



The Investor Compensation Company DAC

**Funding Arrangements of the Investor
Compensation Scheme**

August 2019 to July 2022

Issue date 30 April 2019

LIST OF ABBREVIATIONS USED IN THIS PAPER

ICCL	THE INVESTOR COMPENSATION COMPANY DAC
THE SCHEME / ICS	INVESTOR COMPENSATION SCHEME
THE BANK	CENTRAL BANK OF IRELAND
CHC	CUSTOM HOUSE CAPITAL LIMITED (IN LIQUIDATION)
AMT	ASSET MANAGEMENT TRUST LIMITED
THE BOARD	THE BOARD OF THE ICCL
THE ACT	INVESTOR COMPENSATION ACT, 1998 (AS AMENDED)
THE DIRECTIVE / ICSD	INVESTOR COMPENSATION SCHEME DIRECTIVE 97/9/EC
EU	EUROPEAN UNION
EU ICS	EU NATIONAL INVESTOR COMPENSATION SCHEME
SEPA	SINGLE EURO PAYMENTS AREA
MIFID	MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE
AIF	ALTERNATIVE INVESTMENT FUNDS
UCITS	UNDERTAKINGS FOR COLLECTIVE INVESTMENTS IN TRANSFERABLE SECURITIES
CAR	CLIENT ASSET REGULATIONS
CACS	CHARTERED ACCOUNTANTS' COMPENSATION SCHEME
CAI	CHARTERED ACCOUNTANT'S IRELAND

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1 Introduction

1.1. Background

In October 2018, The Investor Compensation Company DAC ["ICCL" or "Company"] having consulted with the Central Bank of Ireland (the 'Bank'), as the Competent Authority in Ireland for the Investor Compensation Directive (97/9/EC) ('the Directive' or 'ICSD') then consulted with Industry and Representative Bodies regarding the bases and rates for levying participants to the Investor Compensation Scheme ["Scheme"] for the period 1 August 2019 to 31 July 2022.

One submission was received from a Representative Body, while no submissions were received from participant firms during the consultation phase. The submission received was considered by the Board of the ICCL ["the Board"] and, on the basis of the content of the submission, the preparation of a response document was not deemed necessary by the Company. However, the ICCL responded directly to the Representative Body and a copy of that response is published on the ICCL's website.

The ICCL remains aware of the challenging economic and regulatory climate for the majority of firms. In particular, and for the purposes of this three yearly funding review, the uncertain short to medium term effects for the Irish economy and financial services firms generally, arising from the departure of the United Kingdom from the European Union. Against this background, the Board has sought to strike a balance between the legislative requirement to have adequate funds available to pay claims and the capacity of participant firms to fund the Scheme.

Past case experience has demonstrated how reserves can be quickly depleted and emphasises the need for alternative options to enable the Scheme to swiftly put in place the funds required to meet the legislative requirements of the Compensation Scheme. On that basis, the ICCL remains committed to the implementation of its Cascade model, with a number of differing funding layers such as ex-ante reserves, insurance and borrowing (inter-fund). The external borrowing facility previously in place, expired in June 2017. While efforts were made to replace the external borrowing facility, the terms proposed by lenders were considered too onerous by the Board. An external borrowing facility will be explored again during this three yearly funding review, and may, subject to commercially acceptable terms being available, be re-introduced.

As the environment within the ICCL operates can evolve quite quickly, the Company has an established policy of consulting on, and agreeing, levy rates over a 3-year cycle. This approach is designed to provide a degree of certainty to participating firms regarding contribution obligations over the cycle. There is no proposal to change this approach.

The Board of the ICCL has now agreed the bases and rates which will apply for the period 1 August 2019 to 31 July 2022. Specific details are provided in section 2 of this document for Fund A and Fund B firms. In the consultation document issued in October 2018, alternative proposals (A:1 and A:2) for Fund A were outlined. Following further consideration, the Board has determined that it is most appropriate to implement proposal A:2 for Fund A, and, proposal B:1 for Fund B.

The implementation of proposal A:2 for Fund A firms will result in some limited changes for Fund A firms in relation to the band structures and associated levy rates. The changes to the band structure will address the threshold effect that existed in certain circumstances under the previous band structure. There is no change to the existing basis of assessment. Further detail is set out in section 2.1.4.

The implementation of proposal B:1 for Fund B firms will not result in any change to the basis of assessment, band structures or levy rates. Fund B participant firms will continue, for the duration of this funding cycle, to pay the reduced annual levy which was introduced for the funding year ending 31 July 2019. This levy is primarily to meet the operational costs of Fund B rather than add to existing reserves.

This document also provides other information which the ICCL considers relevant and useful to participant firms in understanding the funding operations of the Scheme.

1.2. Related documents

1.2.1. *Funding Consultation Document – October 2018*

1.2.2. *Eligible Client Guidance – April 2019*

These documents are available on www.investorcompensation.ie

2 Fund Specific Information

2.1. Fund A

2.1.1. Basis of Assessment

The ICCL will continue to operate a self-assessment model for participant firms to determine the appropriate individual annual levy. The annual levy payable by a Fund A firm will be based upon two criteria:

- 2.1.1.1. *Whether the firm is subject to the Bank's Client Asset Regulations ["CAR"];*
- 2.1.1.2. *Its number of eligible clients. (Guidance in relation to the assessment of eligible clients will be published on the ICCL website and may be subject to update)*

Firms subject to the CAR are required to meet a minimum additional regulatory requirement. While the ICCL is aware that firms subject to the CAR will undertake additional internal compliance and are subject to additional supervision from the Central Bank of Ireland, it is clear that these firms pose the greatest risk to the operation of the Scheme. In circumstances where a firm is subject to the CAR, and, it also has eligible clients, the firm will continue to pay an additional levy of 10% to reflect this increased risk.

The ICCL frequently engages with the Bank in respect of the confirmation of the number of eligible clients returned by participant firms to the ICCL. These returns may then be subject to verification by the Bank as part of its ongoing supervisory process. (Refer to 3.6 and 3.7.2 below)

2.1.2. Period of Assessment

The period of assessment will continue to be the participant firm's financial year which ended immediately prior to the commencement of the ICCL funding year. (e.g. where a participant firm's financial year ends on 31 March, this eligible client data should be used for the ICCL Funding Year commencing on the following 1 August.)

2.1.3. Band Structure

The eligible client ranges, which determine the levy rates applicable to Fund A firms have proved efficient and enabled the ICCL to build reserves over a prolonged period. Following the recent consultation process, the Board has determined that it is both timely and necessary to address the threshold effect which arose under the previous band structure whereby a movement between certain bands gave rise to a substantial increase or decrease in the levy payable by an individual firm. The Board is implementing the band structure as set out in Proposal A2 of the Funding Consultation Process as this will produce a more even and fairer structure for participants of Fund A. Arising from an impact assessment, there is phasing for the Bands 5 & 8 over the course of the next 3 funding years. (Refer to tables 1, 2 & 3 for more details)

2.1.4. Levy Rates

The levy rates for participant firms for each of the next three funding years are set out in Tables 1 to 3 below.

Important Note:

Firms are requested to note the following changes from the April 2016 Funding Arrangements when self-assessing their levy and making the necessary annual return to the ICCL:

- *There are now 11 different bands for Fund A;*
- *The levy rates for bands 5 & 8 will be phased over the 3 year funding period as follows:*
 - *Band 5 will reduce annually by €10,000 / €11,000 (subject to CAR);*
 - *Band 8 will increase annually by €10,000 / €11,000 (subject to CAR);*
- *In August 2019, firms will be allocated to a band by the ICCL on the basis of their most recent eligible client return. Firms will be required to undertake the annual self-assessment in the usual manner to determine whether they are in the correct band.*

TABLE 1 - FUND A: BAND AND LEVY RATE STRUCTURE
FOR THE FUNDING YEAR COMMENCING 1 AUGUST 2019

Band	Number of eligible clients	August 2019 to July 2020 Not subject to "CAR"	August 2019 to July 2020 Subject to "CAR"
0	Zero	€5,400	€5,400
1	1 – 49	€20,000	€22,000
2	50 – 749	€30,000	€33,000
3	750 – 2,499	€60,000	€66,000
4	2,500 – 4,999	€100,000	€110,000
5	5,000 – 9,999	€160,000	€176,000
6	10,000 – 19,999	€180,000	€198,000
7	20,000 – 29,999	€220,000	€242,000
8	30,000 – 39,999	€240,000	€264,000
9	40,000 – 49,999	€300,000	€330,000
10	Over 50,000	€340,000	€374,000

TABLE 2 - FUND A: BAND AND LEVY RATE STRUCTURE
FOR THE FUNDING YEAR COMMENCING 1 AUGUST 2020

Band	Number of eligible clients	August 2020 to July 2021 Not subject to "CAR"	August 2020 to July 2021 Subject to "CAR"
0	Zero	€5,400	€5,400
1	1 – 49	€20,000	€22,000
2	50 – 749	€30,000	€33,000
3	750 – 2,499	€60,000	€66,000
4	2,500 – 4,999	€100,000	€110,000
5	5,000 – 9,999	€150,000	€165,000
6	10,000 – 19,999	€180,000	€198,000
7	20,000 – 29,999	€220,000	€242,000
8	30,000 – 39,999	€250,000	€275,000
9	40,000 – 49,999	€300,000	€330,000
10	Over 50,000	€340,000	€374,000

TABLE 3 - FUND A: BAND AND LEVY RATE STRUCTURE
FOR THE FUNDING YEAR COMMENCING 1 AUGUST 2021

Band	Number of eligible clients	August 2021 to July 2022 Not subject to "CAR"	August 2021 to July 2022 Subject to "CAR"
0	Zero	€5,400	€5,400
1	1 – 49	€20,000	€22,000
2	50 – 749	€30,000	€33,000
3	750 – 2,499	€60,000	€66,000
4	2,500 – 4,999	€100,000	€110,000
5	5,000 – 9,999	€140,000	€154,000
6	10,000 – 19,999	€180,000	€198,000
7	20,000 – 29,999	€220,000	€242,000
8	30,000 – 39,999	€260,000	€286,000
9	40,000 – 49,999	€300,000	€330,000
10	Over 50,000	€340,000	€374,000

2.1.5. Section 2(5) Exemption

Certain Fund A firms may be exempt from the ICCL Scheme if they satisfy both of the criteria set out in section 2(5) of the Investor Compensation Act, 1998, (as amended) ["the Act"].

Section 2(5)(a) is satisfied where a firm does not meet the definition of an investment firm under the Investor Compensation Directive (i.e. the firm is not authorised in accordance with the Markets in Financial Instruments Directive (Directive 2014/65/EU) or Capital Requirements Directive CRD IV (Directive 2013/36/EU)).

Section 2(5)(b) is satisfied where the **only** activities that the firm is authorised to carry on under the Investment Intermediaries Act 1995 (as amended) are either:

- Administration of collective investment schemes, and/or,
- Undertaking custodial responsibilities involving the safekeeping and administration of investment instruments of or relating to collective investment schemes.

It is the responsibility of the investment firm to apply for the exemption for each funding year. Where a firm no longer meets the criteria to avail of the exemption during any funding year, it is the responsibility of the firm to notify the ICCL and to pay the appropriate levy on a pro-rata basis from the date the change takes effect. Where a firm meets the criteria for the first time during a funding year and has paid an ICCL annual levy in respect of that funding year, the firm may be eligible to a pro-rata refund (refer to section 3.8).

A guidance note in relation to the exemption is available from the ICCL on request.

2.2. Fund B

2.2.1. Basis of Assessment

The ICCL will continue to operate a self-assessment model for participant firms to determine the appropriate individual annual levy. The annual levy payable by a Fund B firm is based on its income derived from regulated investment and insurance business. The ICCL advises the Bank of these figures, as returned by participant firms to the ICCL, which may then be subject to verification by the Bank as part of its ongoing supervisory process. (Refer to 3.6 and 3.7.2 below)

2.2.2. Period of Assessment

The period of assessment will continue to be the participant firm's financial year which ended immediately prior to the commencement of the ICCL funding year. (e.g. where a participant firm's financial year ends on 31 March, this financial data should be used for ICCL Funding Year commencing 1 August.)

2.2.3. Levy Rates

The levy rates for participant firms are set out in Table 4 below. Participants will note that these rates are unchanged from the significantly reduced rates which were introduced on 1 August 2018.

TABLE 4 - FUND B: BAND AND LEVY RATE STRUCTURE

FOR THE 3-YEAR FUNDING CYCLE COMMENCING 1 AUGUST 2019/2020/2021

Level	Income band structure	Rate 01/08/2019	Rate 01/08/2020	Rate 01/08/2021
1	€0 - €150,000	€100	€100	€100
2	€150,001 - €400,000	€200	€200	€200
3	€400,001 - €700,000	€270	€270	€270
4	€700,001 - €1.5m	€500	€500	€500
5	€1,500,001 - €3m	€900	€900	€900
6	€3,000,001 - €6m	€1,600	€1,600	€1,600
7	€6,000,001 - €15m	€6,500	€6,500	€6,500
8	€15,000,001 - €25m	€10,500	€10,500	€10,500
9	> €25,000,000	€13,000	€13,000	€13,000

3 General Information for all Firms

3.1. *Obligation to pay a levy*

Section 21 of the Act provides that authorised investment firms, including insurance intermediaries, ["firms"] shall pay to the ICCL, such contribution ["levy"] as the ICCL may specify from time to time.

(The annual levy amounts for the period 1 August 2019 to 31 July 2022 are specified in Tables 1 to 4 of this document)

Firms are required to comply with section 21 of the Investor Compensation Act, 1998, (as amended). Firms that **do not** comply with section 21 and fail to pay their due levy will be referred by the ICCL to the Bank. The ICCL may take legal recovery proceedings against such firms. (Refer to section 3.7.1 below) The Bank may also take additional regulatory action against firms reported to it by the ICCL.

3.2. *Authorisation Change*

There will be no adjustment of levy to reflect any changes in authorisation (excluding firms availing of the exemption documented at section 2.1.5) which occur during the funding year. The new rate of levy will apply from the start of the following funding year on the basis of the firm's authorisation status at that time.

3.3. *Newly Authorised Firms*

Firms which are authorised during the ICCL's funding year (i.e. subsequent to the ICCL's annual invoicing process which takes place in August each year), will be required to pay the annual levy calculated on a pro-rata basis.

Where eligible client numbers or income figures are not available at the time of raising the first invoice, the first invoice will be raised at the lowest band/level of the appropriate Fund. In other circumstances, where eligible client numbers or income figures are available, the levy rate should be self-assessed by the firm on a case by case basis.

3.4. Invoicing process

Annual levy invoices are normally issued in August each year (i.e. the first month of the ICCL's financial year). Invoices will be issued in hardcopy format to the principal business address as registered by the firm with the Bank. However, if the participant firm has elected to receive communications by email, the invoice and other associated correspondence will issue by email to the address details supplied by the firm through the *myICCL* section of the ICCL website.

The preferred issuing method is email and a **discount** is available for firms that utilise this facility.

3.5. Payment & Invoicing Methods

The ICCL offers a number of payment methods to facilitate the payment of the annual levy in a timely and efficient manner and these are communicated on the annual invoice. Firms can avail of a discount of up to 10%, capped at €50, if they pay by direct debit and receive e-invoices. *(See details below)*

The preferred payment method is single direct debit.

Where a participant firm pays by single direct debit, an annual discount equivalent to the lower of 5% of the gross annual levy or €25 is available.

The ICCL issues invoices in hardcopy format by post. Alternatively, where a firm so elects, it can have invoices issued electronically. However, it is the responsibility of the firm to ensure that the correct email address is provided through the *myICCL* section of the ICCL website at all times.

Where a participant firm avails of e-invoicing, an annual discount equivalent to the lower of 5% of the gross annual levy or €25 is available.

3.6. Verification of self-assessed returns

All firms will be required to self-assess and return their eligible client numbers (Fund A) or income level (Fund B) for each funding year. In circumstances where a firm fails to submit the self-assessed return of their eligible client numbers or income figures, payment will be deemed to constitute a return. (Refer to 3.7.2 below)

Separate to the annual self-assessment at the time of levying, the ICCL will engage with Fund A firms during the year in relation to two planning returns:

- ICCL Potential Exposure return – this return seeks to estimate on a firm by firm basis, the maximum potential exposure of each firm to the ICCL operated Scheme in the event of the failure of the firm;
- ICCL Passporting Data return – this return seeks to identify each jurisdiction in which the firm has provided investment services to eligible clients, thus providing the ICCL with the data necessary for cross border compensation planning scenarios.

3.7. Non-compliance

3.7.1. Unpaid annual levies

Penalty Interest

Section 21(4) of the Act, provides that interest at a rate of 1.25% per month shall apply to overdue balances.

Reporting to the Central Bank of Ireland / Approved Professional Bodies

Firms that fail to pay their annual levy, will be reported to the Bank or their Approved Professional Body (in the case of Accountants authorised to provide investment business services by an Approved Professional Body) for failing to comply with their obligations under the Act. The Bank may initiate a number of regulatory actions against firms that fail to pay the ICCL levy in a timely manner.

Legal Recovery of unpaid annual levies

Section 21(5) of the Act provides that any sums due to the Scheme are recoverable as a simple contract debt in any court of competent jurisdiction. The ICCL has successfully taken legal action to recover unpaid levies. Details of judgments obtained are published in Stubbs Gazette, notified to the Bank and published on the ICCL website. Published judgments can be viewed at <http://www.investorcompensation.ie/funding/enforcement-actions.233.html>

3.7.2. *Incorrect self-assessed returns*

Section 43(7) of the Act provides that any person who provides misleading information, (e.g. in relation to a self-assessed return of eligible client numbers or total investment and insurance income), in purported compliance with its obligations under the Act will be committing an offence. In circumstances where a firm fails to submit the self-assessed return of their eligible client numbers or income figures, as outlined in the terms and conditions of each invoice, payment will be deemed to constitute a return. Summary proceedings in relation to an offence under section 47 of the Act may be brought and prosecuted by the Director of Public Prosecutions or by the Bank.

3.8. Refund Policy

The ICCL continues to operate a refund policy which is set out in more detail on our website, www.investorcompenastion.ie. The ICCL will regularly review the appropriateness of the policy and make necessary amendments as deemed appropriate by the Board.

The amount of annual levy to be paid in any year to the ICCL is calculated by the participant firm on a self-assessment basis in accordance with the rules set out in this document. In the case of Fund A participant firms (refer to section 2.1 above) or in the case of Fund B participant firms (refer to section 2.2 above).

Firms may submit a request for a refund of overpaid levies on the basis that they have overstated eligible client numbers or income. The ICCL will process such refund requests where they are made within the same funding year as the relevant annual levy fell due for payment. Refunds requests in respect of previous years will only be considered in exceptional circumstances.

The main justifications for this approach are:

- The ICCL is acting on trust and in good faith on information supplied to it by professional firms with regard to their eligible client numbers or income.
- The ICCL predicates its funding position and requirements on this data and pays out compensation in failure cases on the basis that those funds are available to it.
- Once levies are credited to a particular Fund, the Act (section 19) places restrictions on the extent to which payments, other than compensation payments, may be made from such funds.

3.9. **Revocation of Authorisation**

Firms that have paid the annual levy in full and whose authorisation is revoked during the ICCL's funding year (i.e. subsequent to the ICCL's annual billing process which takes place in August each year), will be invited to claim a pro-rata refund of the annual levy they have paid.

The refund will be calculated on a pro-rata basis for each calendar month during which the firm was no longer authorised. On receipt of notification from the Bank (or Approved Professional Body as appropriate) that the firm is no longer authorised, the ICCL will initiate the refund request. The refund application must be received within six months of:

- The date of revocation of the firm, or,
- The date the application form is issued by the ICCL, whichever is the later.

Exception

Firms are requested to note the following policy change. In circumstances where two participant firms merge during a funding year, the pro-rata refund policy will not apply with effect from 1 August 2019 and no refund will be payable in such circumstances.

3.10. **A branch of an Irish authorised investment firm joining the Investor Compensation Scheme of a Host Member State**

Investment firms should note that, in accordance with the requirements of the ICSD (Article 7, para. 1), an Irish authorised investment firm which establishes a branch in a host Member State may join the local investor compensation scheme where the level or scope of that scheme exceeds the minimum provided in the investment firm's home Member State. An investment firm seeking to avail of this provision should inform the ICCL in advance, as failure to do so may delay the authorisation process, thus preventing the firm from commencing trade in the host Member State.

3.11. A Branch of a 3rd Country Investment Firm or Credit Institution joining the Irish Investor Compensation Scheme

Investment firms or credit institutions, the head office of which are established in a State other than a Member State or an EEA State, may in accordance with the EU (Markets in Financial Instruments) Regulations 2017 establish a third country branch in Ireland for the provision of investment services to certain categories of clients.

The Bank will determine, in accordance with the provisions of section 29A of the Act, whether the third country branch established in Ireland is required to join the Scheme.

In circumstances where the Bank has required a third country branch to join the Scheme, the Funding Committee of the ICCL will determine, in accordance with the provisions of Annex II of the ICSD:

- the extent to which these Funding Arrangements will apply to the third country branch; and,
- the levy charge applicable to the third country branch for the supplementary cover provided by the Scheme.

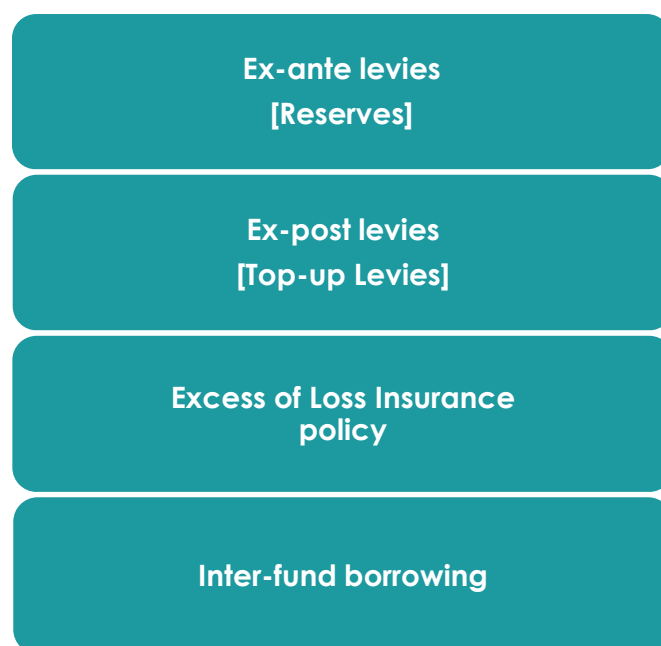
In such circumstances where a 3rd Country Branch has been required by the Bank to join the ICCL operated Scheme, the ICCL can only, in accordance with the provisions of section 29A of the Act, make compensation payments to the eligible clients of the 3rd Country Branch that have entrusted money or investment instruments to the 3rd Country Branch.

4 Appendices

4.1. Appendix 1 – Funding of Compensation Payments – Cascade Model

ICCL operates a cascade model as the framework for funding the Scheme in the event of a default or failure of a participating investment firm. The cascade represents the funding options available to the ICCL, depending on the seriousness of the failure, to access funds for the purpose of making compensation payments. This approach is supported by the finding from the EU Commission's study that the availability of multiple sources of funding, even if never activated, enhances the viability of investor compensation schemes.

The ICCL model consists of the following capital and other funding elements (not necessarily in the order presented below):



In addition to each of the elements, there are three important features to the cascade model:

- Capacity of the overall model;
- Mix of each element of the model;
- Timeframe for capacity of each element to be achieved.

The implementation sequence of the individual elements of the cascade model is determined by the Board depending on circumstances prevailing at the time of a failure.

Cascade capacity has been determined separately for Fund A and Fund B in view of the differences between the Funds in respect of size, nature of participant firms, investment services offered and claims history.

Cascade mix has been determined on the expectation that the Excess of Loss Insurance policy continues to be placed on acceptable terms of excess, coverage and renewal premium. A significant change to any of the above terms may lead the Board to reconsider the mix, and/or capacity target, and/or timeframe for achievement of the cascade targets for Fund A and/or Fund B.

Fund A

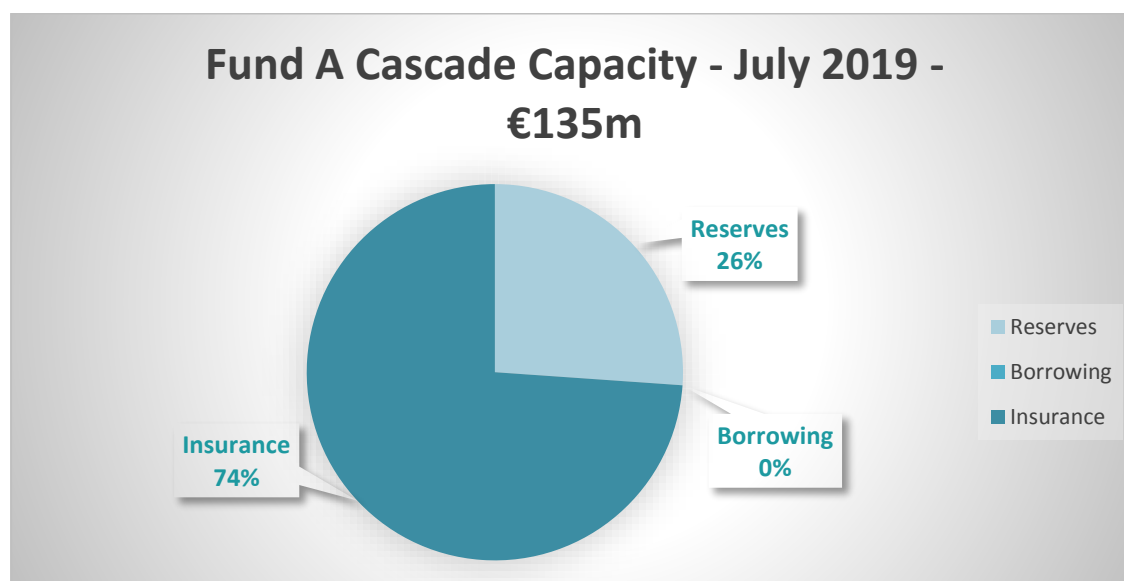
The ICCL Funding Arrangements issued in 2016 targeted a minimum Fund Reserve of €34.6 million for Fund A, to be achieved by 31 July 2019. The ICCL is satisfied that this target will be achieved and the Fund Reserve is projected to be €35 million at 31 July 2019.

The ICCL remains committed to determining the funding capacity of the Scheme in the context of the overall cascade capacity. An appropriate measure of cascade capacity for Fund A can be derived from past proposals in the Investor Compensation Scheme Directive ["ICSD"] to amend the funding criteria for each EU National Investor Compensation Scheme ["EU ICS"]. The core considerations being:

- the cost of financing a scheme is borne by participant firms;
- EU ICS should be adequately financed,
- financing should be proportionate to potential liabilities;
- the target fund should be set, at least at, 0.5% of the value of all monies and financial instruments held, administered or managed by participant firms.

The target mix and capacity of Fund A as forecast at July 2019 is detailed in the diagram below.

CHART 1 – FORECAST FUND A CASCADE CAPACITY AT 31 JULY 2019

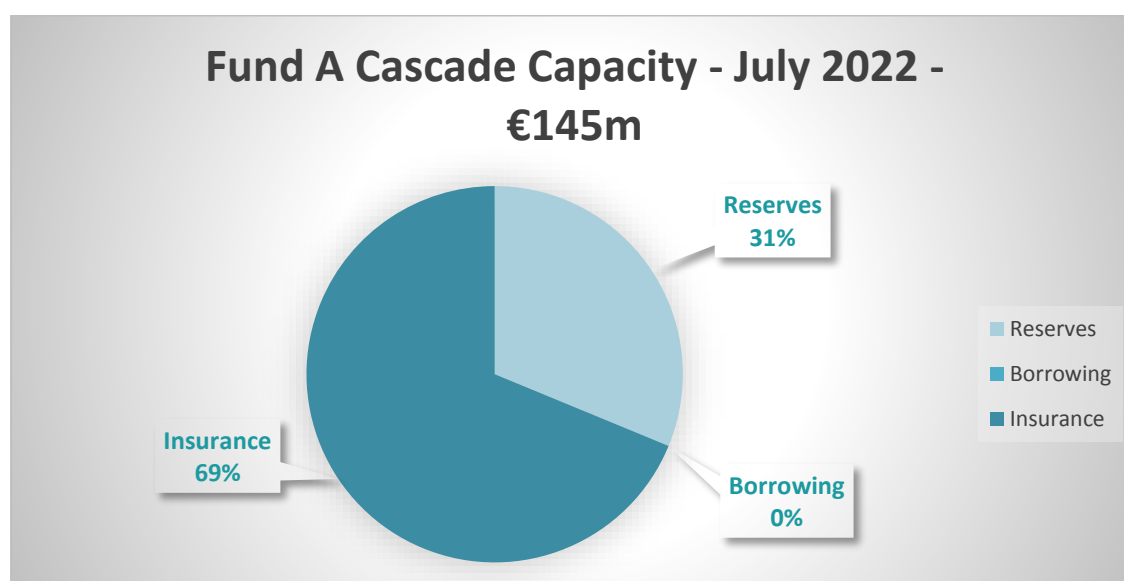


The ICCL has determined that the application of the ICSD criteria would require Fund A to have financing of **circa €150m** in place. This is based on the value of monies and investment instruments held, administered or managed on behalf of retail investors by Fund A MiFID firms as at December 2017. Furthermore, the target incorporates compound growth of 3% per annum in the amount of such investments over each of the next 5 funding years to 2022.

The mix of the target cascade capacity is based on €50 million of ex-ante reserves and €100 million of excess of loss insurance. On the basis of the target cascade capacity being set at €150 million, the ICCL believe that this should be achieved by **2024** through a mix of ex-ante levies and insurance. The current costs of implementing and maintaining a stand-by borrowing facility are not commercially favourable. However, the Board is minded to monitor the status of the market frequently, and may choose to re-instate a reasonable level of capacity through a stand-by borrowing facility in circumstances where commercially acceptable terms become available.

Accordingly, the ICCL has determined that over the three year life of these Funding Arrangements, based on the assumptions outlined in the Funding Consultation paper, it will seek to build Fund A Reserves by circa €10 million, from the forecast level of €35 million at 31 July 2019 to a target level of €45 million at 31 July 2022.

CHART 2 – FORECAST FUND A CASCADE CAPACITY AT 31 JULY 2022



Funding Consultation Assumptions (unchanged)

The assumptions underlying the projections for **Fund A** are:

- No significant new failures arise;
- No material change to the existing CHC provision for compensation;
- Continuing ability to renew the excess of loss insurance on acceptable terms at a €100 million indemnity;
- No material reduction in the number of authorised firms is experienced annually beyond the withdrawal of the following number of firms:
 - 3 firms from Band Zero;
 - 2 firms across bands 1 to 4;
 - No significant consolidations (e.g. firms at Band 5 and above);
- Operating costs allocated to Fund A to remain relatively consistent at circa €1.2 million per annum;
- The ICCL recognises the potential for interest rates to rise during the course of the 3 year funding cycle from the current low levels, however, the timing and quantum is uncertain. On this basis, interest income on reserves has not been included in projections;
- Bad debts are not experienced at a material level;

Table 5 - Fund A: Projected Fund Reserves & Capacity levels

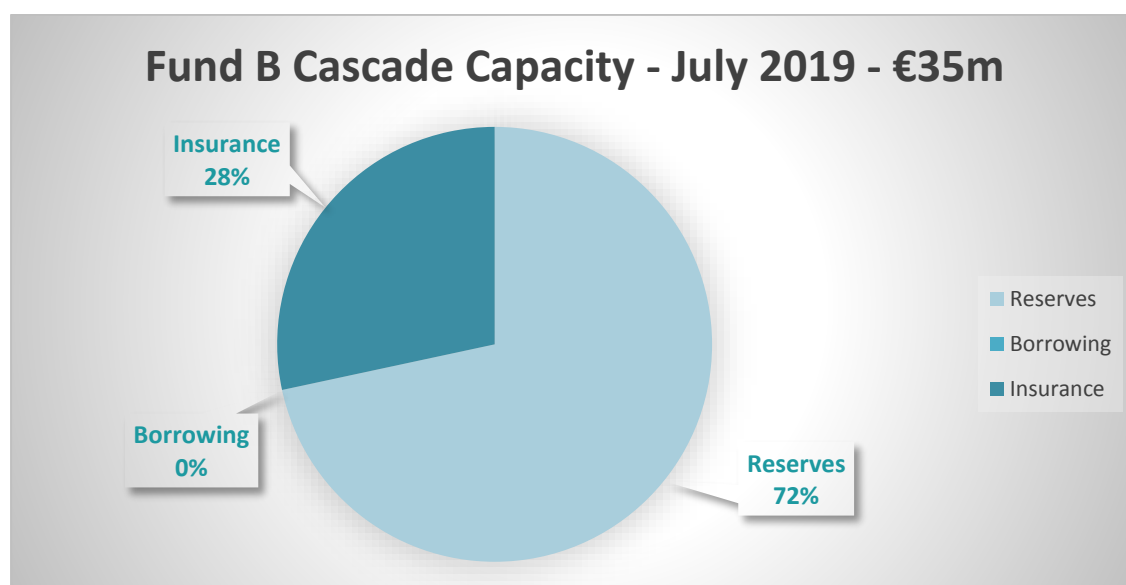
Year	Levies (€ million)	Interest Income (€ million)	Claim & Administration Costs (€ million)	Fund Reserve (€ million)	Excess Loss Insurance (€ million)	Fund A Cascade Capacity (€ million)
2018*	4.512	0.021	1.084	32.057	100.000	132.057
2019	4.830	0.028	1.588	35.327	100.000	135.327
2020	4.658	0.000	1.237	38.748	100.000	138.748
2021	4.597	0.000	1.234	42.111	100.000	142.111
2022	4.536	0.000	1.244	45.403	100.000	145.403

* reference made to actual year-end fund reserve

Fund B

In its current Funding Arrangements, agreed in 2016, the ICCL had targeted a Fund Reserve of €25 million for Fund B to be achieved by 31 July 2018 and maintained at that level thereafter. The Board confirms that the target was achieved at 31 July 2018.

CHART 3 – FORECAST FUND B CASCADE CAPACITY AT 31 JULY 2019



The ICCL, has determined that the cascade capacity of Fund B should remain unchanged at €35 million, comprised of €10 million of excess of loss insurance cover and €25 million of ex-ante reserves.

As the target cascade capacity of €35 million is currently in place, the Board is satisfied that there is no present need to add to reserves. On this basis, the annual levy for the duration of this 3 year funding cycle to July 2022 will seek to meet the operational costs of administering Fund B only.

The maintenance of the €25 million target for ex-ante reserves is based on the assumptions outlined in the Funding Consultation paper.

Funding Consultation Assumptions (unchanged)

The assumptions underlying the above projections for **Fund B** are:

- No significant new failures arise;
- Continuing ability to renew the excess of loss insurance on acceptable terms at a €10 million indemnity;
- No material reduction in the number of authorised firms is experienced annually beyond the withdrawal of the following number of firms:
 - 80 Level 1 firms;
 - 20 Level 2 firms;
- Operating costs allocated to Fund B to remain relatively consistent at circa €0.7 million per annum;
- The ICCL recognises the potential for interest rates to rise during the course of the 3 year funding cycle from the current low levels, however, the timing and quantum is uncertain. On this basis, interest income on reserves has not been included in projections;
- Bad debts are not experienced at a level above €20k per annum;
- Participant firms that:
 - pay by direct debit or subscribe to e-invoicing will receive a levy reduction of 5% per annum, subject to a €25 cap;
 - pay by direct debit and subscribe to e-invoicing will receive a levy reduction of 10% per annum, subject to a €50 cap.

Table 6 - Fund B Projected Fund Reserves & Capacity levels

Year	Levies (€ million)	Interest Income (€ million)	Claim & Administration Costs (€ million)	Fund Reserve (€ million)	Excess Loss Insurance (€ million)	Fund B Cascade Capacity (€ million)
2018*	1.546	0.017	0.469	25.254	10.000	35.254
2019	0.767	0.022	0.618	25.425	10.000	35.425
2020	0.755	0.000	0.652	25.528	10.000	35.528
2021	0.744	0.000	0.660	25.612	10.000	35.612
2022	0.733	0.000	0.669	25.676	10.000	35.676

* reference made to actual year-end fund reserve

Ex-post Levy Payments

It is generally agreed that the Scheme's ability to meet its payment obligations should be funded mainly by ex-ante annual levies, supplemented as appropriate by the Excess of Loss Insurance policy and borrowings, such that the liability burden can be smoothed over time.

In the event of the failure of a firm(s) which gives rise to a very substantial liability to the Company, and which would place an unacceptable strain on the other elements of the Cascade Model as described above, the ICCL may have no practical alternative other than to require firms to pay an additional ex-post levy payment.

The arrangements which will apply in the event of an ex-post levy being required are as follows:

- Should the default be attributable to a participating firm with declared eligible clients in Fund A, additional funding will be obtained through an ex-post levy and/or increases in the annual levies payable by participating firms in Fund A with eligible clients, pro-rata to their annual levy for the previous year.
- Should the default be attributable to a participating firm in Fund A, which had declared no eligible clients, additional funding will be obtained through an ex-post levy and/or increases in the annual levies payable by all participating firms in Fund A, including firms with no eligible clients, pro-rata to their annual levy for the previous year.
- Should the default be attributable to a participating firm in Fund B, additional funding will be obtained through an ex-post levy and/or increases in the annual levies payable by all participating firms in fund B pro-rata to their annual levy for the previous year.

In such a scenario the ICCL would seek to cap any ex-post levy to twice the annual levy rate. However, given the legislative obligations¹ placed upon it, the Board considers that a cap could only be maintained if, for example:

- The Excess of Loss Insurance policy continues to be placed on acceptable terms with adequate reserves in place to meet initial claims.
- A watertight, last resort borrowing arrangement is in place that would guarantee the ability of the Scheme to make its statutory compensation payments on time.

Given its statutory obligations, the ICCL reserves the right to make alternative arrangements to those proposed above should the circumstances warrant it. Participant firms would be consulted if such circumstances were to arise.

Excess of Loss Insurance policy

In October 2010, an Excess of Loss Insurance policy was successfully arranged through the Lloyd's of London market which provided €50 million indemnity for Fund A and €10 million indemnity for Fund B in cases where the aggregate level of compensation on the relevant Fund exceeded €15 million in a policy year.

The Excess of Loss Insurance policy, which was first placed in October 2010, has been renewed annually. On 1 July 2015, the Board confirmed that cover for Fund A had been increased from €50 million above the €15 million excess, to €100 million through the introduction of a second €50 million policy. The Board considers that this is a significant achievement towards ensuring the Scheme is adequately funded to meet potential liabilities for claims that may arise in significant cases in the future and to reduce the likelihood of recourse to supplementary levies being necessary. The Fund B indemnity level continues to be renewed at €10 million above the €15 million excess.

The successful negotiation and renewal of these policies requires a significant undertaking from both the ICCL and a specialist brokering team. The ICCL and the Broking Team compile extensive data covering participant firms and claims events annually, together with an actuarial assessment and a detailed analysis of the firms covered by the Scheme. The Excess of Loss Insurance policies are renewed annually.

¹ Section 22(3) of the Act requires the Company to ensure that it is in a position to meet any reasonably foreseeable obligations under the Act and that it maintains a sufficient balance in all funds maintained by it which will enable it to meet such obligations.

The failure of CHC which is expected to lead to the first claim under the policy, is projected to cost the ICCL €15 million (anticipated claims compensation cost of €19.7 million less recovery of €4.7 million from that Excess of Loss Insurance policy) based on the Administrator's latest estimates.

Inter-fund Borrowing

Arising from the Funding Consultation process in October 2018, the Board has revised the circumstances where the ICCL considers it necessary to make use of the inter-fund borrowing facility.

The following newly updated criteria will be applied **with effect from 1 August 2019**:

- no margin rates should apply (i.e. the return to the lending fund should be revenue neutral);
- the amount available for borrowing should not materially affect the ability of the lending fund to meet its obligations; and
- the proposed repayment timeframe should be three years.

External Borrowing

There are acknowledged difficulties for the ICCL in gaining access to 'other borrowing facilities'. These difficulties can be summarised as follows:

External Borrowing

- i) Under current legislation, the ICCL is permitted to borrow² from commercial lending institutions. Such borrowing would be required in extreme circumstances where compensation payments could not be met through a combination of ex-ante levies, ex-post levies, the Excess of Loss insurance policy and/or inter-fund borrowing.
- ii) In 2007, the ICCL entered into a 10 year, €50 million standby credit facility on favourable terms. In advance of the expiry of that facility in 2017, the ICCL undertook an examination of external borrowing options. The Board determined that the cost of the options available to the ICCL were excessive.

² Subject to the approval of the Bank in accordance with S.13(1) of the Act .

State Guarantees for ICCL borrowing

- i) The Investor Compensation Act, 1998 (as amended), which governs the conduct of the ICCL, does not provide for a statutory State guarantee in relation to any borrowing of the ICCL. Past discussions with the Department of Finance confirmed that there is no intention to review the legislation in this regard.

- ii) The ICCL will continue to advocate the need for State or other guarantees for borrowing to enable the ICCL to manage the potentially unlimited liability of firms to fund the Scheme.

The ICCL remains committed to finding workable solutions to issues relating to establishing borrowing facilities which would allow the Scheme to manage the unlimited liability of the ICCL's participants in extreme circumstances. It is considered desirable that some element of external borrowing should continue to form part of the cascade model. The Board will examine borrowing options during the course of the next 3 year funding cycle, and, subject to satisfactory terms being available, may re-instate a level of borrowing into the cascade model.

4.2. Appendix 2 – Description of Funds and Participant Firm Categories

At inception and following consultation with industry, the ICCL established two funds designated as Fund A and Fund B. The categories of firms which pay levies into each of these Funds are derived directly from the Bank's authorisations/registrations and are adapted, as appropriate, where the Bank's categorisation of firms changes.

Fund A

Fund A is intended to meet claims from eligible investors of:

- Investment Firms authorised under the European Union (Markets in Financial Instruments) Regulations 2017;
- Investment Firms authorised under Section 10 of the Investment Intermediaries Act, 1995 ["IIA"] that are not exempt under Section 2(5) of the Investor Compensation Act, 1998;
- Credit Institutions authorised in Ireland to provide investment business services;
- Certain certified persons who provide investment business services, which are similar to services provided by Fund A firms, in a manner which is incidental to their main professional activities;
- UCITS management companies, authorised to undertake Individual Portfolio Management Services³;
- AIF Managers, authorised to undertake Individual Portfolio Management Services^{4&5}.

³ Individual Portfolio Management Services refers to the management of portfolios of investments and discretionary portfolio management services as well as non-core services such as investment advice, safekeeping and administration services.

⁴ Article 12(2) of Directive 2011/61/EU – Alternative Investment Fund Managers Directive (AIFMD) – which has a transposition date of 22 July 2013, requires that for each AIFM, the authorisation of which also covers discretionary portfolio management services as referred to in Article 6(4)(a), shall be subject to the provisions of Directive 97/9/EC – Investor Compensation Directive for the services referred to in Article 6(4) of AIFMD.

⁵ Individual Portfolio Management Services refers to the management of portfolios of investments and discretionary portfolio management services as well as non-core services such as investment advice, safekeeping and administration services, and receipt and transmission of orders in relation to financial instruments.

Fund B

Fund B is intended to meet the claims of eligible investors of:

- Investment Intermediaries authorised under the IIA;
- Insurance Intermediaries registered with the Central Bank of Ireland under the European Union (Insurance Distribution) Regulations 2018;
- Certain certified persons who provide investment business services, which are similar to services provided by Fund B firms, in a manner which is incidental to their main professional activities.

Determination of appropriate Fund for levy purposes

When establishing the correct fund to which a firm is required to pay a levy, the authorisation of the firm will take precedence over the registration of the firm. (e.g. An authorised MiFID investment firm that is also registered under the European Union (Insurance Distribution) Regulations 2018 (the IDD Regulations), as an insurance intermediary, will be assessed as a Fund A firm for the purposes of levies to the Scheme.)

In all cases, upon being notified by the relevant Supervisory Authority that a firm coming within the scope of the Scheme has been authorised, the ICCL will determine and notify the firm of the appropriate Fund to which it will become a member.

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