Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Funding the cost of Financial Regulation

14 June 2019

In the Funding Strategy and Guide to the 2018 Industry Funding Regulations, the Central Bank set out its 3-year funding strategy. This Strategy sets out plans to:

1. Increase the overall recovery rate and address funding gaps in specific areas of the Central Bank's regulatory activities with a view to achieving full industry funding in the medium term;
2. Move to levying on an incurred cost basis, rather than based on budgeted costs, as part of a series of continuous improvements to enhance the predictability, transparency and proportionality of levies in response to industry feedback; and
3. Further refine levy methodologies, as alternatives are developed, in order to eliminate pricing bands arising from PRISM[1]-derived risk categories and move to levies which reflect the specific size and risk of an entity.

Progress is underway in relation to these objectives. Since 2015, following a public consultation, the financial services industry has moved from paying approximately half of the costs of financial regulation to paying approximately two-thirds of these costs in 2018. The Central Bank, with approval from the Minister for Finance and Public Expenditure and Reform, Paschal Donohoe TD, is now publishing the expected path towards 100% industry funding over the next five years. The approach is based on a "user pays" principle to reduce and ultimately eliminate the taxpayer paying some of the costs of financial regulation.

Over the same period, the Central Bank will continue to enhance the transparency and predictability of the levy. The move to levying on an incurred cost basis is an important step in this continuous improvement and will result in invoices for 2019 issuing on an arrears basis in Quarter 3 2020. While businesses should accrue for 2019 costs in their financial statements, many will welcome the cash-flow effect arising from this change.

In recent years, in response to industry feedback, the Central Bank has refined levy methodologies for a number of industry categories (credit institutions, intermediaries and moneylenders) to make distinctions between firms on the basis of size and risk. In the 2019 levy cycle, insurance entities, investment firms and fund service providers will remain on PRISM impact-derived pricing and will move to new methodologies as alternatives are developed. The methodology for credit institutions, in place since 2017, will be refined to ensure that levies remain proportionate in light of changes in authorisation status across a number of new and existing institutions.

The Central Bank publishes an Annual Performance Statement, which provides details on its regulatory agenda and the related costs. The latest report for 2018-2019 is now available and the publication continues to evolve to reflect ongoing engagement between the Department of Finance and the Central Bank to increase transparency.

[1] The Probability Risk and Impact SysteM$_{TM}$ (PRISM$_{TM}$) is the Central Bank's risk-based framework for the supervision of regulated firms.

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Ed Sibley, Deputy Governor, commenting on the future funding rates, said: "We recognise that the increase in recovery rates combined with increases in the cost of regulation over recent years (reflecting increases in our supervisory mandate, the growth in financial service arising from Brexit and unwinding of FEMPI[2]) have given rise to levy increases. In the Central Bank's Strategic Plan 2019-2021 we anticipated further limited growth to address Brexit and the expansion of financial conduct regulation. However, we are committed to stabilisation in headcount and cost to ensure our long-term financial independence and to limit the rate of increases in levies on regulated firms".

Table 1 sets out proposed future funding rates and the trajectory, with some limited exceptions, towards full industry funding to support industry to plan for future regulatory costs.

Table 1 – Trajectory of recovery rates to fund the cost of Financial Regulation

<table>
<tr><th>Recovery Rates</th><th colspan="2">Actual</th><th colspan="6">Projected</th></tr>
<tr><th>Levy Year →</th><th>2017</th><th>2018</th><th>2019</th><th>2020</th><th>2021</th><th>2022</th><th>2023</th><th>2024</th></tr>
<tr><th>Levied in →</th><th>2017</th><th>2018</th><th>2020</th><th>2021</th><th>2022</th><th>2023</th><th>2024</th><th>2025</th></tr>
<tr><td>ELG Banks</td><td>100%</td><td>100%</td><td>100%</td><td colspan="5" rowspan="4">100%</td></tr>
<tr><td>Banks</td><td rowspan="3">65%</td><td rowspan="3">80%</td><td rowspan="3">90%</td></tr>
<tr><td>Insurance Undertakings</td></tr>
<tr><td>Investment Firms & Fund Service Providers</td></tr>
<tr><td>Funds</td><td>65%</td><td>65%</td><td>80%</td><td>90%</td><td colspan="4">100%</td></tr>
<tr><td>Retail Intermediaries & Debt Management Co's</td><td>50%</td><td rowspan="6">65%</td><td rowspan="6">70%</td><td rowspan="6">75%</td><td rowspan="6">80%</td><td rowspan="6">90%</td><td colspan="2" rowspan="6">100%</td></tr>
<tr><td>Moneylenders</td><td rowspan="5">65%</td></tr>
<tr><td>Approved Professional Bodies</td></tr>
<tr><td>Bureau de Change/Money Transmitters</td></tr>
<tr><td>Retail Credit / Home Reversion /Credit Servicing Firms</td></tr>
<tr><td>Payment & EMoney Institutions</td></tr>
<tr><td>Credit Unions</td><td colspan="2">.01% of total assets</td><td>20%</td><td>35%</td><td>50%*</td><td>TBC[3]</td><td>TBC</td><td>TBC</td></tr>
</table>

Further information

1. Each firm that is subject to levy will receive a letter from the Central Bank in June to communicate the details in this release to each billing address.
2. The Central Bank [Funding Strategy and Guide to the 2018 Industry Funding Regulations] is available on the [Central Bank's website].
3. Further information is also available by contacting the Funding team by email funding@centralbank.ie.

[2] FEMPI refers to the Financial Emergency Measures in Public Interests legislation
[3] Credit Union recovery rates from 2022 onwards will be subject to review and a public consultation to guide strategy once 50% recovery rates have been achieved.