Limited Partnerships; Non-Irish Authorised Schemes)

E1b – UCITS Self Managed Investment Companies (SMICs)

All funds authorised by the ***Bank*** shall be liable to pay a minimum levy of €1,435. Umbrella funds will also pay a contribution per sub-fund of €235 up to ten sub-funds and a further levy of €135 on sub-funds numbers greater than ten, to a maximum of twenty sub-funds, resulting in a maximum contribution for umbrella funds of €5,135.

Table 11

No. of Sub Funds	*Levy per sub-fund*	*Total Levy*
2	€235	€1,905
3	€235	€2,140
4	€235	€2,375
5	€235	€2,610
6	€235	€2,845
7	€235	€3,080
8	€235	€3,315
9	€235	€3,550
10	€235	€3,785
11	€135	€3,920
12	€135	€4,055
13	€135	€4,190
14	€135	€4,325
15	€135	€4,460
16	€135	€4,595
17	€135	€4,730
18	€135	€4,865
19	€135	€5,000
20	€135	€5,135

E2a – Non UCITS Managers (Delegating)

E2b – Administrators; UCITS Managers (Non Delegating); Non UCITS Managers (Non Delegating) and Trustees

E2c – UCITS Managers (Delegating)

A ***fund service provider*** falling within any of the above categories and which has been authorised by the ***Bank*** shall be liable to pay the levy contribution corresponding to its ***impact category*** as set out in Table 12 below:

Table 12					
Impact Category	*Ultra High*	*High*	*Medium High*	*Medium Low*	*Low*
Levy	N/A	N/A	€162,961	€32,396	€4,774

Category F: Credit Unions

A Credit Union is liable to pay a levy of 0.01 per cent of total assets as reported in its annual return setting out its balance sheet as at 30 September 2012.

Category G: Moneylenders

As outlined in paragraph 2.5 above, the ***Bank*** has adopted a tiered approach in relation to the levies payable by moneylenders, with the relevant tier being determined by the ***regulated entity***'s ***impact score*** under ***PRISM***. Moneylenders shall be liable to pay the levy contribution corresponding to its ***impact score*** as set out in Table 13 below.

Table 13				
Impact Category	*Low*			
Impact Score	≤ 20.5	20.6 - 25.0	25.1 - 75.0	≥ 75.1
Levy	€2,000	€7,750	€37,500	€120,000

Category H: Approved Professional Bodies

Each approved professional body shall be liable to pay the levy contribution corresponding to its ***impact category*** as set out in Table 14 below:

Table 14					
Impact Category	***Ultra High***	***High***	***Medium High***	***Medium Low***	***Low***
Levy	N/A	N/A	N/A	N/A	€10,068

Category J1: Bureaux de Change

Each bureau de change that has been authorised by the ***Bank*** shall be liable to pay the levy contribution corresponding to its ***impact category*** as set out in Table 15 below:

Table 15					
Impact Category	***Ultra High***	***High***	***Medium High***	***Medium Low***	***Low***
Levy	N/A	N/A	N/A	N/A	€1,259

Category K: E-Money Providers

Each E-Money Provider will be required to pay a levy of €3,500.

Category L: Default Assessment

Each ***regulated entity*** defined as a defaulting entity pursuant to regulation 16(d) is liable to pay a flat rate levy of €3,600.

Category M: Retail Credit Firms and Home Reversion Firms

M1 – Retail Credit Firms

M2 – Home Reversion Firms

Each retail credit and home reversion firm that has been authorised by the ***Bank*** shall be liable to pay the levy contribution corresponding to its ***impact category*** as set out in Table 16 below:

Table 16					
Impact Category	***Ultra High***	***High***	***Medium High***	***Medium Low***	***Low***
Levy	N/A	N/A	N/A	N/A	€4,195

Category N: Payment Institutions

Each payment institution that has been authorised by the **Bank** shall be liable to pay the levy contribution corresponding to its ***impact category*** and ***impact score*** as set out in Tables 17 and 18 below:

Table 17				
Impact Category	***High***	***Medium High***	***Medium Low***	***Low***
Levy	N/A	N/A	€342,296	N/A

Table 18			
Impact Category	***Low***		
Impact Score	**≤ 51.0**	**51.1 - 100.0**	**≥ 100.1**
Levy	€1,750	€5,000	€60,000

Section 4 – Financial Information for Industry Sectors

Calculation of Levy rates for individual *Financial Service Providers*

4.1 Costs directly attributable to a particular ***industry funding category*** are allocated solely to the ***industry funding category*** concerned. Such costs will include the pay, non-pay and overhead costs associated with the front-line supervision of ***regulated entities*** on a day to day basis. It will also include the pay, non-pay and overhead costs associated with divisional management and with those specialist support staff located within supervision divisions of the **Bank** who provide expert advice and support relating to particular ***industry funding categories***.

4.2 Costs related to the investigation and follow-up of legacy issues related to the financial crisis will be funded solely by the particular ***industry funding categories*** concerned.

4.3 The cost of those resources dedicated by our Consumer Protection and Enforcement Divisions to the supervision of **low impact** firms must be borne by such firms in proportion to their share of the total impact based resources attributable to low impact firms. In a similar fashion, the balance of the resources available to the **ultra high** to **medium low impact** categories must be borne by those firms in proportion to their share of the total impact based resources attributable to firms other than low impact firms.

4.4 The cost of other financial regulation support costs (such as the development of supervisory policy in relation to credit institutions or insurance companies) which are directly attributable to ***industry funding categories*** will be borne by the particular ***industry funding category*** concerned while the cost of other financial regulation support services (such as Risk Division) will be borne by ***regulated entities*** in proportion to their share of total impact based resources.

4.5 Total costs attributable to each ***industry funding category*** are allocated to individual ***regulated entities*** within a particular ***industry funding category*** based on relative allocation of the total impact based resources attributable to the ***industry funding category***.

How the *net Annual Funding Requirement (nAFR)* is determined

4.6 The 2013 budget for financial regulation activities, as advised to the Minister for Finance, is €135.9 million. The ***gross Annual Funding Requirement (gAFR)*** arising from the budget is €76.1 million[5].

4.7 In order to determine the amount that must actually be collected from industry in 2013 – the 2013 ***nAFR***– an adjustment is made for any under/over recovery of costs in the prior year. This adjustment is calculated by comparing the amounts collected from the 2012 industry funding levy with actual expenditure for 2012. A surplus of €16.1 million arose in 2012 mainly because actual expenditure during 2012 was less than budgeted. The required amount to be collected from industry in 2013 has been reduced accordingly. In the past this surplus/deficit was calculated on a sector specific basis. The change in the method of calculating the industry funding levy to one based on impact categorisation might be expected to result in some changes in the distribution of the ***net annual funding requirement*** across ***industry funding categories*** in 2013. In the interests of transparency, and to dampen the effect of these changes on the distribution of the ***nAFR*** across ***industry funding categories***, the ***Bank*** considered it appropriate to apply the total surplus across ***industry funding categories*** by reducing all levies by a proportion equal to the amount of the surplus as a percentage of the ***gAFR*** for 2013.

4.8 Following adjustment for the surplus relating to 2012 the amount to be collected from industry in 2013 is €55.8 million.

[5] The ***gross Annual Funding Requirement*** exceeds 50 per cent of budget primarily due to the decision that the domestic credit institutions covered by the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 will be required to fully fund the cost of the intensive level of supervision provided for as part of the Scheme. This was, however, partially offset by:

a) the continued capping of the credit union levy at 0.01 per cent of total assets. This results in additional funding by the ***Bank*** of €5.0 million.
b) the surplus of €16.1 million carried forward from 2012; and
c) the exclusion of the 2013 budget for costs of €6.4 million relating to certain market supervision activities carried out by the ***Bank*** in respect of the Prospectus (Directive 203/71/EC) Regulations 2005 and the Market Abuse (Directive 2003/6/EC) Regulation 2006.

Section 5 – Appendices

Appendix 1 – Comparison of 2013 and 2012 *Net Annual Funding Requirement (nAFR)*[6]

Category	Description	2013 nAFR	2012 nAFR	Variance
		€	€	€
A1a	Irish authorised Credit Institutions admitted to the ELG Scheme 2009 and their subsidiaries	12,355	25,091	-12,736
A4	Supplementary Levy for authorised Credit Institutions admitted to the ELG Scheme 2009 and their subsidiaries	7,183	13,090	-5,907
A1b/A2	Irish authorised Credit Institutions not in A1a/EEA Branches	6,837	6,718	119
B	Insurance Undertakings	13,330	12,013	1,317
C	Intermediaries	2,326	2,729	-403
D1,D2,D3, D4,D6	Securities & Investment Firms	3,490	4,947	-1,457
D5	Stock Exchange Member Firms	1,454	955	499
D9	***High-Volume Algorithmic Trading Firms***	266	568	-302
D10	***Market Infrastructure Firms***	298	326	-28
E1	Collective Investment Schemes UCITS Self-Managed Investment Companies	2,504	3,735	-1,231
E2	Fund Service Providers	3,329	1,803	1,526
F	Credit Unions*	1,399	1,398	1
G	Moneylenders	393	300	93
H	Approved Professional Bodies	30	44	-14
J	Bureaux de Change	15	79	-64
M	Retail Credit/Home Reversion Firms	76	107	-31
N	Payment Institutions	480	986	-506
	Total	**55,765**	**74,889**	**-19,124**

[6] The change in the method of calculating the Industry Funding Levy to one based on impact categorisation has resulted in some changes in the distribution of the annual funding requirement across ***industry funding categories***. This is fair since it more accurately reflects the re-allocation of supervisory resources within the Central Bank from one ***industry funding category*** to another.

* This does not represent 50 per cent of the 2013 Budget due to the cap currently in place for Credit Unions. See Category F in Section 3.

Appendix 2 – Population of Each Industry Sector

Industry Sector	Description	2013 No. of Entities	2012 No. of Entities
A1a	Irish authorised Credit Institutions admitted to the ELG Scheme 2009 and their subsidiaries	9	10
A1b	Irish authorised Credit Institutions not in A1a	28	30
A2	Credit Institutions EEA Branch	35	15
B1 B4 B7	Insurance Life Irish Head Office Insurance Non Life Irish Head Office Reinsurance	264	300
B2 B5	Insurance Life EEA Branch Insurance Non Life EEA Branch	43	27
C	Intermediaries	3,160	3,699
D1, D2, D3, D4, D6	Securities & Investment Firms	125	131
D5	Member Firms of the Irish Stock Exchange	7	10
D7	Multi-Lateral Trading Facilities	N/A	1
D8	Clearing Member Firms	N/A	1
D9	High Volume Algorithmic Traders	2	N/A
D10	Market Infrastructure Firms	3	N/A
E1	Collective Investment Schemes UCITS Self-Managed Investment Companies	1,160	1,120
E2	Fund Service Providers	238	243
F	Credit Unions	399	404
G	Moneylenders	43	48
H	Approved Professional Bodies	3	3
I	Exchanges	N/A	1
J1	Bureaux de Change	12	13
M	Retail Credit Firms and Home Reversion Firms	18	18
N	Payment Institutions	10	11

Appendix 3 – Introduction and Background to *Impact Scores*

Introduction

Risk-based supervision starts with the premise that not all firms are equally important to the economy and that a ***regulator*** can deliver most value through focusing its energies on the firms which are most significant and on the risks that pose the greatest threat to financial stability and consumers.

A risk-based system will also provide a systematic and structured means of assessing different types of risk, ensuring that idiosyncratic approaches to firm supervision are avoided and that potential risks are analysed for higher impact firms using a common framework. This allows judgements about potential risk in different firms to be made using a common risk typology on a common scale.

At its core, risk-based supervision accepts the premise that resources are finite, that there is no unlimited pool of public or industry funding on which to draw and that every ***regulator*** has to make choices as to what it will do and what it will not do. It makes no a priori judgement on what the right level of resources should be but seeks to deploy the available resources in the most efficient fashion.

Under ***PRISM***, the most significant firms, those with the ability to have the greatest impact on financial stability and the consumer, receive a high level of supervision under structured engagement plans, leading to early interventions to mitigate potential risks. Conversely, those firms which have the lowest potential adverse impact are supervised more reactively or through thematic assessments, with the ***Bank*** taking targeted enforcement action against firms across all ***impact categories*** whose poor behaviour risks jeopardising our statutory objectives, including financial stability and consumer protection.

PRISM enables firms to be categorised based on impact so that supervisors can guard against the potential failure of those firms posing the highest potential impact. A firm's ***impact category*** is a reflection of the potential scale of harm (prudential, reputational or consumer related) that could arise from the failure of the firm. It is not a measure of the likelihood of failure. In a ***PRISM*** context, a given firm's impact is approximated by ***impact scores*** which are calculated by combining ***impact metric data.***

Impact Scoring Process Explained

The ***impact score*** represents a weighted average of ***impact metrics*** data (selected items from their most up-to-date financial and business data) from various prudential returns. For similar sets of ***regulated entities*** common **impact metrics** are used in order to reflect specific aspects of the industry. For example, for intermediaries the ***impact metrics*** used are number of customers, number of customer facing advisors and turnover. Each ***impact metric*** adds to the final ***impact score*** on a basis determined by the impact model parameters.

Due to the diversity of ***impact metrics*** (for example, number of customers as a metric may reflect something quite different in impact terms to premium income as a metric) across the many regulated sectors, the first step in calculating an ***impact score*** is to translate the raw ***impact metric*** range into a common range so that metrics can be combined and compared. To put this in context, some capitalrelated metrics may range from thousands to tens of millions, while client-based metrics may range from a few dozen to millions.

The second step is the Parameterising and calibrating of the raw ***impact metric data*** submitted by firms in their returns to the ***Bank*** to provide a "normalised" ***impact metric*** value that can be weighted and then summed to produce overall ***impact scores***. Each ***impact metric*** adds to the final ***impact score*** on a weighted basis determined by the impact model parameters. Note that these weightings are industry specific and reflect the relative importance of one metric over another within the given sector.

The ***impact score*** is recalculated automatically every time new data is submitted to the ***Bank*** via the online reporting tool. The ***impact score*** will be calculated even when only some of the ***impact metrics*** are refreshed by using a combination of new data and data that was used in the previous calculation. For example, some ***impact metrics*** could be reported by a firm on an annual basis whilst others will be reported on a quarterly basis. In this scenario, the ***impact score*** will be updated four times a year using last year's annual figures and the most up to date quarterly figures from quarter to quarter.

How the *impact score* can be used

Impact scores are used to compare firms in terms of their impact and to categorise them into ***four impact categories*** as follows:

- ***Ultra High***
- ***High***
- ***Medium High***
- ***Low***

Impact scores can also be used to compare firms within an ***impact category***. For example, a firm with an ***impact score*** of 75 points is deemed to have a lower impact relative to all firms with higher ***impact scores***. This does not necessarily mean that a firm with an ***impact score*** of 150 would have twice the impact of a firm with a score of 75, but it would have a significantly greater impact. It is also reflective of the fact that the firm scoring 150 has a much greater potential to grow and become a ***medium low impact*** firm over time.

Appendix 4 – Glossary

Bank means the Central Bank of Ireland

Credit Institution Group means an ***ELG Scheme Institution*** together with each of its subsidiaries that are credit institutions authorised under Irish legislation.

ELG Scheme Institution means a credit institution authorised under Irish legislation which was admitted to the Eligible Liabilities Guarantee Scheme, 2009.

Financial Service Providers see ***Regulated Entities***

Fund Service Providers is the collective term used to describe the parties providing services to a fund/collective investment scheme.

Gross Annual Funding Requirement (gAFR) represents the proportion (currently 50 per cent but with certain exceptions – see Section 4) of the budget for financial regulation activities for the year in question which will be funded by industry.

High Impact regulated entities are large domestic and international financial firms which are major players in their respective markets with considerable potential to cause large-scale damage to financial sector stability.

A **High Volume Algorithmic Trading Firm** is a ***regulated entity*** which primarily executes a large volume of buy and sell orders using proprietary algorithmic trading software technology.

Impact category is derived from the Central Bank's Probability Risk and Impact System (***PRISM***) for the 2013 funding year. It reflects the Central Bank's assessment of the potential impact of the failure of a ***regulated entity*** on financial stability and consumers.

Impact metric data means selected items extracted from a ***regulated entity's*** most up to date ***On-Line Regulatory Return.***

Impact Score is derived from the Central Bank's Probability Risk and Impact System (***PRISM***) for the 2013 funding year. It represents a numeric evaluation of a ***regulated entity***'s potential impact calculated by combining ***impact metric data***.

Industry Funding Category - for the purposes of the annual Industry funding levy, ***regulated entities*** are categorised according to the financial activities they are authorised to undertake. For example, credit institutions are category A, insurance undertakings are category B, retail intermediaries are category C and so on. There are currently 14 industry funding categories. Please see Section 3 for further details.

Insurance Undertaking Group means a group of ***regulated entities*** comprised of a ***regulated entity*** that comes within ***industry funding categories*** B1, B2, B3, B4, B5, B6 or B7 and which has one or more associated companies that comes within ***industry funding categories*** B1, B2, B3, B4, B5, B6 or B7.

Low Impact *regulated entities* tend to have ***impact scores*** lower than 200. These constitute the bulk of the ***regulated entities*** operating in Ireland. Failure of individual ***regulated entities*** in this category would not cause significant damage to the State or its citizens as a whole.

A **Markets Infrastructure Firm** is a *regulated entity* that either:

(i) operates a trading platform; or

(ii) provides clearing and/or settlement services to market participants

Medium High Impact *regulated entities* are large firms with considerable potential to cause prudential harm or customer loss. They are, however, not systemically important institutions but ***regulated entities*** whose failure (if managed properly) should not derail the financial system or wider economy.

Medium Low Impact *regulated entities* tend to have ***impact scores*** between 200 and 700. Typically, medium low impact ***regulated entities*** are medium-sized and non-dominant players in their respective industries.

Net Annual Funding Requirement (nAFR) represents the adjustment of the ***Gross Annual Funding Requirement (gAFR)*** for the amount of any under/over recovery of the costs of financial regulation in the prior year.

On-Line Regulatory Return is the return that must be completed by certain types of ***regulated entities*** and submitted to the ***Bank*** by means of a secure web based system. The amount and type of information that the ***Bank*** requires to be included in these regulatory returns varies between financial sectors. Links to the sectoral requirements are available in the reporting requirements section of the Financial Regulation Industry Sectors.

PRISM *(***P**robability **R**isk and **I**mpact **S**yste**M**) is the name given to the framework that the ***Bank*** has developed to apply risk based supervision.

Regulated Entities means persons who are subject to regulation under designated enactments and designated statutory instruments *(*including ***financial service providers*** whose business is subject to regulation by an Authority that performs functions in an EEA country that are comparable to the functions performed by the Bank under a designated enactment or designated statutory instrument) and also includes former regulated entities who were regulated for part of the levy period.

Regulator is the state body charged with the responsibility for the prudential supervision of authorised ***financial service providers.*** In Ireland, the regulator is the Central Bank of Ireland.

Ultra High Impact *regulated entities* are the largest domestic ***regulated entities*** or international ***regulated entities*** with Irish headquarters and with potential to cause large scale damage to the financial system and the Irish economy.

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