



10 February 2020

Re: Introduction of a new Risk Equalisation Levy with effect from 1 March 2020

Dear CEO,

You will be aware that as your firm is authorised to provide certain regulated investment services, it is required to contribute annually to Fund A of the Investor Compensation Scheme ('ICS') as operated by The Investor Compensation Company DAC ('ICCL'). The amount of levy contribution that your firm pays annually is calculated in accordance with the established Funding Arrangements of the ICS, which were issued in early 2019 for the funding period August 2019 to July 2022.

Since the publication of the 2019 to 2022 Funding Arrangements, the ICCL has identified additional risks to achieving the Cascade Funding Model target. Principally, a funding related risk that arises where a significant book(s) of business is being acquired by, or transferred to, firms within the scope of the ICS in the absence of matching funding being received by the ICS.

The ICCL's Cascade Funding Model target is calculated as 0.5% of the aggregate value of all monies and financial instruments held, administered or managed by all authorised investment firms. The funding target as established, provides for adequate levels of organic growth in client assets. However, it does not provide for significant growth arising from the introduction, as a consequence of acquisition or transfer, of significant volumes of eligible client assets into the jurisdiction for coverage by the ICS.

Following consultation with the Central Bank of Ireland, the ICCL has concluded that in order to meet its statutory objectives and to fairly address such risks, it is necessary to implement a Risk Equalisation Levy ('RE levy') to take effect from 1st March 2020. The RE levyⁱ will only apply in circumstances, such as where your firm acquires a significant book of new business that is not currently within the scope of the ICS. You should note therefore that your firm's existing and future levies will **not** be impacted **unless** it acquires a significant book of business that is not currently within the scope of the ICS.



This rule is being implemented to address potentially more onerous obligations of the ICS that may transpire in particular situations (e.g. transfer of a book of business from a UK authorised entity to an Irish authorised entity, or, authorisation of a large new Irish firm with the migration of a significant book of business) and thus ensure that the ICCL has adequate resources to meet reasonably foreseeable liabilities. Full details on the rationale for the introduction of the rule, who it applies to, how it will be calculated and collected, and other related guidance is set out in the attached appendix. The ICCL intends to issue further guidance later in Q1 of 2020 on related reporting requirements for firms. If your firm has any queries in advance of the issuance of the reporting guidance, please contact us at info@investorcompensation.ie with details of your specific query.

Yours sincerely,

Michael Fagan

Chief Operations Officer

Attachments (1) : Risk Equalisation Rule

ⁱ The Risk Equalisation levy is set out in the attached appendix.