



The Investor Compensation Company DAC

**Funding Arrangements of the Investor
Compensation Scheme**

August 2022 to July 2025

Issue date 18 May 2022

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)
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

Contents

1	Introduction	5
	1.1. Background	5
	1.2. Related documents	6
2	Fund Specific Information	7
	2.1. Fund A.....	7
	2.2. Fund B	11
3	General Information for all Firms	12
	3.1. Obligation to pay a levy	12
	3.2. Authorisation Change	12
	3.3. Newly Authorised Firms.....	12
	3.4. Invoicing process.....	13
	3.5. Payment & Invoicing Methods.....	13
	3.6. Verification of self-assessed returns	14
	3.7. Non-compliance	14
	3.8. Refund Policy	15
	3.9. Revocation of Authorisation.....	16
	3.10. A branch of an Irish authorised investment firm joining the Investor Compensation Scheme of a Host Member State.....	16
	3.11. A Branch of a 3 rd Country Investment Firm or Credit Institution joining the Irish Investor Compensation Scheme	17
4	Appendices	18
	4.1. Appendix 1 – Funding of Compensation Payments – Cascade Model	18
	4.2. Appendix 2 – Description of Funds and Participant Firm Categories.....	28

List of Tables

Table No.	Table Name	Page No.
TABLE 1	FUND A: LEVY RATES FOR THE FUNDING YEARS 1 AUGUST 2022 TO 31 JULY 2025	9
TABLE 2	FUND B: LEVY RATES FOR THE FUNDING YEARS 1 AUGUST 2022 TO 31 JULY 2025	11
TABLE 3	FUND A: PROJECTED FUND RESERVES AND CASCADE CAPACITY LEVELS	22
TABLE 4	FUND B: PROJECTED FUND RESERVES AND CASCADE CAPACITY LEVELS	24

List of Charts

Chart No.	Chart Name	Page No.
CHART 1	FUND A: FORECAST FUND A CASCADE CAPACITY AT 31 JULY 2022	19
CHART 2	FUND A: FORECAST FUND A CASCADE CAPACITY AT 31 JULY 2025	21
CHART 3	FUND B: FORECAST FUND B CASCADE CAPACITY AT 31 JULY 2025	23

1 Introduction

1.1. Background

In October 2021, 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 2022 to 31 July 2025. All participating firms are authorised by the Bank or their respective Approved Professional Bodies to provide investment business services.

Two submissions were received within the specified timeline:- one from a Representative Body of a large proportion of Fund B firms, and one from a Fund A participant firm. Each submission received was considered by the Board of the ICCL ["the Board"] in the course of the development of the Funding Arrangements for the next three years. The ICCL has responded directly to each respondent and the submissions and related responses are published on the ICCL's website.

The ICCL remains alert to the changing environment within which participant firms operate. In particular, and for the purposes of this triennial funding review, certain economic effects arising as pandemic-related restrictions ease, ongoing advancements in financial technology and, consumer behaviour changes were considered when devising the latest funding plans. 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, as is required under investor compensation legislation.

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 multiple sources of funding (See Appendix 4.1 below).

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 2022 to 31 July 2025. Specific details are provided in section 2 of this document for Fund A and Fund B firms. In the consultation document issued in October 2021, 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:1 for Fund A, and, proposal B:1 for Fund B.

The implementation of proposal A:1 for Fund A firms will result in no change for the vast majority of Fund A firms. A limited number of Fund A firms that were previously in Band 10 (over 50,000 eligible clients) will have a revised band structure and levy rates applied to them with effect from 1 August 2022. The changes to the band structure above Band 10 will better align the quantum of levy with the number of clients, as occurs for firms below Band 10.

Further detail is set out in section 2.1.5.

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 first introduced from 1 August 2018. This levy is primarily to meet the operational costs of Fund B rather than add to existing reserves, which are considered as adequate to meet the foreseeable needs of the Scheme for this category of firms.

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 2021*

1.2.2. *Eligible Client Guidance – July 2020*

These documents are available on www.investorcompensation.ie

2 Fund Specific Information

2.1. Fund A

2.1.1. Levy types

With effect from 1 March 2020, the ICCL has 3 levies that may be payable by a Fund A firm, dependant on circumstances:

- 2.1.1.1. The annual levy, which is applicable to all Fund A participant firms;
- 2.1.1.2. An ex-post¹ levy or “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;
- 2.1.1.3. The Risk Equalisation Levy² (REL) to address situations where the quantum of assets covered by the ICS and the ICCL Cascade Model would be significantly increased following the transfer of a book of business to an existing investment firm or any transfer, restructuring or other arrangement leading to such an increase³.

2.1.2. Basis of Assessment

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

- 2.1.2.1. Whether the firm is subject to the Bank’s Client Asset Requirements [“CAR”];
- 2.1.2.2. Its number of eligible clients. (Guidance in relation to the assessment of eligible clients is 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 requirements 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.

¹ Ex-post means “after the event” or funded on an actual cost basis

² <https://www.investorcompensation.ie/publications/funding-publications.259.html>

³ The ICCL is not implementing any changes to the REL at this time. The REL will be reviewed following the implementation of these Funding Arrangements from 1 August 2022.

The ICCL may engage with the Bank to confirm 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)

2.1.3. 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.)

2.1.4. Levy Band Structure

The eligible client ranges, which determine the levy rates applicable to Fund A firms, have proved effective and have 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 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 implementing the revised band structure for firms with in excess of 50,000 eligible clients, as set out in Proposal A1 of the Funding Consultation Process. This will better align the quantum of levy with the number of clients, as occurs for firms with client numbers below 50,000. (Refer to table 1 for more details)

2.1.5. Levy Rates

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

Important Note:

Firms are requested to note the following changes from the April 2019 Funding Arrangements when self-assessing their levy and submitting the necessary annual return to the ICCL:

- *There is a new band and levy structure for firms in Band 10 and above;*
- *In August 2022, 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: LEVY RATES FOR THE 3-YEAR FUNDING CYCLE COMMENCING
1 AUGUST 2022/2023/2024**

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 – 74,999	€340,000	€374,000
NOTE	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
FOR THE PURPOSE OF CLARIFICATION, ILLUSTRATIVE DETAILS FOR THE NEXT 10 BANDS ARE SET OUT BELOW			
11	75,000 – 99,999	€365,000	€401,500
12	100,000 – 124,999	€390,000	€429,000
13	125,000 – 149,999	€415,000	€456,500
14	150,000 – 174,999	€440,000	€484,000
15	175,000 – 199,999	€465,000	€511,500
16	200,000 – 224,999	€490,000	€539,000
17	225,000 – 249,999	€515,000	€566,500
18	250,000 – 274,999	€540,000	€594,000
19	275,000 – 299,999	€565,000	€621,500
20	300,000 – 324,999	€590,000	€649,000

2.1.6. 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 2 below. Participants will note that these rates are unchanged from the significantly reduced rates which were introduced on 1 August 2018.

TABLE 2 - FUND B: BAND AND LEVY RATE STRUCTURE

FOR THE 3-YEAR FUNDING CYCLE COMMENCING 1 AUGUST 2022/2023/2024

Level	Income band structure	August 2022 to July 2023	August 2023 to July 2024	August 2024 to July 2025
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 2022 to 31 July 2025 are specified in Tables 1 and 2 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 reported by the ICCL to the Bank. The ICCL has taken 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 2.1.6) 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 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 using the appropriate base.

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). The ICCL is transitioning to electronic invoicing for all participant firms that have provided an email address to their supervisory authority with effect from 1 August 2022. The ICCL will utilise the relevant email addresses, as supplied by participant firms to the relevant supervisory authorities. However, if the participant has not provided an email address to the relevant supervisory authority, the invoice and other associated correspondence will issue in hardcopy format to the principal business address as registered by the Supervisory Authority for the participant firm.

The preferred issuing method is email and a **discount** will be applied 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 discounts 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 elects before 1 August each year to pay by single direct debit, an annual discount equivalent to the lower of 5% of the gross annual levy or €25 will be automatically applied to the invoice.

As set-out in section 3.4 above, the ICCL is transitioning to electronic invoicing for all participant firms. It is the responsibility of the firm to ensure that the correct email address is provided to the relevant supervisory authority at all times.

Where a participant firm has provided an email address to the supervisory authority, an annual discount equivalent to the lower of 5% of the gross annual levy or €25 will be automatically applied to the invoice.

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 (ICCL Return 1), the ICCL will also engage with Fund A firms during the year in relation to two other returns:

- ICCL Return 2: Theoretical Maximum 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 Return 3: 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

The Act provides that the ICCL can apply interest at a rate of 1.25% per month 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 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 may be published in relevant publications, notified to the Bank and published on the ICCL website.

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 43(7) 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 by the Bank 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 full 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

In circumstances where two participant firms merge during a funding year, the pro-rata refund policy will not apply.

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 Investor Compensation Directive (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 **must** inform the ICCL in advance.

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 applicable to the third country branch for the supplementary cover provided by the Scheme.

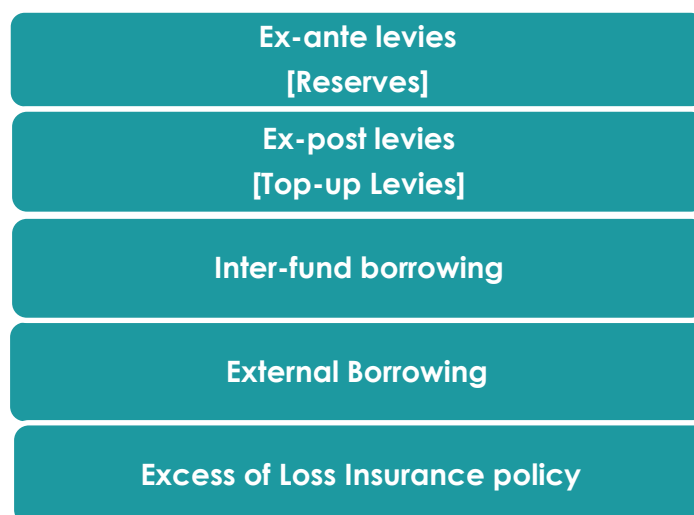
In such circumstances where a 3rd Country Branch has been required by the Bank to join the ICCL operated Scheme, the ICCL can only, in accordance with the provisions of section 29A of the Act, make compensation payments to the eligible clients of the 3rd Country Branch that have entrusted money or investment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

The 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;
- 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.

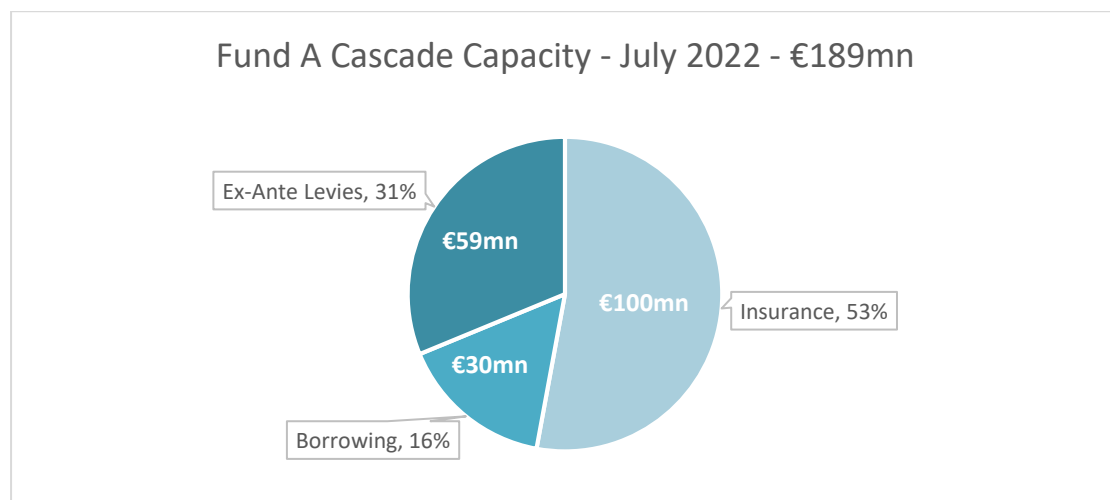
Fund A

The composition and capacity of the cascade model for Fund A is informed by the past proposal in the ICSD to amend the funding criteria for each EU National Investor Compensation Scheme ["EU ICS"], having considered its own circumstances. The core considerations being:

- 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.

The forecast mix and capacity of Fund A as at July 2022 is detailed in the diagram below.

CHART 1 – FORECAST FUND A CASCADE CAPACITY AT 31 JULY 2022



Forecast Cascade Capacity

The ICCL has estimated on the basis of the value of monies and investment instruments held, administered or managed on behalf of retail investors by Fund A MiFID firms that funding of up to **€250m** could be required during the three year lifecycle of these funding arrangements. However, as the value of monies and investment instruments held, administered or managed on behalf of retail investors by Fund A MiFID firms is subject to change arising from a number of factors, the ICCL will monitor the target throughout the funding cycle to 2025 and consider necessary adjustments required to the alternative funding capacity.

Cascade Mix

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, up or down, as a consequence of temporary changes in asset valuations. The timing of all events cannot be perfectly aligned, resulting in temporary differences between the actual and target capacity of the Cascade model and/or its constituent elements.

The ICCL has considered the aggregate data available to it from the "ICCL Return 2" which assists the ICCL to understand the potential compensation costs that may arise from the failure of an investment firm that participates in Fund A. Arising from the consideration of this data, 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.

The ICCL has also endeavoured to ensure an adequate proportion of the cascade is maintained in ex-ante⁴ levies to ensure it is maintaining a viable compensation scheme and also meeting its statutory responsibilities under the Act.

In view of the above, the ICCL has determined that the current cascade capacity of Fund A requires 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.

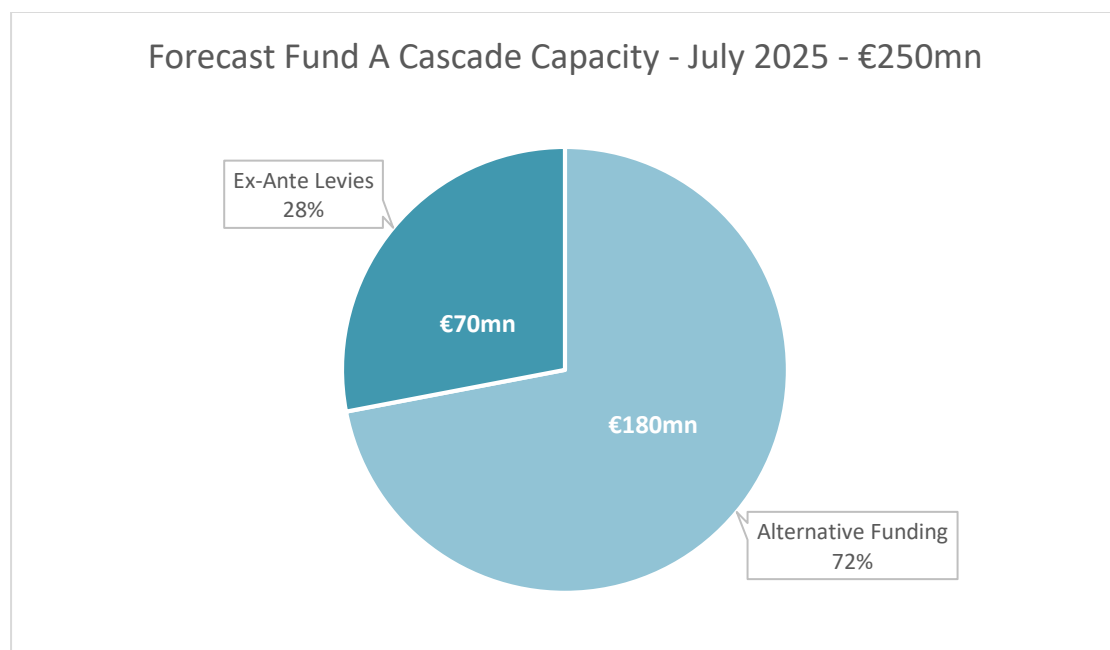
⁴ Ex-ante means "before the event" or a pre-funding approach

While the ICCL does not wish to place an over-reliance on any one component, the ICCL will continue to utilise sources 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 2025 is detailed in chart 2 below.

The mix of the target cascade capacity is based on €70 million⁵ of ex-ante reserves (which is unchanged from the proposed target outlined in the recent Funding Consultation) and potentially up to €180 million of alternative funding. The ICCL will monitor the quantum of alternative funding required throughout the lifecycle of the funding arrangements.

CHART 2 – FORECAST FUND A CASCADE CAPACITY AT 31 JULY 2025



⁵ €70 million does not include any look-back REL income that may arise, or, any new REL income that may arise.

Funding Consultation Assumptions

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

- No significant new failures arise;
- No material changes to the cost of completing the existing CHC compensation case;
- Ability to secure alternative funding sources on acceptable terms up to circa €180 million;
- No new REL-related income will arise;
- No material reduction in the net number of authorised firms is experienced annually beyond a reduction of the following number of firms:
 - 3 firms from Band Zero;
 - 1 firm across bands 1 to 4;
 - No significant consolidations beyond those envisaged in forecasting;
- Operating costs allocated to Fund A to remain relatively consistent at circa €1.5 million 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 not been included in projections;
- Bad debts are not experienced at a material level;

Table 3 below outlines the prospective levels of Fund A reserves and supplementary funding sources for the forthcoming funding cycle.

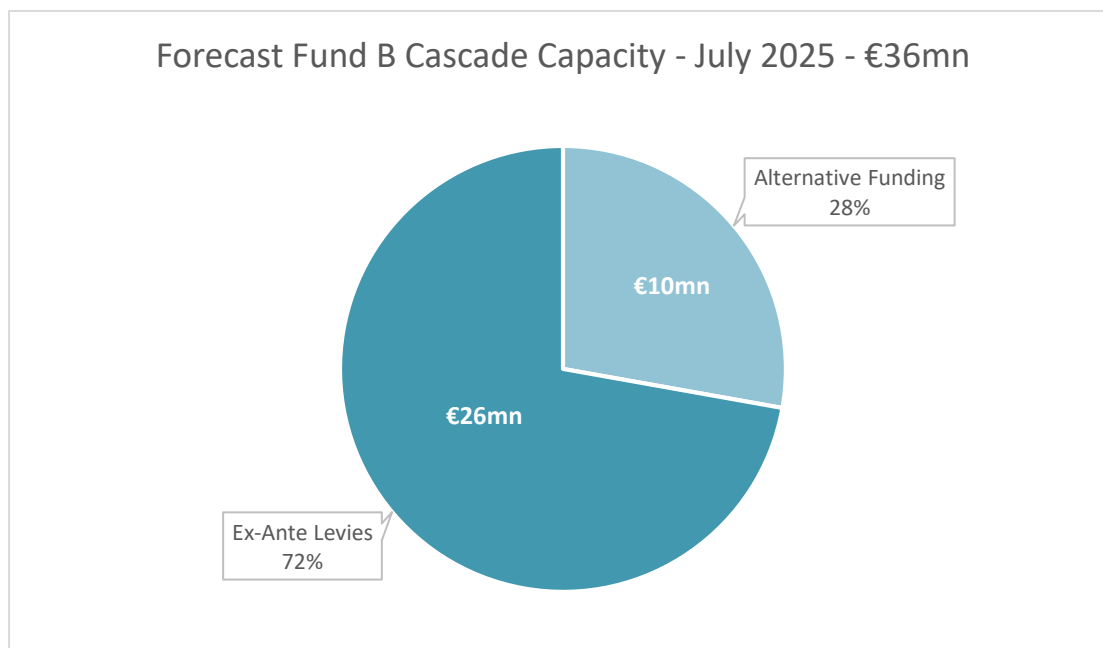
Table 3 - Fund A: Projected Fund Reserves & Capacity levels at 31 July 2025

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	€4.644mn	€59.028mn	€100.000mn	€30.000mn	€189.028mn
2023	€5.367mn	€62.823mn	€180.000mn		€242.823mn
2024	€4.878mn	€66.151mn	€180.000mn		€246.151mn
2025	€4.828mn	€69.408mn	€180.000mn		€249.408mn

* reference made to actual year-end fund reserve

Fund B

CHART 3 – FORECAST FUND B CASCADE CAPACITY AT 31 JULY 2025



The ICCL, having had due regard to various factors, including previous claims experience, has determined that the cascade capacity of Fund B should remain unchanged at circa €35 million. This will be 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 ICCL is satisfied that there is no present need to add to reserves. On this basis, the annual levy rates for the duration of this 3-year funding cycle to July 2025 will remain 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 target being achieved). The levy rates will seek to meet only the operational costs of administering Fund B.

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

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;
- 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 €0.7 million and €0.8 million 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 not been included in projections;
- Bad debts are not experienced at a material level;
- Participant firms that pay by direct debit or use e-invoicing will receive a levy reduction of 5% per annum, subject to a €25 cap;
- Participant firms that pay by direct debit and use e-invoicing will receive a levy reduction of 10% per annum, subject to a €50 cap.

Table 4 - Fund B Projected Fund Reserves & Capacity levels

Year	Levies	Fund Reserve	Excess Loss Insurance	Fund B Capacity
2021*	€0.771mn	€25.861mn	€10.000mn	€35.861mn
2022	€0.768mn	€25.967mn	€10.000mn	€35.967mn
2023	€0.759mn	€25.961mn	€10.000mn	€35.961mn
2024	€0.754mn	€25.942mn	€10.000mn	€35.942mn
2025	€0.748mn	€25.909mn	€10.000mn	€35.909mn

* 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 alternative funding sources, 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 band 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 band 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 band 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 obligations⁶ placed upon it, the ICCL considers that a cap could only be maintained if, for example:

- The alternative funding sources continue to be placed on acceptable terms with adequate reserves in place to meet initial claims, such that the ICCL could continue to meet its statutory compensation payments on time.

⁶ 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.

Given its statutory obligations, the ICCL reserves the right to make alternative arrangements to those proposed above should the circumstances warrant it. The ICCL would seek, subject to adequate time being available, to consult with participant firms 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.

The failure of CHC which may 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 a prudent application of the Administrator's most recent estimates (These estimates have been fully provided for in the ICCL's financial accounts). Arising from a judgment of the High Court in October 2021, the certification of claims in the CHC case resumed in December 2021.

Inter-fund Borrowing

Arising from the Funding Consultation process in October 2021, there are no changes to the circumstances upon which the ICCL considers it necessary to make use of the inter-fund borrowing facility.

The following criteria will be applied:

- 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

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 ICCL determined that the cost of the options available to the ICCL were excessive.

In 2019 the ICCL re-examined external borrowing options, and, in March 2020 successfully put in place a 3-year, €30 million unsecured revolving credit facility with a local credit institution.

However, there are acknowledged difficulties for Compensation Schemes generally in gaining access to unsecured 'borrowing facilities'. The main difficulty arises as such borrowing principally arises under the extreme circumstance where compensation liabilities could not be met through a combination of ex-ante levies, ex-post levies, an Excess of Loss insurance policy and/or inter-fund borrowing.

The ICCL remains committed to 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 seek to maintain an appropriate level of borrowing in 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 Services⁷;
- AIF Managers, authorised to undertake Individual Portfolio Management Services^{8&9}.

⁷ 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.

⁸ 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.

⁹ 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

The ICCL will determine the correct fund to which a firm is required to pay a levy. This will be determined with reference to the authorisation of the firm, which 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 (principally the Bank) 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.

The Investor Compensation Company DAC
C/o The Central Bank of Ireland
North Wall Quay
Dublin 1

Telephone: (01) 244 4485
Email: info@investorcompensation.ie
Website: www.investorcompensation.ie