The Investor Compensation Company DAC

Consultation Paper

Funding the Investor Compensation Scheme

Responses are invited by 17 December 2021

Issue date 29 October 2021

List of abbreviations used in this paper

ICCL	Investor Compensation Company DAC
The Scheme / ICS	Investor Compensation Scheme
The Bank	Central Bank of Ireland
CHC	Custom House Capital Limited (in liquidation)
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
MiFID	Markets in Financial Instruments Directive
AIF	Alternative Investment Funds
UCITS	Undertakings for Collective Investments in Transferable Securities
CAR	Client Asset Requirements
CACS	Chartered Accountants' Compensation Scheme
CAI	Chartered Accountants Ireland

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1 Objective

1 The aim of this consultation is to provide participant firms with an update in relation to the progress with funding since the 2019 review, and, to elicit views on the overall approach to funding the Investor Compensation Scheme ('the Scheme' or 'ICS') for the future, and in particular, the next three-year period (August 2022 to July 2025), as proposed by The Investor Compensation Company DAC ('ICCL'). The paper outlines and seeks views on a range of matters pertinent to the effective funding of the ICS.

This paper is of relevance to current and prospective credit institutions, MiFID investment firms, some UCITS and AIFM firms[1], investment intermediaries, insurance intermediaries and investment firms subject to the Approved Professional Bodies regime ('APB'). This paper may also be of interest to various financial services representative bodies.

2 Introduction

2 The ICCL's total funding requirement for investor compensation matters is normally determined on a triennial basis, unless exceptional circumstances arise. Section 21 of the Investor Compensation Act, 1998, as amended ('the Act') provides that investment firms shall pay to the funds maintained by the ICCL the relevant levy that the ICCL specifies. Section 22 of the Act, provides that the ICCL should endeavour to ensure that it has adequate reserves, on an ex-ante[2] basis, to meet any reasonably foreseeable obligations that may arise under the Act.

3 In advance of issuing this Funding Consultation document, the ICCL has 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').

4 The Board of the ICCL ('the Board') seeks to ensure that its cascade model is sufficiently resilient and flexible to meet reasonably foreseeable claims events through the use of various funding layers of the cascade model with associated capacity.

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[1] UCITS and AIFMs authorised to provide individual portfolio management (IPM)

[2] Ex-ante means "before the event" or a pre-funding approach

5 The ICCL published its most recent Funding Arrangements Document in April 2019. Arising from that funding process, the ICCL is pleased to note that the targets set for the growth of the ICCL's reserves for the period August 2019 to July 2021 have been substantially achieved. [See paragraph 7 below and tables 3 and 4 on page 15]

6 In February 2020, to address situations where the quantum of assets covered by the ICS and the ICS Cascade Model is significantly increased following the authorisation of a new investment firm in the jurisdiction and/or the transfer of a book of business to an existing investment firm of any transfer, restructuring, transaction or other arrangement leading to such an increase, the Risk Equalisation Rule was introduced.

7 This present consultation process arises following a period during which no new material failures have occurred. However, the ICCL has continued to seek to progress all outstanding claims and deal with complex legal issues related to the failure of Custom House Capital Limited (in liquidation) ("CHC"). The significant legal costs associated with the ICCL's necessary application to the High Court, seeking directions in relation to the extent of the ICCL's subrogated rights of recovery in failure events, were not envisaged at the current level when the 2019 funding targets were set.

8 In advance of preparing the proposals contained in this document for the future funding of the Scheme, the ICCL has considered many risk factors that are present for the ICS and for participant firms. In that context, the ICCL has considered the evolving regulatory, economic and technological landscape, coupled with the disruptive effects of the pandemic and changing consumer behaviours.

9 This paper provides an opportunity for participants in the Scheme to make any considered comments and observations that might be of assistance to the Board in determining what, if any, changes should be made to the manner in which the Scheme is funded, and specifically to the proposals put forward.

10 Further details pertaining to the format and timeframe for the making of submissions to this Funding Consultation are contained in sections 7 and 8.

3 Key issues affecting the funding of the ICCL Scheme

(I) BACKGROUND

11 The EU Investor Compensation Scheme Directive 97/9/EC ('ICSD') laid down certain basic requirements for investor compensation schemes in order to provide a harmonised minimum level of investor protection across the European Union ('EU').

12 It was left to each individual Member State to implement an appropriate scheme and to determine the most appropriate way of organising and financing such schemes within its own jurisdiction. Thus, while all current Member States have implemented the ICSD, the manner in which the ICSD has been interpreted and applied varies quite considerably across the EU.

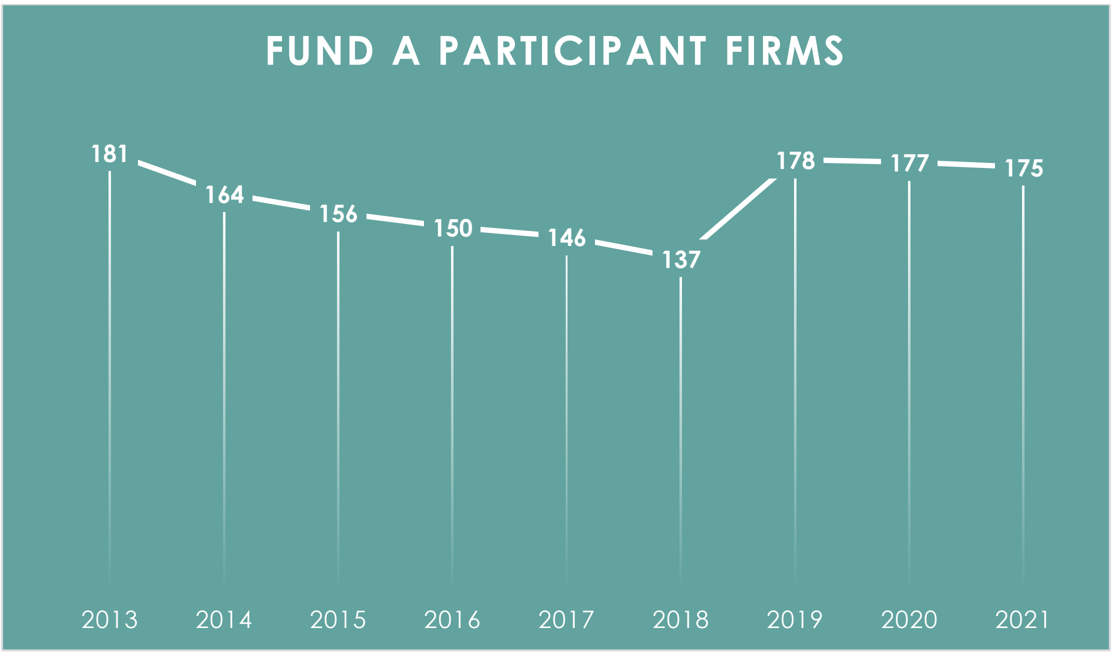
13 The ICSD, which was transposed in Ireland through the ICA, states that the cost of financing investor compensation must, as a matter of principle, be borne by investment firms. In transposing the ICSD, the Irish Government placed an obligation on the ICCL to establish and maintain a fund or funds out of which compensation payments shall be made to clients of failed investment firms, in accordance with the provisions set out in the Act, as expeditiously as possible.

14 The importance of an ex-ante funded Investor Compensation Scheme was highlighted most recently in 2011 when the failure of CHC, a medium sized Fund A firm, demonstrated how a significant proportion of reserves may be depleted. Furthermore, this case also emphasised the requirement for alternative funding options to enable the Scheme to swiftly access the funds required to meet the legislative requirements of the Compensation Scheme for future compensation cases.

15 Estimating the likely cost of a reasonably foreseeable failure event, principally the cost of claims for compensation, not including the legal and other administration costs associated with processing claims, is a complex exercise. The ICCL collects data, annually, from participant firms in relation to eligible investors and the value of their investments that may be subject to coverage ("ICCL Return 2")[3]. The data available from the "ICCL Return 2" indicates that average compensation payments in a potential failure event are trending higher, albeit at manageable levels when viewed through the prism of the proposals in this document. The CHC case from 2011 has also provided evidence of the actual compensation claim costs and the significance of legal and administrative costs from a relatively small/medium sized firm failure.

16 The numbers of participant firms in both Fund A and Fund B have changed significantly over the past number of funding years. Fund A had experienced an average annual decrease in authorised investments firms of 5% per annum between 2013 and 2018. During 2018 and 2019, principally related to a Brexit effect, the number of Fund A firms increased and has remained relatively stable through to 2021, however, it should be noted that many of these new firms only provide services to excluded investors, such as professional / institutional investors. Further changes to the profile of Fund A firms are expected in the coming years, such as significant mergers/acquisitions, departures from/arrivals into the Irish regulatory jurisdiction, and others as a consequence of the evolving landscape.

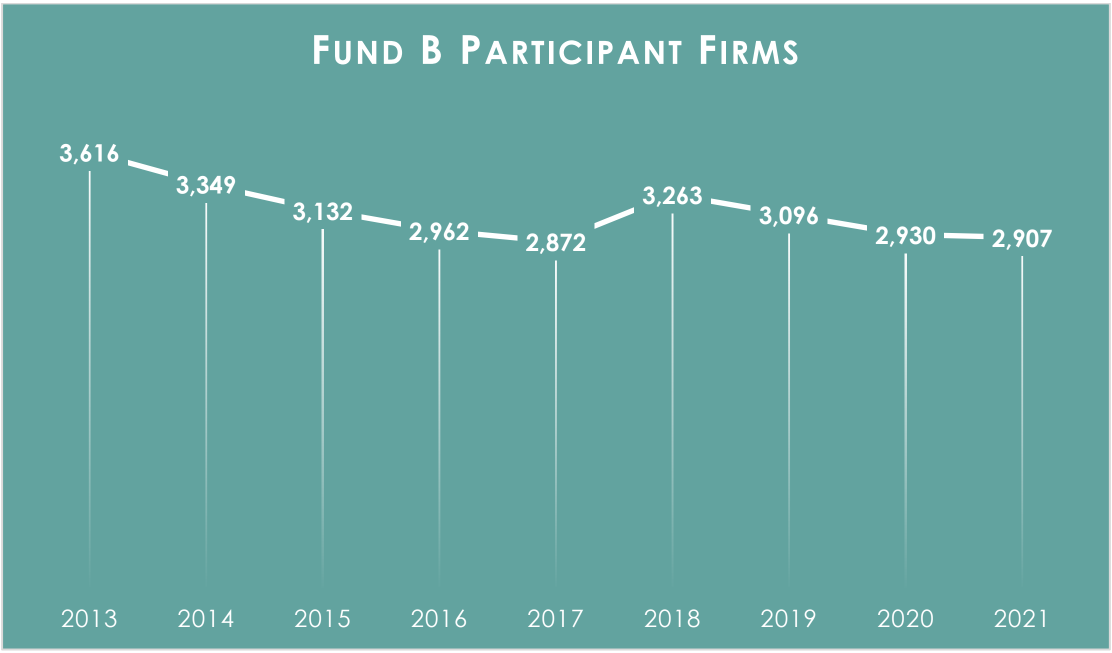
CHART 1 – NUMBER OF FUND A PARTICIPANT FIRMS 2013 TO 2021 INCLUSIVE



[3] ICCL Return 2 assists the Board of the ICCL to assess the theoretical maximum exposure of the Scheme at a point in time.

17 Fund B had an average annual decrease in the number of authorised intermediaries of 6% per annum between 2013 and 2017. However, this level of decrease was interrupted in 2017/18 when member firms of the Chartered Accountants Ireland ('CAI') joined the ICCL operated scheme, having previously participated in the Chartered Accountants Compensation Scheme ('CACS'). Following the entry into force of the Insurance Distribution Directive in 2018, a significant number of Accountancy firms authorised to undertake investment business by the Approved Professional Bodies, exited the ICS as they no longer provided in-scope activities. At the mid to upper end of the Fund B intermediary scale, consolidations became more commonplace and this is anticipated to continue throughout the term of this funding review.

CHART 2 – NUMBER OF FUND B PARTICIPANT FIRMS 2013 TO 2021 INCLUSIVE



18 The ICCL's Excess of Loss Insurance policy is a niche insurance policy and the Board is conscious that successfully negotiating and renewing the policy requires a significant undertaking by ICCL and our broker on an annual basis. As a specialist market, global events could make access and/or capacity difficult or prohibitively expensive.

19 The ICCL is mindful that a significant amount of the Fund A cascade capacity is delivered from the Excess of Loss Insurance policy (currently €100mn). During the 2016 & 2019 funding reviews, the Board indicated that the level of cover available from the insurance policy should be kept under review through future funding proposals.

20 With the exception of the growth in reserves of the ICCL through the accumulation of levies (both annual and REL), there has been one significant change to the cascade model since July 2019:

- With effect from April 2020, the capacity of the ICCL cascade model was enhanced with the addition of a 3-year unsecured €30mn Commercial Borrowing Facility for Fund A only.

(II) CASCADE MODEL

21 ICCL operates a cascade model as the framework for funding the Scheme in the event of a default situation. 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 in the EU Commission's study that the availability of multiple sources of funding, even if never activated, enhances the viability of the schemes.

The ICCL cascade model currently consists of the following elements (not necessarily in the order presented below):

22 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.

23 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. (*Further details are available in paragraphs 28 and 37*.)

24 The Cascade mix has been considered on the expectation that:

- the Excess of Loss Insurance policy continues to be placed on acceptable terms of excess, coverage and renewal premium;
- the Commercial Borrowing facility, and any follow-on facility, continue to be available on terms that are considered acceptable by the Board.

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.

(III) RESERVES AS AT 31 JULY 2021

25 Tables 1 & 2 below set out the fund reserves of Fund A and Fund B over the life of the Scheme[4 / 5].

TABLE 1 - FUND A RESERVES FOR THE FUNDING YEARS ENDED 31 JULY 1999 TO 2021 INCLUSIVE

Year	Levies / Interest Income	Top Up	Compensation & Related Costs	Administration Expenses	Fund Reserve (at end of period)
1999 – 2001	€3,459,023	Nil	(€1,190,293)	(€415,119)	€1,853,611
2002 – 2004	€5,722,341	€5,070,178	(€11,544,239)	(€717,093)	€384,798
2005 – 2007	€7,137,152	(€144,948)	€1,881,424	(€984,639)	€8,273,787
2008 – 2010	€10,724,373	Nil	€379,686	(€1,299,767)	€18,078,079
2011 – 2013	€13,466,021	Nil	(€17,764,525)	(€2,469,751)	€11,309,824
2014 – 2016	€13,671,144	Nil	€2,623,120	(€2,770,948)	€24,833,140
2017 – 2019	€14,862,086	Nil	(€328,827)	(€3,218,841)	€36,147,558
2020	€4,942,846	Nil	(€398,167)	(€1,276,153)	€39,416,084
2021	€19,828,151	Nil	(€1,289,219)	(€1,312,004)	€56,643,012
Totals	**€93,813,137**	**€4,925,230**	**(€27,631,040)**	**(€14,464,315)**	**€56,643,012**

[4] Figures have been converted to Euro where appropriate.

[5] Figures for 2021 have been extracted from the draft Financial Statements for the year ended 31 July 2021.

TABLE 2 - FUND B RESERVES FOR THE FUNDING YEARS ENDED 31 JULY 1999 TO 2021 INCLUSIVE

Year	Levies / Interest Income	Top Up	Compensation & Related Costs	Administration Expenses	Fund Reserve (at end of period)
1999 – 2001	€3,494,481	Nil	(€40,289)	(€1,073,756)	€2,380,436
2002 – 2004	€5,579,350	Nil	Nil	(€967,126)	€6,992,660
2005 – 2007	€5,435,045	Nil	Nil	(€1,290,994)	€11,136,711
2008 – 2010	€7,170,115	Nil	Nil	(€1,957,332)	€16,349,494
2011 – 2013	€5,604,282	Nil	€9,996	(€1,636,231)	€20,327,541
2014 – 2016	€4,548,496	Nil	(€199,730)	(€1,533,992)	€23,142,315
2017 – 2019	€3,854,213	Nil	€169,878	(€1,673,211)	€25,493,195
2020	€869,212	Nil	Nil	(€610,910)	€25,751,497
2021	€771,595	Nil	Nil	(€662,909)	€25,860,183
Totals	**€37,326,789**	**Nil**	**(€60,145)**	**(€11,406,461)**	**€25,860,183**

26 The ICCL has sought to steadily build the reserves of the Scheme and the Board acknowledges the support given by participant firms as the Scheme builds towards those target funding levels identified in the 2019 Funding Arrangements.

TABLE 3 - FUND A COMPARISON OF TARGET FUND RESERVES AGAINST ACTUAL/FORECAST RESERVES FOR FUNDING YEARS 31 JULY 2019 TO 2022 INCLUSIVE

Year	Target Reserve[6] €'mn	Fund Reserve at end of year €'mn	Cumulative Difference €'mn	Significant Item(s)
2019 – Actual	35.327	36.148	+0.821	Higher income than forecast due to the higher levy bands for some firms.
2020 - Actual	38.748	39.416	+0.668	Increased operating costs.
2021 – Actual	57.298	56.643	-0.655	Compensation case legal costs were higher than forecast due to a High Court directions application for the CHC case.
2022 – Forecast	60.590	59.606	-0.984	Compensation case legal costs are forecast higher due to a High Court directions application for the CHC case.

TABLE 4 - FUND B COMPARISON OF TARGET FUND RESERVES AGAINST ACTUAL/FORECAST RESERVES FOR FUNDING YEARS 31 JULY 2019 TO 2022 INCLUSIVE

Year	Target Reserve €'mn	Fund Reserve at end of year €'mn	Cumulative Difference €'mn	Significant Item(s)
2019 – Actual	25.425	25.494	+0.069	Lower decrease in Fund B participants than forecast resulting in better income.
2020 – Actual	25.528	25.752	+0.224	Lower decrease in Fund B participants than forecast resulting in better income.
2021 – Actual	25.612	25.861	+0.249	Lower decrease in Fund B participants than forecast resulting in better income.
2022 – Forecast	25.676	25.817	+0.141	Increased operating costs.

[6] Target Reserve recalibrated for 2021 & 2022 to incorporate Risk Equalisation levies.

(IV) CASCADE CAPACITY & MIX

FUND A

27 The Board considers that the appropriate measure of cascade capacity for Fund A should continue to be derived from a past proposal in the ICSD to amend the funding criteria for each EU National Investor Compensation Scheme ('EU ICS'). The core considerations are:

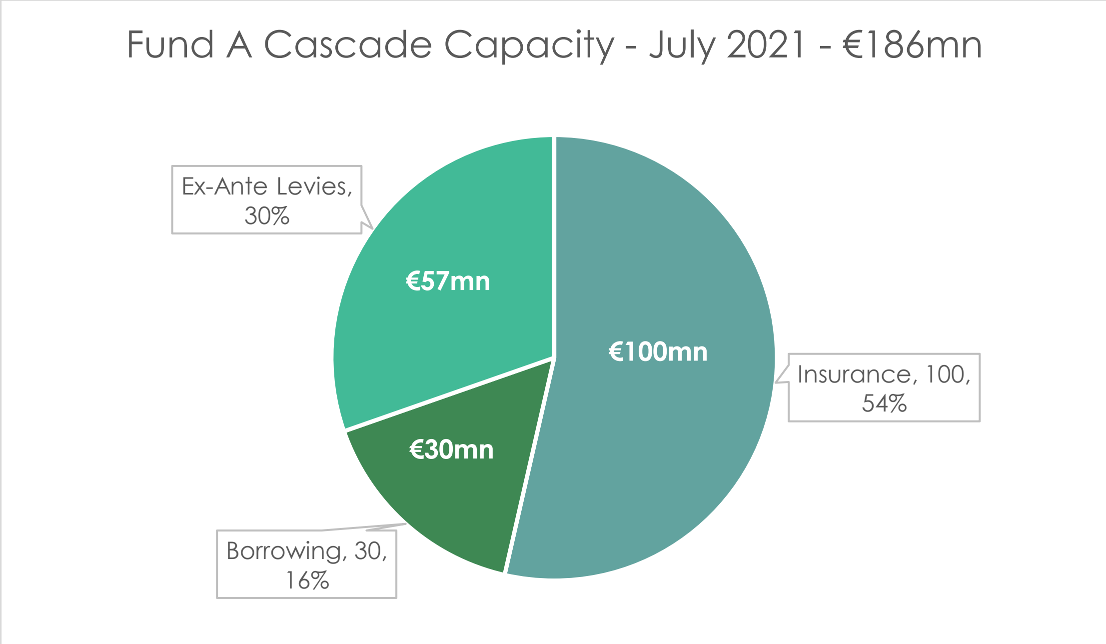
- the cost of financing is borne by participant firms;
- the EU ICS should be adequately financed,
- financing should be proportionate to potential liabilities;
- the target fund should be set, at least at, 0.5% of the value of all monies and financial instruments held, administered or managed by participant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

28 The Board has determined that the application of the ICSD criteria would require Fund A to have financing of the order of €225mn in place. This is based on the current value of monies and investment instruments held on behalf of retail investors by Fund A firms. Furthermore, the target allows for annual growth in the value of money/assets held through to July 2025.

29 As at 31 July 2021, the current capacity of the cascade model for Fund A was €186mn (refer to chart 3 on page 17). The collection of ex-ante levies is expected to contribute to the growth of reserves to circa €60mn during the funding year ending 31 July 2022 (refer to chart 4 on page 18) and associated cascade capacity of €190mn.

The current mix and capacity of Fund A, in addition to forecasted positions, are detailed in the charts 3 to 5 and outlined in paragraphs 30 to 33.

CHART 3 – FUND A CASCADE CAPACITY AT 31 JULY 2021



30 The Board has considered the aggregate data available to it from the "ICCL Return 2" which assists the Board to understand the potential compensation costs that may arise from the failure of an investment firm that participates in Fund A. The Board has endeavoured to minimise the levy costs imposed on participants, while still maintaining a viable compensation scheme and also meeting its statutory responsibilities under the Act. Arising from its consideration of the available data as at 31 December 2020, the Board remains satisfied that it is appropriate to retain a significant proportion and weighting of the cascade model in the form of alternative funding. Alternative funding consists of Excess of Loss Insurance and Commercial Borrowing Facilities.

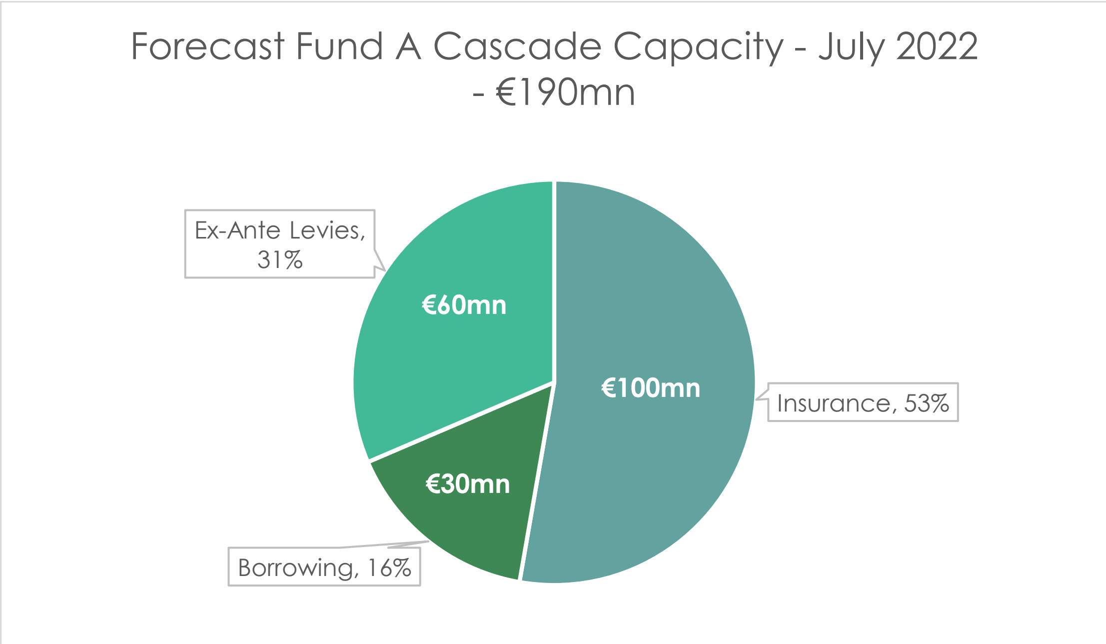
31 Empirical experience and the operational experience of the ICCL have informed the process of managing the funding requirements of the ICS. However, there remain many uncertain and unpredictable events that may impact on the ability of the ICCL to consistently maintain absolute allocations of cascade capacity in specific elements. For example, insurance contracts and commercial borrowing facilities are annual renewing events, subject to negotiations. Moreover, the actual target capacity may change during an annual cycle at a time that differs from the negotiation of those contracts, resulting in intermittent differences between the actual and target capacity of the Cascade model and/or its constituent elements.

32 In view of such uncertainties, the Board is proposing that the current cascade capacity of Fund A requires greater flexibility in terms of mix to ensure that the alternative funding methods can be adjusted more dynamically in response to the evolving aggregate datasets and related cascade model capacity outputs.

33 While the Board does not wish to place an over reliance on any one component, the Board will continue to utilise tools such as Excess of Loss Insurance and Commercial Borrowing Facilities where good value and balance can be achieved.

The forecast mix and capacity of Fund A at July 2022 is detailed in chart 4 below.

CHART 4 – FORECAST FUND A CASCADE CAPACITY AT 31 JULY 2022

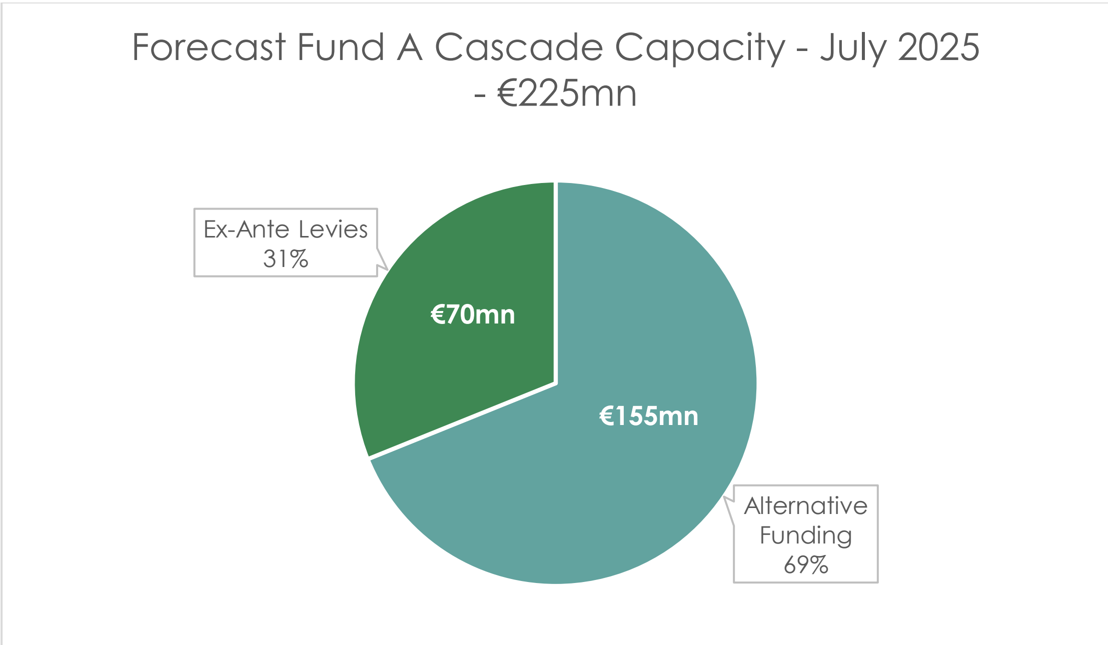


34 Important considerations when determining the mix for the cascade, in particular the percentage of the cascade capacity which should be provided by way of ex-ante levies, are the strength of the regulatory environment, the number of active participants in the Scheme and <u>the ability of participant firms to fund the Scheme's reserves</u>. In this regard the Board is not seeking to materially alter the aggregate annual levy collected from the industry. Please refer to paragraphs 70 and 72 for further detail on average annual levy income projections.

35 The Board has considered these factors and believes that during the next 3-year funding cycle, subject to the implementation of either of the proposals set out in paragraph 69, the reserves of Fund A should grow to circa €70mn while alternative funding sources should be flexed to €155mn by July 2025 (or an alternative amount, driven by available data, and as deemed appropriate by the Board during the lifecycle of this funding review to maintain cascade capacity). This would target delivery of an anticipated cascade capacity of €225mn based on current information and projections.

36 The Board proposes that the revised target cascade capacity of €225mn should be achieved by July 2025 through a mix of ex-ante levies and alternative funding sources.

CHART 5 – FORECAST FUND A CASCADE CAPACITY AT 31 JULY 2025



FUNDB

37 The Board has determined that the current target Fund Reserve of €35mn for Fund B should be retained, subject to €10mn (circa 30%) of the target being provided by way of excess of loss insurance cover. The majority of the cascade capacity for Fund B (circa 70%) will continue to be provided by way of ex-ante levy reserves. The maintenance of the €35mn target, has been determined having due regard to various factors including previous claims experience.

38 In view of the cascade capacity target of €35mn for Fund B, and the ex-ante reserves of €25mn being achieved previously, the Board is proposing to retain the current levy rates at the same level as those pertaining to the funding year ending 31 July 2022 (which represent a reduction of approximately 50% on annual levy rates prior to the ex-ante reserves target being achieved). It is envisaged that these levy rates will cover the administrative costs of operating Fund B subject to the assumptions set out in paragraph 85.

Q1. Do you agree with the revised target cascade capacity for Fund A?

Q2. Do you agree with the "flexed" target cascade mix for Fund A?

Q3. Do you agree with the retention of the target cascade capacity for Fund B?

Q4. Do you agree with the retention of the target cascade mix for Fund B?

(V) EXCESS OF LOSS INSURANCE POLICY

39 In October 2010, the Board announced that it had arranged an Excess of Loss Insurance policy underwritten by Lloyd's of London to provide additional cover in cases where the costs of compensation exceeded €15mn in a policy year.

40 Successfully negotiating and renewing the policy requires a significant undertaking from both the ICCL and a specialist Lloyd's broker. The ICCL, as part of the renewal process, is required, on an annual basis, to compile extensive data covering the regulatory environment, market information and claims events from the inception of the Scheme in 1998.

41 The Excess of Loss Insurance policy, which was first placed in October 2010, has been renewed annually. On 1 July 2015, cover for Fund A was increased from €50mn above the €15mn excess, to €100mn through the introduction of a second €50mn policy. The Board considers that the insurance policies are a key funding tool, particularly for a large failure event on Fund A. The Fund B indemnity level continues to be renewed at €10mn above the €15mn excess.

42 The Board believes that it would be appropriate during the course of the next 3 yearly funding cycle, to seek to review the structure of the insurance programme, including the attachment point(s), the level of indemnity across each policy layer, and, the potential to introduce further layers to the insurance programme. Naturally, any changes to the insurance programme would require the support of the Lead underwriters, in addition to the following market at Lloyd's.

Q5. Do you support the continued placement of Excess of Loss Insurance for Fund A at the current level of €100 million above an excess of €15 million?

Q6. Do you support the continued placement of Excess of Loss Insurance for Fund B at the current level of €10 million above an excess of €15 million?

Q7. Would you support a review and restructuring of the Excess of Loss Insurance programme provided it continued to support the cascade model?

(VI) BORROWING

Inter-fund Borrowing

43 The current inter-fund borrowing criteria, with effect from 1 August 2019 specify that:

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

> Q8. Do you support the continuation of the Inter-fund borrowing arrangements?

External Borrowing

44 The ICCL has previously experienced difficulties arranging borrowing facilities. These difficulties can be summarised as follows:

External Borrowing

i) Under current legislation, the ICCL is permitted to borrow[7] from commercial lending institutions. Such borrowing would likely only be exercised in extreme circumstances where compensation payments could not be met through a combination of ex-ante levies, ex-post[8] levies, the Excess of Loss insurance policy and/or inter-fund borrowing.

ii) In advance of the expiry of a 10 year, unsecured €50mn standby credit facility in 2017, the ICCL undertook an examination of external borrowing options. At that time the Board determined that the cost of the options available to the ICCL was excessive.

iii) In 2019, the ICCL re-examined external borrowing options, identified an acceptable proposal, and, successfully contracted in April 2020 a new 3 year, unsecured, €30mn standby credit facility.

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

[8] Ex-post means "after the event" or funded on an actual cost basis

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.

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

45 The ICCL remains committed to, in the absence of a State Guarantee, the incorporation of unsecured external borrowing facilities within the Cascade Model. The Board will endeavour to maintain borrowing options during the course of the next 3-year funding cycle, and, subject to satisfactory terms being renegotiated, will maintain an appropriate level of borrowing in the cascade model.

Q9. Are there alternative sources of standby funding that are likely to be commercially viable and suitable to support the funding objectives of the ICCL which you believe should be explored?

(VII) FURTHER EFFICIENCIES TO THE GENERAL OPERATION OF FUNDING

46 The ICCL considers that, based on our experience to date, pro-rata invoicing for new entrant firms and firms exiting, which requires that participant firms pay their annual levy based upon the number of months for which they are authorised within the funding year, should remain in place for the forthcoming funding cycle with refunds only payable by electronic transfer.

47 Occasionally, businesses which are authorised investment firms for the purposes of the ICCL, commit to merger or acquisition transactions during a funding year. This often results in the transfer of a book of business/clients from one firm to another. With regard to mergers and acquisitions that involve Fund A firms, the pro-rata refund policy was discontinued with effect from 1 August 2019.

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

(VIII) REGULATORY AND ECONOMIC ENVIRONMENT

49 The ICCL supports the continuing application and the further strengthening of the Bank's Client Assets Requirements as set out in the Bank's "Feedback Statement – Consultation Paper CP133". The ICCL views these requirements as a critical component of the overall regulatory environment around client money and assets.

50 The Board strongly supports the return of client assets and investor money in a prompt manner following the appointment of an Insolvency Practitioner or other administrator to a failed investment firm. Establishing the financial losses suffered by investors through a liquidation process has frequently taken a protracted period of time. Developments which enable more timely certifications of investor losses in such cases, in-turn facilitating the expeditious payment of compensation by the ICCL, are to be welcomed.

4 Proposed Fund Reserve levels (effective 1 August 2022)

Introduction

51 The Board of the ICCL continues to believe that the current structure of the Scheme, divided into Fund A and Fund B, based on the authorised status and investment business services provided by participants, delivers an appropriate level of segmentation between participants and that any further sub-division would not be in the best interests of the Scheme as a whole.

Categorisation of Participant Firms

52 At present there are 169 firms in Fund A, which is comprised of Section 10 firms (8), MIFID investment firms (94), Licensed Banks (23), AIF Managers (30), UCITS Managers (13), Accountancy Firms (0) and 3rd Country Branches of Licensed Banks (1). Some 124 of the total number of Fund A firms currently have no eligible clients and, therefore, pay a basic annual levy towards the ICCL administrative costs. As a result, the main obligation for financing Fund A falls on the remaining 45 Fund A participants.

53 Fund B currently comprises some 2,897 participants which are categorised based on the Bank's authorisation framework. These include Insurance Intermediaries (850), Tied Insurance Intermediaries (376), Investment Intermediaries (1,364), and members of Accountancy Bodies (307) of which Chartered Accountants Ireland – 238; Certified Public Accountants 69.

5 Fund A - Funding criteria and proposals

(i) Levy types

54 At the commencement of the previous triennial funding cycle on 1 August 2019, the ICCL had two types of levy that were available to be applied when funding the ICS:

- The annual levy, which is the levy applicable to all Fund A participant firms.
- An ex-post levy "Top-up levy", which would only be deployed in exceptional circumstances by the Board, to support reserve levels following a significant call on the reserves arising from a material compensation event. The Top-up levy has only been utilised on one occasion in the past, between 2001 – 2004, following the failure of W&R Morrogh Stockbrokers. Alternative funding sources were not available at that time.

55 In February 2020, the ICCL introduced an additional category of levy, the Risk Equalisation Levy (REL) to address situations where the quantum of assets covered by the ICS and the ICCL Cascade Model would be significantly increased following the authorisation of a new investment firm in the jurisdiction and/or the transfer of a book of business to an existing investment firm or any transfer, restructuring, transaction or other arrangement leading to such an increase.

56 For the purposes of this Funding Consultation process, the ICCL is not proposing any changes to the REL levy, details of which can be accessed here.

(ii) Basis for levying

57 As outlined in the 2019 Funding Consultation, the ICCL collects data from participant firms in relation to eligible investors and the value of their investments that may be subject to coverage ("ICCL Return 2"). The purpose of collecting this data is to inform the Board of the potential exposures of the Scheme.

58 The Board of the ICCL continues to believe that the most practical basis of allocating annual levies for Fund A firms is the use of eligible client numbers coupled with an authorisation to hold client assets. In respect of Fund A firms which have self-assessed themselves as having zero eligible clients, a basic levy and special ex-post levy rules[9] will continue to apply.

Table 5 below sets out the existing band structure and rates for Fund A participants as at 1 August 2021.

TABLE 5 - FUND A: EXISTING LEVY BAND AND RATE STRUCTURES FOR THE FUNDING YEAR COMMENCED 1 AUGUST 2021

Band	Number of eligible clients	Existing Rates August 2021 to July 2022 Not subject to "CAR"	Existing Rates August 2021 to July 2022 Subject to "CAR"
BND 00	Zero	€5,400	€5,400
BND 01	1 – 49	€20,000	€22,000
BND 02	50 – 749	€30,000	€33,000
BND 03	750 – 2,499	€60,000	€66,000
BND 04	2,500 – 4,999	€100,000	€110,000
BND 05	5,000 – 9,999	€140,000	€154,000
BND 06	10,000 – 19,999	€180,000	€198,000
BND 07	20,000 – 29,999	€220,000	€242,000
BND 08	30,000 – 39,999	€260,000	€286,000
BND 09	40,000 – 49,999	€300,000	€330,000
BND 10	Over 50,000	€340,000	€374,000

(iii) Band structure

59 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. The Board is satisfied that the adaptations made to the band structures, between 2019 and 2022, to address the threshold effect that existed for firms with client numbers between 5,000 and 50,000 have been successfully implemented without materially impacting participant firms.

[9] For details refer to page 24 of the Funding Arrangements (30 April 2019) available on www. investorcompensation.ie

60 The Board is conscious that during the period 2019 to 2022, material changes have occurred within the environment that participant firms operate in, notably the consolidation of significant existing participant firms, and, the entry due to Brexit, of multiple new participant firms, some of significant scale, coupled with the accelerating ability of participants firms to scale at a much faster pace than previously conceived due to advancements in financial technology and consumer behaviour.

61 While the Board is satisfied that the existing band structure is sufficiently robust to accommodate and provide absolute clarity for firms growing up to 50,000 eligible clients, it does not in the view of the Board, adequately provide for firms that have significant client numbers in excess of 50,000. Consequently, the Board has considered approaches to addressing this issue under two scenarios A:1 and A:2 as set out in greater detail under paragraphs 70 & 72 respectively.

62 The proposed changes considered by the Board as part of this consultation are principally focussed on the top band structure of "Over 50,000" clients as this is the levy band where the highest levels of compensatable losses could occur. Accordingly, the Board is proposing to introduce measures for firms with in excess of 50,000, that better align the quantum of levy with the number of clients, as occurs for firms with client numbers below 50,000.

63 The Board is conscious that such changes should not be unreasonable, disproportionate or unfair on those firms that have very significant client numbers, and as such, is proposing two approaches for firms to consider.

64 In the circumstances, the Board is seeking feedback from participants about the proposal to introduce alternative band structures (Proposals A:1 & A:2) (refer to paragraph 69), which each continue to utilise the eligible client basis of assessment, and which could be introduced immediately for most bands.

(iv) Cap on levies

65 In light of the relatively small number of Fund A participants who are required to contribute the majority of the funding, the Board of the ICCL recognises the potential benefit (both from a financial planning and a cash flow point of view) of a cap on the maximum level of additional 'ex-post' funding to Fund A, that can be required in any one year. In this context, the ICCL policy would be to introduce a cap on the amount that may be raised in any one year, in the event of the need for an ex-post levy call on Fund A participants, which would be equal to twice the annual levy rate[10]. However, the position of the Board remains unchanged from prior consultations. The Board considers that a cap could only be introduced 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.

(v) Funding Reserve level

66 The Board acknowledges the support of all Fund A participants in building the Fund A reserves both through annual levies and risk equalisation levies. The Board considers that, in order to achieve the proposed cascade capacity of €225mn, it is necessary in the medium term to maintain a sizeable level of alternative funding in the form of insurance and/or commercial borrowing facilities, while the ex-ante levies are grown to a reasonable level.

Having regard to the current alternative funding coverage of €130mn, the Board considers that the funding target as set out in paragraph 36 is reasonable and achievable by 31 July 2025, representing 3 funding years from 1 August 2022.

67 Notwithstanding the ICCL's established policy of consulting on levy rates over a 3-year cycle, the Board will carry out an interim review should the need arise. Circumstances that could arise and which could lead to such a review include:

- a further significant failure(s);
- the withdrawal of or significant alterations to the alternative funding sources;
- the application of negative interest rates to the ICCL's reserves;
- any increase of the €20k compensation limit or scope of cover;
- significant precedent being established in a failure case;
- significant changes to the structure of the market; and/or,
- significant legislative changes particularly arising from changes at EU level.

[10] With regard to firms that are paying an REL and have not commenced paying the annual levy, the ex-post levy call would be assessed at the levy band the firm would pay based on the number of clients as at the date of the setting of the ex-post levy.

68 The proposed levy rates for the 3-year funding cycle commencing 1 August 2022, seek to recognise the existing contributions made by participant firms and also to strike a balance between the requirement to have funds available to pay claims and the financial impact on participant firms funding the Scheme.

69 Tables 6 through 12 below set out each of the ICCL's Fund A proposals for consideration.

In the case of each proposal, the Board will use best endeavours to achieve and maintain the proposed alternative funding capacity of circa €155mn. Participant firms should note that the actual level of alternative funding in place throughout the lifecycle of the funding years August 2022 to July 2025 may deviate from €155mn for timing, operational or other market-based reasons.

Main differences to current arrangements

Proposal A:1 (refer to paragraph 70) and proposal A:2 (refer to paragraph 72) seek to facilitate, in a fairer and more sustainable manner, the increased number of firms now participating in the Scheme with client numbers above, or significantly above 50,000.

Over the course of the most recent funding cycle, a number of existing participant firms have either been acquired, consolidated or restructured within the existing business of participant firms, or in more recent cases, announced an intention to undertake such transactions. A consequence of this is that a small number of firms either now have or will soon have client numbers significantly in excess of the existing top band of 50,000 clients. If the ICCL did not respond to these changes in the landscape, an unintended consequence of these transactions would be a significant reduction in annual levy income with no corresponding reduction in potential liabilities for ICCL.

This effect is particularly pronounced at present across the existing Band 10.

Assumptions

The assumptions underlying the projections for **proposals A:1 and A:2** are:

- No significant new failures arise;
- No material change in the estimated costs of the ICCL's High Court application (CHC);
- No material change to the existing CHC provision for compensation;
- Continuing ability to maintain the alternative funding sources on acceptable terms at circa €155mn;
- 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;
    - 1 firm across bands 1 to 4;
    - No significant consolidation of firms beyond those envisaged in forecasting;
- Operating costs allocated to Fund A to remain relatively consistent at circa €1.5mn per annum;
- The ICCL recognises the potential for interest rates to change during the course of the 3-year funding cycle, however, the timing, quantum and direction of any change remains uncertain. On this basis, no interest income or interest charge on reserves has been included in projections;
- Bad debts are not experienced at a material level.

Q10. Do you believe the assumptions set out in paragraph 69 are reasonable? – Please state your reasons.

70 **Proposal A:1** targets an ex-ante levy reserve of circa €69.6mn by end July 2025. No changes are proposed for firms with eligible client numbers of less than 50,000. It is proposed to cap the number of clients under BND10 of the existing band structure at 75,000 without any change in levy rate. It is proposed to introduce a new BND11 which would only apply to firms with client numbers in excess of 75,000. Levy rates for firms in the new BND11 would be calculated based on the existing BND10 rate, plus an additional charge of €25,000 per batch of 25,000 additional clients (or part thereof) which is €15,000 per band lower than the levy rate that would currently apply to batches of 10,000 clients through levy bands BND 4 to BND 9.

In summary, the target outcomes of proposal A:1 are:

- €225mn cascade capacity;
- Cascade mix – Ex-ante reserves of circa €69.57mn and Alternative funding sources of €155mn;
- Cascade capacity and mix to be achieved by July 2025;
- Average annual levy income of circa €4.8mn;
- Net annual addition to reserves of circa €3.3mn after operating costs;
- Levy rates for all bands other than BND10 to remain unchanged from year ending 31 July 2022.

TABLE 6 - FUND A: PROPOSED LEVY RATES FOR THE 3-YEAR FUNDING CYCLE COMMENCING 1 AUGUST 2022/2023/2024 (PROPOSAL A:1)

Band	Number of eligible clients	August 2022 to July 2025 Not subject to "CAR"	August 2022 to July 2025 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	50,000 – 75,000	€340,000	€374,000
11	Over 75,000	Band 10 rate **plus** €25,000 per batch of 25,000 (or part thereof) above 75,000 clients	Band 10 rate **plus** €27,500 per batch of 25,000 (or part thereof) above 75,000 clients

TABLE 7 - FUND A: COMPARISON OF BANDS AT 31 JULY 2022 AND BANDS IN PROPOSAL A:1

Bands at 31 July 2022		Proposal A:1	
Band	**Number of eligible clients**	**Band**	**Number of eligible clients**
0	Zero	0	Zero
1	1 – 49	1	1 – 49
2	50 – 749	2	50 – 749
3	750 – 2,499	3	750 – 2,499
4	2,500 – 4,999	4	2,500 – 4,999
5	5,000 – 9,999	5	5,000 – 9,999
6	10,000 – 19,999	6	10,000 – 19,999
7	20,000 – 29,999	7	20,000 – 29,999
8	30,000 – 39,999	8	30,000 – 39,999
9	40,000 – 49,999	9	40,000 – 49,999
10	Over 50,000	10	50,000 – 75,000
		11	Each additional batch of 25,000 clients (or part thereof) over 75,000

71 Table 8 below sets out the projected Fund Reserve levels for Fund A under proposal A:1.

TABLE 8 - FUND A: PROJECTED CASCADE CAPACITY UNDER FUNDING PROPOSAL A:1

Year	Levies	Fund Reserve	Excess Loss Insurance	Credit Facility	Fund A Cascade Capacity
2021*	€19.828mn	€56.643mn	€100.000mn	€30.000mn	€186.643mn
2022	€4.673mn	€59.606mn	€100.000mn	€30.000mn	€189.606mn
2023	€4.839mn	€62.987mn	€155.000mn		€217.987mn
2024	€4.798mn	€66.300mn	€155.000mn		€221.300mn
2025	€4.757mn	€69.570mn	€155.000mn		€224.570mn

*** reference made to actual year-end fund reserve**

72 Proposal A:2 targets an ex-ante levy reserve of circa €70.4mn by end July 2025. This proposal also seeks to cap the number of clients under BND10 of the existing band structure at 75,000 however there is a change in the levy rate as set out in table 9 below. It is proposed to introduce new bands at increments of 25,000 clients between the 75,000 and 200,000 client range (BND11 through BND15 respectively). Levy rates for firms in the new BND11 and above propose a reducing charge per client when calculated at the max of each band. Finally, in circumstances where firms envisage client growth above the 200,000-client threshold at BND15, this is facilitated at a significantly reduced cost of €10,000 per additional batch of 25,000 clients (or part thereof) when compared to proposal A:1.

There are minor changes in annual levy cost for firms with client numbers between 20,001 and 50,000 in the favour of those firms as set out in table 10 below.

In summary, the target outcomes of proposal A:2 are:

- €225mn cascade capacity;
- Cascade mix – Ex-ante reserves of circa €70.38mn and Alternative funding sources of €155mn;
- Cascade capacity and mix to be achieved by July 2025;
- Average annual levy income of circa €5.01mn;
- Reserves forecast to reach circa €70.38mn by July 2025;
- Net annual addition to reserves of circa €3.6mn after operating costs.

To achieve the above, the following is proposed:

- No change to Band 0 to Band 6 – firms with eligible clients ranging from zero to 20,000;
- No change to Band 7 to Band 9 thresholds;
- Amendment to Band 10 (50,001 – 75,000) to cap client numbers at 75,000 (previously unlimited above 50,000);
- Introduction of five new bands 11 to 15 each with an incremental client range of 25,000 above the previous band;
- Introduction of a new band 16 for each additional batch of 25,000 clients (or part thereof) above band 15 (175,001 – 200,000).

In addition to the proposed changes to the band structure as set out above and in table 9 below, there are minor levy rate reductions proposed to bands 7 to 9 and new levy rates for bands 10 to 16 respectively.

An impact assessment has been undertaken for each individual firm using the latest available eligible client returns from firms. Arising from the impact assessment, the ICCL is proposing that the band and levy rate changes would be introduced with effect from 1 August 2022.

TABLE 9 - FUND A: COMPARISON OF BANDS AT 31 JULY 2022 AND BANDS IN PROPOSAL A:2

Bands at 31 July 2022		Proposal A:2	
Band	**Number of eligible clients**	**Band**	**Number of eligible clients**
0	Zero	0	Zero
1	1 – 49	1	1 – 50
2	50 – 749	2	51 – 750
3	750 – 2,499	3	751 – 2,500
4	2,500 – 4,999	4	2,501 – 5,000
5	5,000 – 9,999	5	5,001 – 10,000
6	10,000 – 19,999	6	10,001 – 20,000
7	20,000 – 29,999	7	20,001 – 30,000
8	30,000 – 39,999	8	30,001 – 40,000
9	40,000 – 49,999	9	40,001 – 50,000
10	Over 50,000	10	50,001 – 75,000
		11	75,001 – 100,000
		12	100,001 – 125,000
		13	125,001 – 150,000
		14	150,001 – 175,000
		15	175,001 – 200,000
		16	Each additional batch of 25,000 clients (or part thereof) over 200,000

TABLE 10 - PROPOSED LEVY RATES FOR THE 3-YEAR FUNDING CYCLE COMMENCING 1 AUGUST 2022/2023/2024 (PROPOSAL A:2)

Band	Number of eligible clients	August 2022 to July 2025 Not subject to "CAR"	August 2022 to July 2025 Subject to "CAR"
0	Zero	€5,400	€5,400
1	1 – 50	€20,000	€22,000
2	51 – 750	€30,000	€33,000
3	751 – 2,500	€60,000	€66,000
4	2,501 – 5,000	€100,000	€110,000
5	5,001 – 10,000	€140,000	€154,000
6	10,001 – 20,000	€180,000	€198,000
7	20,001 – 30,000	**€219,000**	**€240,900**
8	30,001 – 40,000	**€256,100**	**€281,700**
9	40,001 – 50,000	**€290,400**	**€319,400**
10	50,001 – 75,000	**€364,400**	**€400,650**
11	75,001 – 100,000	**€423,650**	**€465,650**
12	100,001 – 125,000	**€467,400**	**€513,650**
13	125,001 – 150,000	**€496,900**	**€546,150**
14	150,001 – 175,000	**€514,900**	**€566,150**
15	175,001 – 200,000	**€524,900**	**€577,150**
16	Each additional batch of 25,000 clients (or part thereof) over 200,000	Band 15 rate **plus** €10,000 per batch of 25,000 (or part thereof) above 200,000 clients	Band 15 rate **plus** €11,000 per batch of 25,000 (or part thereof) above 200,000 clients

73 Table 11 below sets out the projected Fund Reserve levels for Fund A under proposal A:2.

TABLE 11 - FUND A: PROJECTED CASCADE CAPACITY UNDER FUNDING PROPOSAL A:2

Year	Levies	Fund Reserve	Excess Loss Insurance	Credit Facility	Fund A Cascade Capacity
2021*	€19.828mn	€56.643mn	€100.000mn	€30.000mn	€186.643mn
2022	€4.673mn	€59.606mn	€100.000mn	€30.000mn	€189.606mn
2023	€5.108mn	€63.256mn	€155.000mn		€218.256mn
2024	€5.067mn	€66.837mn	€155.000mn		€221.837mn
2025	€5.026mn	€70.377mn	€155.000mn		€225.377mn

*** reference made to actual year-end fund reserve**

74 Table 12 below sets out a comparison of the levy rates for each band under proposal A:1 and A:2.

Table 12 - Fund A: Comparison of Levy Rates in Proposal A:1 against Proposal A:2 for The 3-year funding cycle commencing 1 August 2022/2023/2024

Proposal A:1				Proposal A:2			
Band	**No. of eligible clients**	**Not subject to CAR**	**Subject to CAR**	**Band**	**No. of eligible clients**	**Not subject to CAR**	**Subject to CAR**
0	Zero	€5,400	€5,400	0	Zero	€5,400	€5,400
1	1 – 49	€20,000	€22,000	1	1 – 50	€20,000	€22,000
2	50 – 749	€30,000	€33,000	2	51 – 750	€30,000	€33,000
3	750 – 2,499	€60,000	€66,000	3	751 – 2,500	€60,000	€66,000
4	2,500 – 4,999	€100,000	€110,000	4	2,501 – 5,000	€100,000	€110,000
5	5,000 – 9,999	€140,000	€154,000	5	5,001 – 10,000	€140,000	€154,000
6	10,000 – 19,999	€180,000	€198,000	6	10,001 – 20,000	€180,000	€198,000
7	20,000 – 29,999	€220,000	€242,000	7	20,001 – 30,000	€219,000	€240,900
8	30,000 – 39,999	€260,000	€286,000	8	30,001 – 40,000	€256,100	€281,700
9	40,000 – 49,999	€300,000	€330,000	9	40,001 – 50,000	€290,400	€319,400
10	50,000 – 75,000	€340,000	€374,000	10	50,001 – 75,000	€364,400	€400,650
11	Over 75,000	Band 10 rate **plus** €25,000 per batch of 25,000 (or part thereof) above 75,000 clients	Band 10 rate **plus** €27,500 per batch of 25,000 (or part thereof) above 75,000 clients	11	75,001 – 100,000	€423,650	€465,650
				12	100,001 – 125,000	€467,400	€513,650
				13	125,001 – 150,000	€496,900	€546,150
				14	150,001 – 175,000	€514,900	€566,150
				15	175,001 – 200,000	€524,900	€577,150
				16	Each additional batch of 25,000 clients (or part thereof) over 200,000	Band 15 rate **plus** €10,000 per batch of 25,000 (or part thereof) above 200,000 clients	Band 15 rate **plus** €11,000 per batch of 25,000 (or part thereof) above 200,000 clients

Q11. Do you support the implementation of Proposal A:1 or Proposal A:2 in their current form? Please state your reasons and support any alternative proposals with appropriate calculations.

6 Fund B - Funding criteria and proposal

75 During the 2016 Funding Consultation process, the Board implemented a change to the established process of consulting on, and agreeing, Fund B levy rates over a 3-year cycle. With regard to Fund B, the Board extended the consultation to a 6-yearly cycle, with an interim review in year 3, in the absence of any material failure or other change to the cascade capacity.

Other circumstances that could arise which may necessitate a full consultation, rather than an interim review, include:

- a failure(s),
- the withdrawal of excess of loss insurance cover;
- significant changes to the structure of the market, and/or,
- significant legislative change.

76 With effect from 1 August 2018, the Board having considered the level of Fund B reserves, notified participant firms that the annual levy for Fund B firms would be set at a level that would meet operating costs only, with no material addition to the reserves. The net effect of this decision for Fund B participant firms was a 50% reduction in the annual levy, commencing with the funding year 1 August 2018 to 31 July 2019.

77 In 2019, the Board was satisfied that no circumstance had arisen which would have required a full consultation to be undertaken. The Board therefore undertook an interim review of the appropriateness of the Fund B arrangements.

78 The Board is satisfied that the approach adopted of undertaking a full consultation on a 6-yearly cycle, with an interim review on a 3-yearly cycle remains appropriate. On that basis, the Board is undertaking a full consultation on funding proposals for Fund B as part of this Funding Consultation review.

(i) Basis for levying

79 The Board of the ICCL believes that the use of income (total income of a firm from authorised and regulated investment and insurance business) continues to be the most appropriate basis upon which annual levies are distributed among Fund B participants.

Therefore, no amendment to the levy basis is envisaged. Table 13 below sets out the existing level structure and rates for Fund B participants.

TABLE 13 - FUND B: EXISTING LEVY BAND AND RATE STRUCTURES FOR THE FUNDING YEAR COMMENCING 1 AUGUST 2021

Level	Existing income band structure	Total Rate
1	€0 - €150,000	€100
2	€150,001 - €400,000	€200
3	€400,001 – €700,000	€270
4	€700,001 - €1.5m	€500
5	€1,500,001 - €3m	€900
6	€3,000,001 - €6m	€1,600
7	€6,000,001 - €15m	€6,500
8	€15,000,001 - €25m	€10,500
9	> €25,000,000	€13,000

(ii) Band structure

80 As the current band structure has been broadly supported by participants, the ICCL considers that changes to the current band structure are not required.

(iii) Fund Reserve level

81 Fund B compensation experience is quite different from Fund A experience. The frequency and impact of compensation events to date has been significantly less. Therefore, after a prolonged period of ex-ante levies reserve building and the strengthening of the Fund B cascade model and mix, the ICCL Board, after careful consideration, believes that the €35mn target for the Fund B cascade model remains appropriate and should be retained.

82 The Board has determined that the target should continue to be comprised of ex-ante levies of €25mn and €10mn excess of loss insurance indemnity. It is therefore not considered necessary to continue building the underlying ex-ante levy reserves of Fund B as the target has already been achieved. The Board is proposing to keep levies at a rate which will at least maintain the Fund B cascade capacity at €35mn.

(iv) Rate structure

83 The ICCL has reviewed the rate structures seeking to ensure that they continue to provide an appropriate level of proportionality between bands and ensure that any changes between the bands do not create an unreasonable burden for a firm.

84 On the basis that the Fund B target levels are already achieved, participant firms' levies will predominantly seek to recoup Fund B's share of the projected administrative costs of operating the Scheme. No changes are proposed to the current levy rates.

85 Table 14 on page 42 sets out the ICCL's proposal for consideration. The objective of proposal B:1 is to meet the administrative costs of operating Fund B while maintaining Fund Reserves of circa €25mn annually through July 2025. B:1 does not propose any change to the existing annual rates or income bands.

The assumptions underlying the above projections are:

- No significant new failures arise;
- Continuing ability to renew the excess of loss insurance on broadly the same terms at a €10mn indemnity;
- An aggregate reduction in the number of authorised firms of 5% over the 3 years, split equally across each of the levy bands is experienced;
- Operating costs allocated to Fund B to remain relatively consistent between circa €0.7mn and €0.8mn per annum;
- The ICCL recognises the potential for interest rates to change during the course of the 3-year funding cycle, however, the timing, quantum and direction of any change remains uncertain. On this basis, no interest income or interest charge on reserves has been included in projections;
- Bad debts are not experienced at a material level;

- Participant firms that pay by direct debit or subscribe to e-invoicing will receive a levy reduction of 5% per annum, subject to a cap of €25;
- Participant firms that pay by direct debit and subscribe to e-invoicing will receive a levy reduction of 10% per annum, subject to a cap of €50.

Q12. Do you believe the assumptions set out in paragraph 85 are reasonable? – Please state your reasons.

PROPOSAL B:1

Proposal B:1 – Maintain fund reserves at, or above, €25mn on an on-going basis;
Funding principally to cover the administrative costs of operating the Fund;
Levy rates to remain unchanged from year ending 31 July 2022.

TABLE 14 - FUND B: PROPOSED LEVY RATES FOR THE 3-YEAR FUNDING CYCLE COMMENCING 1 AUGUST 2022/2023/2024 (PROPOSAL B:1)

Level	Existing income band structure	Existing Rate 01/08/2021	Proposed Rate 01/08/2022	Proposed Rate 01/08/2023	Proposed Rate 01/08/2024
1	€0 - €150,000	€100	€100	€100	€100
2	€150,001 - €400,000	€200	€200	€200	€200
3	€400,001 – €700,000	€270	€270	€270	€270
4	€700,001 - €1.5m	€500	€500	€500	€500
5	€1,500,001 - €3m	€900	€900	€900	€900
6	€3,000,001 - €6m	€1,600	€1,600	€1,600	€1,600
7	€6,000,001 - €15m	€6,500	€6,500	€6,500	€6,500
8	€15,000,001 - €25m	€10,500	€10,500	€10,500	€10,500
9	> €25,000,000	€13,000	€13,000	€13,000	€13,000

Q13. Do you support the implementation of Proposal B:1 in its current form?

86 Table 15 below sets out the projected Fund Reserve levels for Fund B under proposal B:1.

TABLE 15 - FUND B: PROJECTED CASCADE CAPACITY LEVELS UNDER FUNDING PROPOSAL B:1

Year	Levies	Fund Reserve	Excess Loss Insurance	Fund B Capacity
2021*	€0.771mn	€25.861mn	€10.000mn	€35.861mn
2022	€0.726mn	€25.817mn	€10.000mn	€35.817mn
2023	€0.716mn	€25.763mn	€10.000mn	€35.763mn
2024	€0.705mn	€25.687mn	€10.000mn	€35.687mn
2025	€0.694mn	€25.618mn	€10.000mn	€35.618mn

*** reference made to actual year-end fund reserves**

7 Submissions sought

87 The Board of the ICCL invites participants to consider the contents of this paper and to respond, to the issues and proposals set out, by ***17 December 2021*** at the latest.

In responding, participants are requested to bear in mind the statutory responsibilities which are imposed upon the ICCL by the Investor Compensation Directive and the Investor Compensation Act.

Accordingly, the Board of the ICCL will only be in a position to give serious consideration to suggestions and proposals that will not compromise its ability to operate a viable pre-funded Scheme in accordance with its statutory obligations.

88 Please make your submission electronically as a pdf document by email, on or before ***17 December 2021***.

Submissions should be marked "Funding Consultation 2022-2025" and sent by email to info@investorcompensation.ie .

When addressing the questions raised in this Consultation Paper, please identify the question number you are referring to and clearly set out the basis for your views.

89 It is the policy of the ICCL to publish all responses to its consultations on the ICCL website (www.investorcompensation.ie). As all responses will be made available on the ICCL website, commercially confidential information should not be included in consultation responses.

8 Proposed timelines

90 The ICCL will consider all submissions and representations received and decide upon any changes put forward that it believes are appropriate to the manner in which the Scheme is operated and any alterations to the funding structures.

91 As a number of issues relating to the funding of the Scheme have an impact on other organisations, it may only be possible to implement certain changes with the co-operation and/or agreement of these parties.

92 The Board intends to complete the consultation element of the review of its funding arrangements by March 2022 and to commence the process of preparing a revised funding arrangements document. Subsequently, the revised funding arrangements will be drafted for approval by the ICCL Board. In these circumstances, it is planned to publish new funding arrangements by 31 May 2022. These arrangements will take effect from 1 August 2022.

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