The Investor Compensation Company DAC

Consultation Paper

Funding the Investor Compensation Scheme

Responses are invited by 30 January 2026

Issue date 8 December 2025

List of abbreviations used in this paper

ICCL	Investor Compensation Company DAC
The Scheme / ICS	Investor Compensation Scheme
CBI	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
RER	Risk Equalisation Rule

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1 Executive Summary

(I) SCOPE AND APPROACH

1 The Investor Compensation Company DAC (ICCL) is required by the Investor Compensation Act, 1998 (No. 37 as amended) to maintain sufficient funds to meet **'reasonably foreseeable'** obligations. Aligned with its 2024-2028 Strategy, the ICCL has initiated a holistic review of funding arrangements with the objective of identifying any appropriate and/or necessary adjustments to the ICCL funding model to ensure that it remains sustainable while also being adaptable to future market developments. In this context, the ICCL has commissioned Oxera Consulting LLP (Oxera)[1] to assist with the development of an **evidence and risk-based funding model**.

The approach taken was based on an **analysis of a range of evidence** including:

- quantitative and qualitative data provided by the ICCL;
- data from the Central Bank of Ireland (CBI);
- publicly available evidence from desk-based research;
- Oxera's experience of compensation scheme funding models in other jurisdictions, and examples of good practice.

The evidence has, in turn, been used in a range of ways to inform recommendations.

2 A set of **guiding principles (economic, legal, distributional and implementation – refer to paragraph 39 of section 4 for more detail)** that can be used to evaluate different design options for the funding model were established in collaboration with ICCL. These can inform a comparison of different funding models on a like-for-like basis and are the basis for assessing which funding model is optimal and thus which **changes to the current model are appropriate**.

[1] Oxera Consulting LLP is a limited liability partnership registered in England no. OC392464

3 While there are limitations to doing so, considering **past compensation events** both in Ireland and in other jurisdictions provided useful insights. This was supplemented by considering how **forward-looking events** might be different. In particular, consideration of the **nature of future events** that might trigger ICCL compensation.

4 Data from the ICCL and CBI allowed the development of a number of **quantitative scenarios** showing the potential payouts in the event of compensation events triggered by firms (or groups of firms) of different sizes.

(II) CASCADE MODEL COMPONENTS AND TARGET CAPACITY

Fund A

5 ICCL considers that a **€200m–€300m target** capacity for Fund A is appropriate based on evidence of past compensation costs, exposure of the population of covered firms, and scenarios that may arise in the future, while striking the right balance between the guiding principles. ICCL will review the evidence and analysis on a regular basis, and if required, make necessary adjustments to the target range(s). (refer to paragraph 109 regarding on-going review)

6 The compensation events seen in the past, both in Ireland and internationally, suggest that cases tend to include some form of fraud or governance failure. This is supported by considering potential future events and, in particular, the possible circumstances under which the ICCL would be required to make compensation payments. The analysis therefore suggests that the drivers of compensatable events are idiosyncratic rather than systemic. While in principle a systemic risk can serve as a triggering event for compensation, we have yet to see large amounts of compensation being paid in such cases. The largest compensation event to date in Ireland was €11.9m,[2] and the largest identified in any European Union (EU) member state was €259.7m,[3] both significantly below the scale implied by a failure of the largest firms.

7 Noting the idiosyncratic nature of the ICCL's exposure, it is therefore more likely that individual firm failures (rather than large numbers of firm failures) would drive drawdown against the ICCL's funding capacity. Based on the scenario analysis, it is considered that a cascade capacity range of €200m–€300m would be sufficient to cover the failure of the majority of firms. This range would broadly cover liabilities arising from the default of all but the very largest firms, assuming that 60% of compensation is payable post asset recovery. For failures of firms in the first, second and third quartiles of the distribution, the cascade capacity is well placed, even in the event of 100% of compensation being payable post asset recovery[4]. Overall, for a single-firm failure, the

[2] The failure of Custom House Capital Limited resulted in compensation payments of €11.9m to 1,008 investors.

[3] The failure of Phoenix Kapitaldienst GmbH in Germany, which resulted in compensation payments of €259.7m by the German investment compensation scheme.

[4] Post asset recovery refers to the shortfall of client assets available to meet client asset claims, as at the date of the commencement of a liquidation event.

cascade capacity is well placed to cover losses of almost all firms with a small number of exceptions at the upper end of ranges. (Refer to paragraphs 59 to 109 and paragraphs 110 to 113 for more details).

RECOMMENDATION 1 – FUND A (Capacity)

ICCL is proposing to adjust how it establishes cascade capacity. Based on the analysis undertaken, ICCL considers that a €200m–€300m target Fund A capacity is appropriate. The analysis is based on evidence of past compensation costs, exposure of the population of covered firms, and scenarios that may arise in the future, while striking the right balance between the guiding principles.

8 ICCL determines that reserves in the range of €50m–€100m would satisfy these requirements with the lower bound considered a floor. The range remains aligned with the guiding principles on the basis that this level of reserve:

- would be sufficient to **cover three to six consecutive failures**, involving **up to €15m** in compensation per event, that **would not be covered by the insurance policy due to the €15m excess**;
- would allow the ICCL **to pay the insurance excess over three to six consecutive policy years** in the event of **repeated large firm failures**;
- would provide **sufficient capacity to cover a wide spectrum of scenarios** including the **simultaneous failure of multiple mid-sized firms**, or a **partial client asset loss at a large firm** should insurance cover become unavailable.

9 ICCL determines that the remaining €100m–€250m of the target cascade capacity is made up of insurance, which at present can be obtained from the market. (Refer to paragraphs 119 to 120 for more details).

RECOMMENDATION 2 – FUND A (Capacity Allocation)

ICCL is proposing a reserves target at a range of €50m–€100m within the Fund A cascade capacity target range of €200m-€300m. Specifically, ICCL is proposing that it should attain the upper-bound of the reserves range of €100m by July 2029.

ICCL is proposing an insurance target at a range of €100m–€250m within the Fund A cascade capacity target range of €200m-€300m. On the basis that ICCL is proposing to achieve the €100m upper bound of the reserves target, ICCL is proposing that the €200m of insurance would be required to attain the €300m cascade capacity.

Fund B

10 ICCL considers that the existing cascade capacity of €38m for Fund B is likely to be sufficient to absorb a wide range of failure scenarios that are reasonably foreseeable.

11 The analysis of Fund B is constrained by more limited data availability than in the case of Fund A. As a result, the conclusions drawn for Fund B are necessarily more limited in scope, and ICCL in collaboration with Oxera focussed on assessing the sufficiency of the existing cascade capacity.

12 Historical evidence on past compensation cases suggests that the failure of Fund B firms is rare, and when it does occur it is limited in scale. Since 1998, there have been five compensation cases relating to Fund B. Of these, three resulted in no compensation being paid, and the remaining two involved payouts of approximately €20,000 each. While caution is warranted when drawing conclusions from historical data, this failure rate has been observed over a 26-year period, which is nonetheless useful in demonstrating the relatively limited historical payouts.

13 The observed low failure rate is consistent with the underlying risk profile of Fund B firms, based on the nature of the activities that they are authorised to undertake. Compared with Fund A firms, Fund B firms pose a lower risk to the ICCL, as they act primarily as intermediaries involved in transmitting orders and do not hold client assets directly.

14 In light of the historical experience with Fund B compensation events and the risk profile of Fund B firms, and the limited likelihood of compensation amounts exceeding the insurance threshold, ICCL is not recommending any material change in the proportion of cascade capacity held in reserves. Fund B is also covered by an insurance policy. To date, as with Fund A, there have been no claims against this policy, although both the cost and coverage of the policy for Fund B are significantly lower than those for Fund A. ICCL is proposing to assess whether the attachment point of the existing insurance policy for Fund B could be lowered. (Refer to paragraphs 59 to 109 and paragraphs 125 to 143 for more details).

RECOMMENDATION 3 – FUND B (Capacity and Allocation)
ICCL is proposing that a €38m target Fund B capacity is adequate currently. ICCL is proposing to maintain a reserves target of €28m within the Fund B cascade capacity target of €38m. ICCL is proposing to maintain an insurance target of €10m within the Fund B cascade capacity target of €38m.

(III) LEVY APPORTIONMENT METHODOLOGY

15 The following set of principles for levy apportionment based on the overarching guiding principles have been developed as part of the review process.

- **Proportionate:** the levy should take account of firm size, avoiding undue burden on any individual firm or group of firms.
- **Risk-based:** the levy should reflect the likelihood that a firm will fail and give rise to a compensatable loss. Relevant risk factors include whether the firm holds client assets, the nature of its activities, its financial condition, its internal controls, and its governance.
- **Evidence-based:** the methodology should rely on robust, consistent and accessible data that is available across all firms that are subject, or may be subject, to a levy. This would ensure that the levy can be calculated practically and remain transparent and explainable.

16 These principles are then applied to a number of options for levy apportionment as follows.

- **Firm-level scale-based metrics** such as number of (eligible) clients, Assets Under Management (AUM), and revenue.
- **Funding capacity** of firms including financial indicators such as profits, cash flows or cash reserves.
- Type of **authorisation/activity undertaken/instruments**.
- Firm-level **operational risk indicators** such as capital, liquidity, operational incidents or other internal risk indicators.

17 There are limitations to many of these options. For instance, type of authorisation/activity beyond the existing delineation between Fund A and Fund B may only indirectly capture an element of risk; while it would be challenging to measure firm-level operational risk accurately. We therefore focus on firm-level scale-based drivers.

Fund A

Annual Levy Basis

18 For Fund A firms, levy bands are currently determined based on the number of eligible clients. The use of a scale-based metric provides a strong basis for ensuring proportionality, as scale typically correlates with a firm's funding capacity. The scale of the firm is also likely to correlate with the potential exposure faced by the ICCL in the event of failure. There is also an extra layer of risk sensitivity through a supplementary levy for firms that are subject to the CBI's CAR. That said, the data shows that the relationship between potential exposure and the levy paid weakens at the upper end of the distribution; the largest firms create significantly higher potential exposures without a proportionate increase in the levy paid. This suggests a degree of flattening **(taper)** in the levy structure for the largest firms, potentially limiting the extent to which the current approach fully captures fund exposure risk for the largest firms.

19 There is also scope to introduce a direct measure of exposure into the banding structure to link levy rates to a more direct measure of risk (**hybrid basis of assessment**). Practically, doing so requires timing changes to Return 2 data collection. Specifically, it would be necessary to collect information on the theoretical maximum exposure of Fund A firms measured over time rather than at a single point in time. It is recommended that quarterly data points would be used. An exposure metric for levy purposes would be calculated for each firm using an average of the four quarters.

20 ICCL is proposing to transition to the hybrid basis of assessment model which uses both eligible client numbers and a direct measure of exposure. However, it will take a number of funding periods to be in a position to implement the hybrid basis of assessment. Accordingly, the ICCL is proposing to implement a taper adjustment to the eligible client numbers basis of assessment at Band 11 and above, with effect from 1 August 2026, and, subject to the successful collection of the specified data, to remove the taper adjustment from 1 August 2028 and replace it with the hybrid basis of assessment. (Refer to paragraphs 146 to 157 and paragraphs 158 to 173 for more details).

RECOMMENDATION 4 – FUND A (Taper reduction)

ICCL is proposing to address the identified weakening relationship between potential exposure and the levy paid at the bands for firms with greater than 75,000 eligible clients (Band 11+) by adjusting the relevant levy rates. The adjustment would introduce a steeper progression by increasing the levy increment amount for bands 11 and above by a set percentage (20%). This adjustment would reduce the observed tapering effect for the largest firms without eliminating it entirely.

21 ICCL recognises that the introduction of a direct measure of exposure would represent a more fundamental change. This is a preferable approach as it more directly aligns levy rates to measures of risk. However, the introduction of an exposure-based approach requires sufficient data and a measured approach to ensure no adverse volatility or unpredictability arises for the ICCL or firms in the annual levy amounts. In practical terms, this would involve adopting a hybrid banding approach whereby firms are banded according to the number of eligible clients, and separately by the level of theoretical exposure (e.g. as reported in Return 2). The total levy that each firm pays would be broken down into two elements, and the relative weighting between the number of eligible clients and exposure would be selected by ICCL and could be changed over time (i.e. such that, in the initial years, the relative weighting for the 'exposure' element would be small in order to phase it in over time). (Refer to paragraphs 158 to 173 for more details).

RECOMMENDATION 5 – FUND A (Return 2)

To support the introduction of a direct measure of exposure into the banding structure, ICCL is proposing to require firms to assess the existing ICCL Return 2 fields, as of each calendar quarter instead of solely at the calendar year end. ICCL is proposing that ICCL Return 2 (containing each quarters data) would only be submitted once per year. ICCL is proposing to commence collecting this data with effect from the calendar year 1 January 2027 – 31 December 2027 (i.e. the first Return 2 containing four calendar year quarters would be made up to 31 December 2027 and submitted to ICCL in January 2028).

RECOMMENDATION 6 – FUND A (Hybrid banding)

Subject to the successful introduction of recommendation 5 as set out earlier, the ICCL is proposing to introduce a hybrid banding approach to Fund A levies with effect from 1 August 2028. This would replace the tapered approach (recommendation 4) that would be introduced as an interim measure. ICCL is proposing to weight the annual levy requirement 90% on the existing eligible client basis, and 10% on theoretical exposure basis. ICCL would review the approach at a future date and determine whether the weighting should be modified.

Risk Equalisation Levy

22 ICCL has also considered potential changes to the RER mechanism to further align it with the proposed risk-based approach for the main funding arrangements as outlined above.

23 Arising from the proposed changes to how ICCL would calculate its target cascade capacity in the future, which incorporates a quantitative analysis of exposures, ICCL is proposing to align the calculation of RER with exposures and ICCL target cash reserves. ICCL is proposing a threshold with an associated credit applying before the RER results in a levy obligation; an option to elect to pay in four instalments; and, an annual levy relief would apply to align as necessary with other proposed changes to levy apportionment. (Refer to paragraphs 174 to 185 for more details).

RECOMMENDATION 7 – FUND A (RER link to exposure)

ICCL is proposing to **establish a new RER formula** for Fund A firms to replace covered assets with exposure values, as set out below.

$$RER = Target\ cash\ reserves * \frac{Firm\ additional\ exposure - Threshold}{ICCL\ Total\ Fund\ A\ exposure}$$

ICCL is also proposing to apply a threshold at which an RER levy obligation is triggered at €1,000m based on firm additional exposure values.

Fund B

Annual Levy Basis

24 As noted above, precise recommendations for the size and structure of Fund B are more challenging. ICCL would like to explore whether it would be appropriate at a future point to assess Fund B capacity using a broadly equivalent approach as has been applied to Fund A. In considering such an approach in the future, ICCL is seeking to explore the feasibility of the collection of additional data points on the number of eligible clients initially. The adoption

of such an approach would enable ICCL to more directly match levy rates with a measure of risk. (Refer to paragraphs 186 to 187 for more details).

RECOMMENDATION 8 – FUND B (Data collection)

ICCL is seeking views from Fund B participants on the feasibility of collecting eligible client numbers from all Fund B firms initially to facilitate the estimation of an outer bound of exposure for Fund B.

25 ICCL is proposing to continue using the Fund B levy bands based on firm income, and to levy an amount that is sufficient to cover ongoing operational costs net of forecast investment income. ICCL has included indicative levy rates based on current forecasts as set out in table 7.4[5]. (Refer to paragraphs 189 to 192 for more details).

RECOMMENDATION 9 – FUND B (Levy requirement and apportionment basis)

ICCL is not proposing to make any change to the existing levy banding approach to Fund B levies.

ICCL is proposing to align the annual levy requirement for Fund B firms as closely as possible with the ongoing operational costs for Fund B.

[5] The indicative reduction in levy rates is based on forecasts. Circumstances which could alter the indicative levy rates set out in this document include an unforeseen failure case with associated compensation liabilities, changes to ICCL's operational cost base and changes in the underlying population of participant firms (both quantum and levy bands at which firms are assessed)

2 Objective

26 This consultation has three aims which are:

- to provide all stakeholders with an update in relation to the progress with funding since the 2022 review.
- to update all stakeholders, in particular participant firms on proposed changes to ICCL's funding model derived from a strategic review of funding, developed in collaboration with expert economic consultants, seeking to ensure the sustainability of the funding model into the future.
- to elicit evidence-based inputs from all stakeholders, in particular participant firms 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 2026 to July 2029), as proposed by The Investor Compensation Company DAC ('ICCL').

27 The paper outlines and seeks views from all stakeholders on a range of matters pertinent to the effective funding of the ICS.

The stated principal objectives of the ICCL are:

- to operate a financially sound scheme such that it can provide statutory levels of compensation to eligible investors of failed investment firms.
- to set up and maintain funds out of which it can pay compensation and its costs, under the Act.
- to set up and maintain a structure that it can use to pay compensation to investors of failed investment firms, under the Act.

28 This paper is of relevance to all stakeholders and will be of particular interest to current and prospective credit institutions, MiFID investment firms, some UCITS and AIFM firms [6], investment intermediaries, insurance intermediaries and investment firms subject to the Approved Professional Bodies regime ('APB').

This paper may also be of interest to financial services consumer interest groups and financial services representative bodies.

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

3 Introduction

29 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[7] basis, to meet any reasonably foreseeable obligations that may arise under the Act.

30 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').

31 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.

32 The ICCL published its most recent Funding Arrangements Document in April 2022. The ICCL is satisfied with the development of ICCL's reserves over the period August 2022 to July 2025. [See paragraph 193 for more details on ICCL's reserves]

33 In March 2023, the Risk Equalisation Rule that was introduced in February 2020 was reviewed and updated following a consultation process. The RER was introduced 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 or any transfer, restructuring, transaction or other arrangement leading to such an increase.

34 This present consultation process arises following a period during which one failure event has occurred. The failure of BlackBee Investments Limited occurred in May 2023. Since the commencement of the insolvency process, the ICCL has received over 1,700 claims for compensation. To date, approximately 100 claims for compensation have been certified as experiencing no compensatable loss. The remaining claims are awaiting certification by the Joint Administrators (also the Joint Liquidators). At this time, ICCL has not been informed of any evidence that a compensatable loss will

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

arise in BlackBee Investment Limited. The ICCL is continuing to closely monitor this case for developments.

35 In advance of preparing the proposals contained in this document for the future funding of the Scheme, the ICCL determined that it would be appropriate to engage economic consultants to assist with the development of an evidence and risk-based model. In that context, the approach to funding and the proposals contained in this consultation document are designed to consider the evolving regulatory, economic and technological landscape, coupled with changing investor behaviours.

36 The analysis from the economic consultants is set out throughout this paper. Certain analysis cannot be published due to confidentiality obligations.

37 This paper provides an opportunity for participants in the Scheme to present **evidence-based** comments and observations that might be of assistance to the Board in determining what, if any, changes should be made to the way the Scheme is funded, and specifically to the proposals put forward.

38 Further details pertaining to the format and timeframe for the making of submissions to this Funding Consultation are contained in sections 8 and 9 while the recommendations and consultation questions are all included in section 10.

4 Guiding Principles and Evaluation Criteria

(I) GUIDING PRINCIPLES

39 This section outlines a set of criteria that can be used to evaluate different design options for the ICCL funding model. These can inform a comparison of different models on a like-for-like basis and are the basis for assessing which funding model is optimal and thus which changes to the current model are appropriate.

40 In practice, the selection of a funding mechanism must strike a balance between potentially conflicting criteria. This decision requires a degree of judgement regarding different trade-offs and should be supported by consideration of policy objectives and analysis of data and evidence.

41 ICCL views these criteria as sensible and consistent with its objectives and requirements, alongside consideration of national and international legal requirements, and the need for the funding model to be feasibly implemented. These best practice criteria have been arrived at following a review of relevant literature and expert experience.

Legal criteria

42 The funding model must be compatible with existing legislation. This criterion is considered as binding, rather than as part of a trade-off. Specifically, the design of the funding model considers the following two broad points.

- Meeting the **legislative obligations on ICCL**.
- Consistency with **other legal requirements**.

Economic criteria

43 The funding for the ICCL should be consistent with the aims of good economic governance of the market. As such, the following criteria are considered.

- **Minimise distortions** to competition.
- Avoid the creation of **perverse incentives**.
- **Minimise shocks to firms' cash flows**.
- **Diversify risks**.
- **Minimise the need for government support**.

Distributional criteria

44 The design of the ICCL's funding mechanism should also consider the distributional effects on the market, both to limit the impact that funding the scheme has on market participants and to ensure that the funding is reliable and sustainable over time.

- **Long-term sustainability**.
- **Reliance on multiple funding sources**.
- **Reflect firms' financial capacity**.
- **Minimise the cost of the fund**.

Implementation criteria

45 The feasibility of implementing and operating the funding mechanism for the ICCL should be considered when assessing different designs, in order to ensure that the reporting of information, payment of levies and payment of compensation is both affordably and efficiently supplied. Some criteria that are considered to achieve this are as follows.

- **Practicality of administration**.
- **Simple and transparent for firms to understand**.
- **Proportionate administration for firms**.
- **Reasonably predictable levies**.
- **Prompt payment of claims**.

(II) HOW WE USE THE GUIDING PRINCIPLES: TRADE-OFFS BETWEEN CRITERIA

46 The principles set out above indicate that, when making decisions regarding the design of the funding model, a balance must be struck between criteria that are sometimes in conflict.

47 There will be some inherent tension between certain criteria. For example, the simplicity of the funding model could conflict with creating the right incentives. This would be the case where the funding model seeks to adjust levies to account for the risk level of a firm, under the 'polluter pays' principle. This would, however, entail the provision of more data by companies, and the processing of this data by the ICCL, which would reduce the simplicity and potentially the feasibility of the funding model.

48 These principles are applied when assessing the cascade model and the recommendations in the sections on Cascade Model Analysis and Recommendations, and, Levy Apportionment.

5 Cascade Model Components

(I) INTRODUCTION

49 The ICCL operates a cascade model, whereby different sources of funds can be drawn on whenever compensation must be paid. If one funding source cannot cover the required compensation, the next source is drawn on:

- current fund reserves (built up from ex ante levies);
- ex post, or top-up, levies;
- excess of loss insurance policy;
- external credit facility or inter-fund borrowing.

50 This section describes this mechanism and highlights the benefits and drawbacks of the potential sources available through ICCL's compensation funding model drawing on the literature.[8]

(II) COMPONENTS OF THE CASCADE MODEL

Reserves and ex ante levies

51 The ICCL currently principally funds its obligations by drawing on its reserves, which are built up using ex ante levies on firms. The ICCL's reserves have grown over time, as levies have, on average, been higher than compensation obligations and operational costs. While the total reserves held in Fund B have plateaued in recent years, those held by Fund A have continued to grow.

Ex post levies

52 In contrast to ex-ante levies, ex-post levies are intended to recover the cost of compensation after it has been certified or paid out, and are therefore set in response to the known level of required compensation.

53 The ICCL has not made regular use of ex post levies, as the level of reserves has generally been sufficient to meet obligations in recent years. However, ex

[8] See for example Oxera (2005), 'Description and assessment of the national investor compensation schemes established in accordance with Directive 97/9/EC'; Oxera (2006), 'Funding of the Financial Services Compensation scheme'.

post levies were used in the initial years of the ICCL's operations when the level of reserves was relatively smaller, and a large compensation event occurred.

Insurance

54 Insurance can be used as an additional source of compensation funds and is particularly applicable where a rare but severe event requires a large amount of compensation to be paid, in comparison with most cases.

55 ICCL currently has the following policies in place.

For Fund A there are several policies in place, which are triggered in turn if the preceding policy's cover is exhausted. This is structured as:

- a first policy with a limit of indemnity of €50,000,000, with an excess of €15,000,000.
- a second policy with a limit of indemnity of a further €50,000,000, with an excess of €65,000,000.
- a third policy, introduced in 2023–24, of €50,000,000 with an excess of €115,000,000.
- a fourth policy, introduced in 2024-25, of €90,000,000 with an excess of €165,000,000.

56 For Fund B there is one policy, which has been in place since 2011. This is structured as follows:

- a policy with a limit of indemnity of €10,000,000, with an excess of €15,000,000.

Credit facilities

57 Finally, the ICCL also has the legal authority, subject to CBI approval, to put in place unsecured credit facilities with commercial counterparties to assist with meeting its obligations. The ICCL has previously had in place external borrowing options with credit institutions. In 2007, prior to ICCL securing insurance coverage, it put in place a €50,000,000 credit facility for ten years, and in 2020 it also entered into a three-year unsecured revolving credit facility for €30,000,000. Currently, the ICCL does not have an external credit facility in place.

58 Inter-fund (i.e. between Fund A and Fund B) borrowing is also available to the ICCL. This enables the ICCL to use reserves from one Fund to pay compensation arising from the other Fund, subject to certain criteria being met. These are: (i) that no margin rates should apply; (ii) that the amount available for borrowing should not materially affect the ability of the lending fund to meet its obligations; and (iii) that the proposed repayment timeframe should be three years.

6 Cascade Model Analysis and Recommendations

(I) INTRODUCTION

59 The Act requires the ICCL to maintain sufficient funds to meet reasonably foreseeable obligations.[9] For this purpose, the ICCL determines its total funding requirement on a triennial basis, which it implements through the cascade model. Three key elements define the cascade model:

- the capacity of the overall model;
- the mix of the components of the model;
- the timeframe for the capacity of each element to be achieved.

60 The three elements of the cascade model are determined separately for Fund A and Fund B, given the differences between the Funds in respect of the type, number and risks of the firms covered.

61 This section sets out the approach, evidence and analysis that has been used to enable ICCL to arrive at its proposals on the three elements of the cascade model for Funds A and B. Some considerations are common to both Fund A and Fund B, while others will be fund specific.

62 In addition to the **guiding principles** set out earlier in this consultation paper, a number of **evidential sources** are relevant to informing the design of the cascade model. This **multi-factor decision-making** requires consideration of several sources of information and evidence to **'triangulate'** appropriate parameters for the model in a holistic way. To reflect this, and the inherent uncertainty that exists, ranges are provided rather than point estimates.

(II) APPROACHES TO DETERMINING THE TARGET FUNDING CAPACITY

63 The guiding principles are used alongside various analyses to determine a range of appropriate funding levels. In particular, the following methods were considered.

- Funding adequacy in relation to **past compensation costs** – has the compensation scheme been able to fund compensation payments arising from claims in the past?

[9] Section 22 of the Investor Compensation Act, 1998

- Funding adequacy in relation **to future losses** – is the scheme adequately funded to provide compensation against potential future losses?
- Scenario analysis—what **loss scenarios** would result in financial difficulties for the scheme?

(III) PAST COMPENSATION COSTS

64 The ICCL has been notified of possible compensation in 11 different cases between 1998/99 and 2023/24, with six of these applying to firms participating in Fund A and five to participants in Fund B. Of these cases, three relating to Fund A and two relating to Fund B resulted in payouts to clients.[10] The total compensation payable by the ICCL, however, is overwhelmingly made up of cases relating to Fund A, from which €20.4m has been paid. By comparison, compensation paid out from Fund B has totalled €42,600.

65 The small number of cases overall, and especially those that have led to payouts, can make it challenging to draw conclusions about future obligations. However, some insights can be gained by investigating why cases arose and what drove the majority of payouts.

66 As noted above, the amounts paid out from Fund A have significantly exceeded those paid out from Fund B. This is driven in part by the fact that the firms in Fund A are responsible for managing and holding a client's assets directly, while the firms in Fund B are responsible only for the transmission of orders or funds to financial product producers or other asset managers. Furthermore, given that the scope of protection does not include mis-selling, which would be a principle risk to firms participating in Fund B that offer financial advice, the group of activities undertaken by firms in Fund B that are subject to compensation is thus narrower than those undertaken by firms in Fund A. This is reflected in the nature of the Fund B cases and the resulting compensation paid out, as follows.

67 Asset Management Trust Limited (AMT): AMT was an investment and insurance intermediary, and as such was not allowed to hold clients' assets. Upon investigation, it was found to have exceeded its contractual authority, which gave rise to the possibility of compensation from the ICCL.[11] Of 13 claims submitted, two were certified with a total of €22,596 paid out in compensation.

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[10] A fourth case relating to Irish Bank Resolution Corporation Limited also involved payment of compensation, but this was only €12,368 and the net quantum of intervention by the ICCL was €0 due to subrogated recovery.

[11] Central Bank of Ireland (2016), 'Central Bank invokes Investor Compensation Scheme regarding Asset Management Trust Limited', 29 February.

68 Andrew Casey Life & Pensions: this was an insurance broker that was expelled from the Irish Brokers' Association (IBA) following several client complaints.[12] An investigation revealed that the firm had misled clients by claiming that their funds had been invested in another company, even though the intended recipient never received the money. Overall, nine claims were submitted with only one being certified, which resulted in the maximum individual payout of €20,000.

69 In addition to these cases, the ICCL was notified of cases pertaining to Charleville Credit Union Limited, Berehaven Credit Union Limited, and Rush Credit Union Limited, although none of these cases resulted in compensation being paid.

70 Conversely, cases pertaining to firms participating in Fund A are typically much larger. This is driven by the fact that these firms are authorised to hold clients' assets, and so at the time of collapse or investigation they are likely to be holding significant client assets, as opposed to merely transmitting a flow of assets as is the case for Fund B firms. A summary of those cases that have resulted in compensation being paid is laid out in the table below.

Table 6.1 Fund A compensation cases

Company	Reason for collapse	Size of compensation
Custom House Capital Limited (CHC)[1]	The CBI found issues with the way in which CHC was operating and referred it to the court. The court investigation found that there was systematic and deliberate misuse of assets belonging to clients of CHC. CHC deliberately misled clients using false accounting entries and misleading statements to clients.	€11,897,838
W&R Morrogh Stockbrokers[2]	The firm had losses stemming from investment in derivatives in the London market, which clients had not agreed to and which was later found to be fraudulent.	€7,758,000

[12] Irish Independent (1999), 'Cork broker Casey struck off IBA list', 20 August.

Company	Reason for collapse	Size of compensation
Money Market International Stockbrokers Limited[3]	Money Markets International Ltd was forced to cease trading due to cash flow difficulties and collapsed in 1999. As a result of the company's financial difficulties it was found that they had commingled customer and company assets in order to cover deficits.	€774,422

Source: [1] Central Bank of Ireland (2020), 'Update – Custom House Capital', 13 July; The high Court (2011), 'Final Report to the High Court by Court Appointed Inspectors', 19 October. [2] Barrington, K. and Riegel, R. (2001), '£3m sale of shares as probe starts at brokers', 28 April. [3] *Irish Independent* (1998), 'Thousands hit as Bank halts firm of stockbrokers', 18 September; High court (1999), 'Re Money Markets International Stockbrokers Ltd', 20 July.

71 In addition to these cases in Ireland, it is useful to assess cases from other jurisdictions. This expands the sample size of cases, which can inform us about the likelihood of rare but high-impact events, in turn informing our analysis of appropriate fund sizes. International cases vary in the extent to which they can be directly compared—for instance, the coverage of different compensation schemes may not be identical to that of the ICCL. However, they can be instructive in informing our understanding of what a large-scale compensation event could look like. In particular, the Phoenix and Quaestor cases are an illustration of the type of large-value compensable events that have occurred, with €259.7m[13] and €256.4m[14] paid out in 2005 and 2018, respectively.

[13] This figure is based on the most recent data available in the annual accounts from the German compensation scheme (Entschädigungseinrichtung der Wertpapierhandelsunternehmen (2016), 'Tätigkeitsbericht der EdW für das Geschäftsjahr 2016', pp. 25–26). However, an earlier, slightly higher figure for total compensation (€261m) was reported by the German Ministry of Finance (BaFin—see BaFin (2014), 'Annual Report 2013', 17 June, p. 44).

[14] A total of HUF 88.8bn was paid in compensation to investors by 31 May 2020. See Befektető-védelmi Alap, 'Information on the status of the compensation procedure related to the "tree" of Quaestor Securities Zrt.', accessed 22 July. Converted to € using exchange rate as of 31 May 20202, 0.002886. See European Central Bank, 'Hungarian forint (HUF)', accessed 22 July.

(IV) FORWARD-LOOKING CONSIDERATIONS

Probability of firm failure and compensatable loss

72 Unlike for deposit-takers, the failure of the investment firm itself does not normally put the assets of firm's customers at risk and trigger claims. Client asset safe-keeping rules mean that retail investors are at risk of incurring losses in the event of default *only* if there has been an operational failure, including failure by the firm to segregate client assets properly – due to factors such as theft, fraud or other forms of fraudulent misappropriation of client assets or simply negligence or system failures that result in segregation errors.

73 It is noted that fraudulent or negligent activity may either trigger the firm failure or arise following a firm getting into financial difficulty. In other words, the failure of the firm may often be related to the fraudulent or negligent activity.

74 The table below summarises different firm default events and whether they could lead to a loss that would be covered by the ICCL.

Table 6.2 Types of event that *may* lead to compensatable loss selected examples[15]

Event description	Would this lead to compensatable loss?
Firm default—client assets segregated	No, all client assets are returned and there is no net loss
Firm default—client assets not segregated	Yes, if the client suffers a net loss that is certified by the administrator
Third-party custodian default	No, the failure of a third-party custodian is not in scope of ICCL compensation
Fraudulent activity affecting client assets	Yes, if the client suffers a net loss that is certified by the administrator
Segregation or reconciliation error affecting client assets	Yes, if the client suffers a net loss that is certified by the administrator
Settlement error affecting client assets	Yes, if the client suffers a net loss that is certified by the administrator

[15] The events and conclusions of this table are for illustrative purposes and should not be construed as a definitive conclusion on entitlement to compensation. The exact characteristics, circumstances and details of a claim for compensation must meet the conditions set out in the Investor Compensation Act, 1998 (as amended).

Event description	Would this lead to compensatable loss?
Accounting or record-keeping error affecting client assets	Yes, if the client suffers a net loss that is certified by the administrator
Cyber attack	Yes, if the client suffers a net loss that is certified by the administrator (depending on the nature of the attack)
Fall in the value of investments because of market or other economic forces	No, not in scope of ICCL compensation
Bad investment advice, poor investment management, or misrepresentation	No, not in scope of ICCL compensation
Firm default or fraud—insurance intermediary	Yes, if the premium paid by the client has not been remitted to an insurance undertaking or financial loss from the failure of the insurance intermediary to place insurance

Source: Oxera.

75 The literature identifies a number of factors which may increase the risk of fraudulent activity within financial services firms. A widely used framework is the 'fraud triangle', which highlights three core drivers; pressure, opportunity and rationalisation.[16]

- **Pressure.** In financial services, pressure can stem from aggressive performance targets, bonus-linked compensation structures, or financial distress – both at the individual and institutional level.
- **Opportunity.** Where pressures exist, and where firms have weak internal controls, a lack of supervision, inadequate segregation of duties, or insufficient audit functions, opportunities for fraud are more likely to arise.
- **Rationalisation.** The third component refers to the ways in which individuals justify unethical behaviour, often facilitated by a permissive corporate culture or a lack of ethical leadership.

76 In addition to individual-level drivers, systematic and structural factors can also contribute. For example, complex organisational hierarchies, information

[16] The term 'fraud triangle' was first coined by Donald Cressey in 'Other People's Money: A Study in the Social Psychology of Embezzlement'. Since publication in 1953, the 'fraud triangle' framework has been commonly used to assess the circumstances under which fraud can occur. See R, Cressey. (1953), 'Other People's Money: A Study in the Psychology of Embezzlement'. See also Corporate Finance Institute website, 'Fraud Triangle', accessed 7 July 2025.

asymmetries, and opaque financial instruments can obscure fraudulent activity from both internal and external scrutiny.[17] Governance failings, such as ineffective boards, weak compliance oversight, and concentrated decision-making power, has also been highlighted as a significant enabler of fraud.[18]

77 In the case of authorised firms covered by the ICCL scheme firms are expected to have governance and compliance processes and controls in place, which can help to reduce the risk of triggers or compensatable events set out above. However, in some cases these safeguards could be inadequate; different firms may have different standards of governance and internal controls. We might, for example, expect large firms to have more developed corporate governance and regulatory compliance than smaller firms. This would mean that the risk of an operational failure leading to the firm losing all of its clients' funds is less likely, even if larger firms may also hold or transfer more client assets.

78 The above suggests that a compensatable loss event may be more likely to occur in cases where a small group of individuals (or single individual) is able to make decisions about the use of funds without being sufficiently challenged (e.g. due to deficient governance processes and/or firm culture).

79 The factors noted above suggest that compensatable loss events tend to arise from **idiosyncratic factors** rather than **systemic causes** and/or **contagion** (this appears to be borne out in the real-life examples of compensatable events). However, there are some common drivers that could plausibly cause otherwise unrelated profiles to lead to compensatable loss events at a similar time.

- **Financial crises.** A financial crisis (due to external macroeconomic factors) puts many firms under financial strain at the same time. During such crises fraud, the use of client assets to make proprietary investments, or segregation errors are more likely to become exposed and/or result in bankruptcy. In addition, certain firms may become more likely to engage in fraud and misuse client assets due to the increased financial strain on the firm, including pressure on individuals within the firm.[19] However, it is noted that the ICCL scheme has been operational through multiple financial crises to date. While ICCL has observed some firm failures as a result of a financial crisis, the number and value of compensatable events has remained relatively low to date. One explanation for this is that while it may be expected for many firms to

[17] Reurink, A. (2016), 'Financial Fraud: A literature review', MPIfG Discussion Paper, No. 16/5

[18] Corporate Governance Institute, 'How corporate governance can prevent fraud and corruption'

[19] Existing studies have found that there is an observed increase in the level of fraud within firms following an economic recession. For example see Association of Certified Fraud Examiners (2009), 'Occupational Fraud: A Study of the Impact of an Economic Recession'.

face financial difficulty through period(s) of crisis, this does not mean that firms will also have systematically misused client assets such that compensation is payable by the ICCL if multiple firms fail.

- **Increased scrutiny.** If a fraud or other activity (e.g. poor segregation practice) is uncovered at one firm, there may be increased scrutiny from regulators or the market on all firms across the industry, leading to other similar situations being uncovered at a similar time.
- **Cyber-attacks.** The risk of cyber-attacks leading to compensatable losses across many investment firms in a similar period of time could arise if cyber criminals are successful in targeting multiple firms with the same type of cyber-attack. Cyber-attack scenarios are discussed further in the section on Forward-looking scenarios below, however ICCL note that it has not observed a systemic cyber event leading to multiple firm failures and compensation claims to date.

80 Importantly, with these examples, the underlying problems are generally independent (different firms independently deciding to engage in fraud) and it is just the final trigger that is common. This contrasts with a truly systemic situation where the failures are interlinked as with banking crises.

81 There may be other systemic issues that could plausibly affect investment firms. For instance, if firms providing similar products with similar sales practices were to become susceptible to mis-selling claims, this could result in several firms at risk of failure (as has happened previously in other jurisdictions, such as the mis-selling of PPI in the UK).[20] However, ICCL note that mis-selling is not a compensatable loss event that is covered by the ICCL scheme.

82 On balance, the analysis suggests that while systemic events could arise, the ICCL scheme is more likely to be subject to a small number of individual firm failures leading to compensatable loss at a given time, given the largely idiosyncratic nature of the risks faced by the scheme.

Value of losses and compensation payable in the case of a default

83 There are significant challenges in forecasting the actual amount of compensation that would be paid by the ICCL in the event of a firm failure. That said, it is possible to calculate the upper-bound exposure that the ICCL could face. This requires the calculation of the maximum compensatable loss in the event of a firm's failure, for all firms. The second step is to estimate any potential client asset recovery, as it is possible that a failed firm will be able to return some proportion of clients' assets. ICCL has considered each in turn.

[20] For example see Oxera (2018), 'Insuring the insurers: are caravan dealers riskier than insurance brokers?'.

Compensatable loss

84 The maximum compensatable loss depends on the value of client monies and investment instruments held by each firm on behalf of eligible investors that are within compensation limits. This will, in turn, depend on the distribution of client size. For example, a firm that has a few large clients may have a smaller exposure than a firm that has many smaller clients (given the €20,000 compensation limit). The ICCL collects data on the number of clients above the threshold (although not on the precise value of assets per client). As a result, data analysis on fund exposure relates to the maximum hypothetical amount that the ICCL may pay out in a failure event.

85 The ICCL's total Fund A compensation exposure has grown over the time period since 2011/12, however this growth has been particularly rapid in the last two years.

86 Data for Fund B is more limited, as firms in the fund are not currently required to report exposure levels to the ICCL. As a result, income derived from regulated business, and the income bands used to classify firms, serve as the best proxy for firm exposure.[21]

87 A significant number of small firms (c. 1,900 of the c. 2800) are covered by the fund with a very small amount of income from regulated business, while a smaller number of firms generate over €25m per year.

Recovery of client assets

88 Following a firm failure, it is the client asset shortfall that ultimately determines the total amount of compensation that the ICCL may be required to pay. This depends on the extent to which an administrator or liquidator can locate, recover and return client assets.

89 The ICCL compensates only for net client losses certified by the administrator that is, the total loss less any recovered and returned assets by the administrator. However, asset recovery outcomes are highly case-specific and difficult to predict. In some instances, the administrator may recover all assets and return them to clients, resulting in no compensation being required

[21] Specifically, this income measure reflects firms' regulated distribution and intermediation activities relating to eligible clients. For example, in the case of an insurance intermediary that also engages in insurance underwriting, only the intermediation income would be included, while income from underwriting would be excluded. This metric indirectly captures the volume of activity that could give rise to compensatable losses. Since Fund B firms do not hold client assets, compensation risk arises primarily from the transmission of client assets rather than custody. The greater the volume of such activity, the higher the income from intermediation—and, by extension, the greater the potential exposure to the ICCL in the event of firm failure.

from the ICCL. In others, little or no recovery may be possible, obliging the ICCL to cover the full compensatable amount.[22]

90 In addition, the €20,000 compensation limit creates a discontinuity in the relationship between the asset recovery and the actual compensation payable by the ICCL as a share of the compensation pre-recovery. Put simply, the more clients with holdings above the compensation cap, and the higher the value of assets exceeding that threshold, the greater the asset recovery must be before it reduces the ICCL's compensation obligation by a given percentage. The table below illustrates this effect. For example, if an investor had €100,000 in assets, the ICCL would pay out the maximum €20,000 regardless of whether 10% or 60% of those assets are recovered by the administrator prior to the claim being certified. It is only when recoveries approach 80% that the compensatable loss falls below €20,000, leading to a reduced payout for the ICCL.

Table 6.3 Hypothetical compensatable losses under different asset recovery rates

Value of client assets	**€100,000**	**€100,000**	**€100,000**
Asset recovery percentage	10%	60%	80%
Net client loss	€90,000	€40,000	€20,000
90% compensation payout	€81,000	€36,000	€18,000
Above 20,000 threshold?	Yes	Yes	No
Compensatable loss	€20,000	€20,000	€18,000

Note: The asset recovery percentage is the hypothetical recovery attained by the administrator before the certification of claims is made. Subrogated recovery is not considered.

Source: Oxera analysis.

[22] Subrogated recovery is another element of asset recovery that affects the ICCL's final payout quantum. ICCL's working assumption is that subrogated recovery can be achieved only in exceptional circumstances and is unlikely to be a significant determining factor in the net quantum of intervention.

91 As such, and despite the difficulties in estimating or predicting asset recovery rates, this insight tells us that, even in cases of high levels of asset recovery, this may not translate into a significant reduction in ICCL's payout if a large number of clients have assets significantly above the €20,000 threshold.

(V) SCENARIO ANALYSIS

92 Scenario analysis involves designing multiple hypothetical scenarios based on ICCL data, international comparisons, and qualitative research to test 'how large a fund size is required to absorb a given failure event'.

93 By considering a wide range of scenarios, it is possible to build a robust picture of the spectrum of losses that the ICCL may face. The principles for the design of a funding model can then be applied to calibrate the target fund size (e.g. what failure events are proportionate to cover).

94 This involves first identifying a broad range of potential failure scenarios and then narrowing the focus to those that can be reasonably justified as foreseeable. These selected scenarios can then be used to bound the appropriate target fund size. It is useful to consider different types of failure that could occur in order to work towards an estimate of the target fund size—for example, whether there are low probability but high impact events, or higher probability but lower impact events.

95 A range of scenarios are considered in the following categories:

- the distribution of covered firms' exposures.
- past failure cases from other countries.
- forward-looking scenarios (e.g. cyber-attack, additional firms relocating to Ireland).
- evolution of ICCL operational costs.

The distribution of covered firms' exposure

96 The following hypothetical scenarios have been developed in order to identify a range of losses that the ICCL may face.

- 'Largest firm' scenario—what would be the impact of the firm with the largest exposure failing?
- 'Quartile' scenarios—what would be the impact of the first, second or third quartile firm failing?

- 'High volume low intensity' scenarios—what is the capacity of the scheme to withstand a surge in claims due to the failure of many small investment firms?
- 'Low volume high intensity' scenarios—what is the capacity of the scheme to absorb claims from a few large firms?
- 'Decay' scenarios—for a given firm exposure size, how many consecutive failures of this size can the ICCL fund cover?

97 These scenarios have been conducted for Fund A firms only, as potential ICCL exposure data is available only for Fund A using the Return 2 data. In certain scenarios, a 'trimmed' sample is used, which excludes the very largest firms.

98 Table 6.4 and Table 6.5 below set out the results from our quantitative scenario analysis.

Table 6.4 Hypothetical ICCL payouts: summary of scenario analysis

	Percentage of compensation payable post asset recovery		
(€ '000s)	**100%**	**60%**	**20%**
Max.	**(redacted)**	**(redacted)**	**(redacted)**
Max. (trimmed)	€370,000	€220,000	€70,000
Smallest 10 firms	€3,000	€2,000	€1,000
Smallest 15 firms	€19,000	€12,000	€4,000
Smallest 20 firms	€66,000	€40,000	€13,000
Largest 3 firms (trimmed)	€849,000	€509,000	€170,000
Largest 5 firms (trimmed)	€1,079,000	€647,000	€216,000
Largest 7 firms (trimmed)	€1,211,000	€727,000	€242,000

Note: Trimmed refers to the sample which excludes the very largest firms. The percentage of compensation payable post asset recovery is the hypothetical recovery attained by the administrator before the certification of claims is made. Subrogated recovery is not considered.

Source: Oxera analysis of ICCL Return data.

Table 6.5 Hypothetical ICCL payouts: summary of quartiles scenario analysis

	Percentage of compensation payable post asset recovery		
(€'000s)	**100%**	**60%**	**20%**
Third quartile	€54,000	€32,000	€11,000
Median	€11,000	€7,000	€2,000
First quartile	€2,000	€1,000	€300
Decay scenario – third quartile (trimmed)	€15,000	€14,000	€5,000
Decay scenario – median (trimmed)	€10,000	€6,000	€2,000
Decay scenario – first quartile (trimmed)	€1,000	€600	€200

Note: Trimmed refers to the sample which excludes the very largest firms. The percentage of compensation payable post asset recovery is the hypothetical recovery attained by the administrator before the certification of claims is made. Subrogated recovery is not considered.

Source: Oxera analysis of ICCL Return data.

99 The presentation of scenarios in this section provides a range of possible payout amounts that the ICCL may incur following the hypothetical failure events described above. It may not be reasonable to expect the ICCL's cascade capacity to fully absorb all conceivable failure scenarios. Instead, the analysis is intended to guide how the fund's capacity aligns with different types of stress event ranging from concentrated failures of large firms to widespread failures of smaller firms or successive claims over time. These scenarios can help to illustrate the types of events that the fund is well placed to cover for a given cascade capacity, as well as the nature of events that may pose a risk to the overall capacity.

Past failure cases from other countries

100 The scale and distribution of past failure cases both within the ICCL and across other ICSs can provide valuable context for the potential payouts that the ICCL may be required to make in the event of a compensation trigger. These cases illustrate scenarios where the compensation amounts have far

exceeded those seen historically in Ireland. They underscore the potential for significant financial exposure in rare but high-impact failure events.[23]

101 Three notable EU examples provide insight into the upper bounds of compensation that the ICCL may feasibly be required to cover: the collapse of the Phoenix investment firm in Germany, which resulted in €259.7m in compensation payments; and the AMIS case in Austria, where claims for €155m of losses were made by investors to the Austrian ICS. The bankruptcy of brokerage firm Quaestor in Hungary resulted in compensation of €256.4m paid out to investors.[24]

Forward-looking scenarios

102 Two forward-looking scenarios were also considered that could influence potential future payout events.

103 The first scenario is the threat of cyber-attacks, and the financial losses arising from these events. Our assessment is that the resulting level of potential compensatable claims would likely be covered by the quantitative scenarios set out above. The second is the sudden relocation of a number of eligible firms to Ireland, resulting in a significant increase in exposure. While this scenario could result in significant potential exposure of the ICCL to compensatable events, there are existing mechanisms within the ICCL funding arrangements which aim to mitigate this increased risk such as the Risk Equalisation Rule.

Evolution of ICCL operational costs

104 In addition to potential compensation payouts, the ICCL's primary ongoing expense is its operational costs.[25] The evolution of these costs, including scenarios where such costs increase over time, have been considered. Based on our analysis, by 2033–34, operational costs could be expected to reach approximately €3.2m (€2.2m for Fund A and €1.0m for Fund B). ICCL considers that the scheme should continue to collect sufficient funds through the levy to cover expected operational costs rather than seek to cover these through reserves.

105 Further detail of the ICCL forecasts for operational costs for the period 2026 to 2029 have been included paragraph 194.

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[23] For more information on past ICCL compensation cases, see page 26.

[24] A total of HUF 88.8bn was paid in compensation to investors by 31 May 2020. See Befektető-védelmi Alap, 'Information on the status of the compensation procedure related to the "tree" of Quaestor Securities Zrt.', accessed 22 July. Converted to € using exchange rate as of 31 May 2020, 0.002886. See European Central Bank, 'Hungarian forint (HUF)', accessed 22 July.

[25] These include staff, corporate, professional and information system costs, as well as banking costs, including the insurance premiums for Fund A and Fund B policies.

Conclusion from scenario analysis

106 The scenario analysis presented in the section above provides a range of hypothetical compensation claims values the ICCL could be exposed to. The range includes values which are comparable to the amounts paid out in previous cases (both by ICCL and by other comparable ICS payout events). It also includes estimates of exposure that would arise from events ICCL has not previously observed, but which could plausibly occur in future (such as several medium sized investment firms failing). However, the distribution of values is broad, encompassing estimates which are several multiples beyond even the current cascade capacity (and of a scale beyond any comparable previous cases in the EU).

107 In order to arrive at a target cascade capacity recommendation, ICCL has used the quantitative results from the scenario analysis matched with the insights from the sections on Past compensation costs and Forward-looking considerations.

(VI) DISCUSSION OF CASCADE CAPACITY

108 This section applies the guiding principles to the evidence and conceptual arguments presented above, in order to develop a recommendation on the appropriate design of the cascade model for Funds A and B.

109 The recommendations ICCL includes below are based on the evidence and analysis set out in this chapter. ICCL will keep this under review on a regular basis, as follows:

- **Internal review on an annual basis.** The evidence and analysis can be reviewed based on updated data (e.g. scenario analysis with the latest year's data, considering any new firm failure events) to ensure the approach to the cascade capacity remains appropriate. Should the analysis indicate a significantly different cascade capacity range would be warranted due to substantial year-on-year changes to the underlying evidence base, the ICCL would be able to consider whether and how to revise the target cascade capacity (e.g. through adjustments to the level of insurance cover).
- **External review at the end of the funding cycle (i.e. three years).** This review would be used to assess the overall approach to the funding of the scheme, including to the approach to the target capacity. This review would also consider whether additional metrics and datapoints can be gathered, and whether the approach to levy apportionment and the level of the levy payments remain appropriate. ICCL may include a further consultation phase following (or concurrent to) this review.

Fund A

110 The current capacity of the cascade model for Fund A as at 31 July 2025 is €331m, consisting of €91m of reserves and €240m in insurance coverage. Taking the evidence together, ICCL considers that a €200m–€300m target Fund A capacity is appropriate based on the evidence of past compensation costs, exposure of the population of covered firms, and scenarios that may arise in the future, striking the right balance between the guiding principles.

111 Within this range the ICCL will retain discretion as to the exact target cascade capacity in any given year. This approach reflects the inherently idiosyncratic nature of the key risks to the ICCL scheme, and the need to employ a degree of judgment in balancing the different objectives and guiding principles. The rationale for why ICCL considers the proposed range to be appropriate, based on the analysis, is explained in the rest of this section.

112 The compensation events seen in the past, both in Ireland and internationally suggest that cases tend to include some form of fraud or governance failures. This is supported by considering potential future events and in particular the possible circumstances under which ICCL would be required to make compensation payments. The analysis therefore suggests that the drivers of compensatable events are idiosyncratic rather than systemic. While in principle, a systemic risk can serve as a triggering event for compensation, ICCL has not observed large amounts of compensation being paid in such cases to date. The largest compensation event to date in Ireland was €11.9m,[26] and the largest in any EU member state was €259.7m,[27] both significantly below the scale implied by a failure of the largest firms. Indeed, the proposed cascade capacity range of €200m–€300m is significantly higher than the ICCL's total cumulative compensation payments since its establishment in 1998.

113 Noting the idiosyncratic nature of the risks that ICCL is exposed to, it is therefore more likely that individual firm failures (rather than large numbers of firm failures) would drive draw down against ICCL's funding capacity. Based on the scenario analysis, the €200m–€300m capacity would be sufficient to cover the failure of the majority of firms. This includes the failure of the largest firm in the trimmed sample, assuming that 60% of compensation is payable post asset recovery.[28] For failures of firms in the first, second and third quartiles of the distribution, the cascade capacity is well placed, even in the event of 100% of

[26] The failure of Custom House Capital Limited resulted in compensation payments of €11.9m to 1,008 investors.

[27] The failure of Phoenix Kapitaldienst GmbH in Germany, which resulted in compensation payments of €259.7m by the EdW.

[28] With 100% of compensation payable post asset recovery resulting in a €370m compensation amount, this would be about €70m short of the upper end of the proposed cascade capacity.

compensation being payable post asset recovery. Overall, for a single-firm failure, the cascade capacity is well placed to cover losses of almost all firms. The scenario analysis is calibrated on data of firms' hypothetical exposure estimates, to the extent this exposure was to change going forward, this would impact on the upper and lower bounds of the range.

114 As discussed in the earlier chapter on Cascade Model Component, each component of the cascade model is designed to address a different type of eventuality.

Reserves

115 Reserves serve primarily to cover the types of event observed historically, namely, small to mid-sized firm failures below €15m, which is the current insurance excess level. The level of reserves must be sufficient to allow multiple drawdowns in the event of consecutive failures, before they can be rebuilt through ex ante and/or ex post levies.

116 In the case of larger firm failures reserves would be required to meet the insurance excess, which stands at €15m in relation to any one claim or in the annual aggregate over all claims in Fund A. Reserves will also be needed in the case of the insurance coverage being exceeded.

117 Taking these considerations into account, ICCL judges that reserves in a range of €50m–€100m would satisfy these requirements and remain aligned with the guiding principles.

118 ICCL is proposing to set a reserves target at the upper-bound of the €50m-€100m range to be achieved by 2029.

Insurance

119 The insurance cover allows the fund to cover individual mid- to large-level compensation events (i.e. those above the excess, which is currently €15m) and transfers part of the risk to a third party, thereby allowing the ICCL to access significant cascade capacity without the need to collect the full amount through levies.

120 Based on historical experience, insurance coverage in the range of €100m–€250m is obtainable. When combined with reserves of €50m–€100m, this allows ICCL to meet the proposed total cascade capacity of €200m–€300m. Should the ICCL hold a lower level of insurance coverage going forward, this may require greater reserves to be held.

121 In the event that compensation obligations exceed both reserves and insurance coverage, additional cascade components remain available to the ICCL, as discussed below.

Ex post levies and credit facilities

122 Ex post levies can be a useful supplementary buffer that can be used either to meet obligations exceeding the target cascade or to replenish cascade capacity following a significant drawdown but are not considered as part of the target cascade capacity.

123 ICCL is also not proposing to include credit facilities within the target cascade capacity for the period 2026 - 2029.

124 As noted above, ICCL will subject the range to regular review to ensure that the overall cascade capacity and cascade model structure are appropriately calibrated. Two broad categories of changes that could lead to a recalibration of the bounds of the target cascade capacity range are considered.

- Significant changes to the circumstances of the fund and cascade model: these could include changes to the hypothetical exposure of the fund, or large changes to the cost of the components such as insurance cover that might motivate a restructuring of cascade capacity.
- Additional information/evidence coming to light: in particular, information that would cause a revaluation of the risk faced by ICCL. This could include, for example, an increased rate of firm failure and/or instances of ICCL drawing upon the cascade capacity (whether through reserves or insurance policy), or if there is evidence of greater levels of risk emerging across the population of covered firms.

Fund B

125 The current capacity of the cascade model for Fund B is €37.9m, consisting of €27.9m of reserves and €10m in insurance coverage.

126 Relative to Fund A, the analysis of Fund B is constrained by more limited data availability. In particular, data on the theoretical maximum exposure—collected for Fund A firms via Return 2 is not available for Fund B firms. As a result, the conclusions drawn for Fund B are necessarily more limited in scope, and the focus was on assessing the sufficiency of the existing cascade capacity. This is discussed below.

127 First, historical evidence on past compensation cases suggests that the failure of Fund B firms is rare and when it does occur it is limited in scale. As explained in the section on Past Compensation Cases, since 1998/99, there have been five compensation cases relating to Fund B. Of these, three resulted in no compensation being paid, and the remaining two involved payouts of approximately €20,000 each. While caution is warranted when drawing conclusions from historical data, it is noted that this failure rate has been observed over a 26-year period, which is nonetheless useful in demonstrating the relatively limited historical payouts.

128 The observed low failure rate is consistent with the underlying risk profile of Fund B firms, based on the nature of the activities that they are authorised to undertake. Compared with Fund A firms, Fund B firms pose a lower risk to the ICCL, as they act primarily as intermediaries involved in transmitting orders, and do not hold client assets directly.

129 For example, investment intermediaries are defined in the Investment Intermediaries Act as firms that act as 'deposit agents' or 'brokers', or that provide a service of the 'reception and transmission of orders to a product producer'.

130 ICCL has considered the data on the number of Fund B firms by levy band which is currently the closest available proxy for scale of exposure—the majority of firms (approximately 1,900 out of 2,800) reported very limited income from regulated business. In 2024/25, a small number of firms reported annual income exceeding €25m. These firms arguably represent the greatest potential risk to Fund B, given their relative size, but due to data limitations there is uncertainty regarding the actual scale of potential exposure that they pose.

131 Nonetheless, as outlined above, Fund B firms typically act as intermediaries and do not hold client assets. At any given time, it is unlikely that a significant proportion of the total flows in client assets that they handle are being transmitted and held by the intermediary, which thus constrains the potential size of losses in the event of failure.

132 The ICCL also provides compensation for client losses arising from an insurance intermediary's failure to either remit premiums to the insurer or to place insurance cover on the client's behalf. Insurance intermediaries account for a large proportion of Fund B firms (90%), which suggests that this activity could represent a significant potential source of exposure for the fund.

133 However, it is judged that the potential losses arising from such failures are unlikely to exceed Fund B's existing cascade capacity. As noted above, insurance intermediaries are unlikely to be transmitting a substantial proportion of their total premium flows at any one point in time, which limits the scale of loss in the event of failure. Additionally, in cases involving fraudulent activity such as where an intermediary fails to secure insurance on behalf of clients, claims are likely to emerge fairly quickly, particularly in high-frequency

segments such as car or health insurance. This increases the likelihood that the fraud will be detected within a 12-month period, before the scale of the exposure becomes significant.

134 However, the risk may be greater in cases involving longer-term products such as life insurance, where client claims may take longer to materialise and the fraud could persist undetected for a longer period.

135 Taking all available evidence into account, ICCL has assessed that the existing cascade capacity for Fund B is likely to be sufficient to absorb a wide range of failure scenarios that are reasonably foreseeable. Based on the current risk profile of Fund B firms and the historical experience of compensation events, ICCL has not identified any reasonably foreseeable scenario at this time that would be expected to deplete the fund's cascade capacity. Accordingly, ICCL's recommendation is that Fund B's cascade capacity is not further increased at this point.

136 This recommendation will be kept under review and revisited if any of the following occur:

- **material changes in market structure**, such as consolidation leading to a significantly higher number of large firms or the exit of a large number of firms;
- **significant legislative or regulatory changes**, including revisions to the ICCL's compensation limits or the scope of activities permitted for Fund B firms;
- **large compensation events**, particularly if they suggest that expected losses are higher than previously expected.

137 Due to data limitations, it is not possible to provide a proposed range for Fund B in the same manner as for Fund A, nor to assess whether a lower target cascade capacity would also be consistent with the guiding principles and the ICCL's objectives. While the current level appears to be adequate, ICCL does not have sufficient evidence to positively recommend an alternative, possibly lower, level of capacity that would still provide appropriate protection.

138 In order to conduct a more comprehensive assessment of potential exposure, with the aim of estimating a more specific target fund size for Fund B, additional data would be needed, including the following.

- **Number of eligible clients:** based on the definition used in Return 1 for Fund A firms, which measures the cumulative number of eligible clients over the period of assessment.[29]
- **Theoretical maximum exposure of Fund B firms:** given the different nature of activities that Fund B firms are authorised to undertake, the methodology used in Return 2 for Fund A firms would not be appropriate.[30] As an upper bound, exposure could be estimated by multiplying the number of eligible clients by €20,000. This would be a useful starting point for Fund B, however, this is likely to be a significant overestimate.

139 Currently, Fund B firms are required to provide a self-assessment of their income figures only for levy band determination. Introducing new data-reporting requirements would place some amount of additional burden on these firms. ICCL would like to explore whether it would be appropriate at a future point to assess Fund B capacity using a broadly equivalent approach as has been applied to Fund A. In considering such an approach in the future, ICCL is seeking to explore the feasibility of the collection of additional data points on the number of eligible clients initially. The adoption of such an approach would enable ICCL to more directly match levy rates with a measure of risk.

[29] The definition in Return 1 is: 'The number of eligible clients who, at any point during the period of assessment, were provided with an investment service (other than solely investment advice) and/or the firm held, administered or managed assets or money on behalf of the eligible client and/or were provided with the activities of an insurance intermediary'. ICCL (2020), 'ICCL Returns for Fund A Participant Firms (incorporating eligible client guidance)', p. 6.

[30] The Return 2 definition depends on 'the value of assets or money held, administered or managed on behalf of each client', which is not the appropriate measure for Fund B firms. ICCL (2020), 'ICCL Returns for Fund A Participant Firms (incorporating eligible client guidance)', p. 8.

Reserves

140 Reserves are the primary component of Fund B's cascade capacity that will be drawn on both in the event of a compensation event below the insurance excess and in the case of the insurance coverage being exceeded. As such, the reserve level must be sufficient to accommodate multiple drawdowns in the event of consecutive firm failures, prior to being replenished through ex ante or ex post levies.

141 ICCL is not proposing to make any material change to the current Fund B reserves of €27.9m.

Insurance

142 The current insurance coverage for Fund B is €10m, with an excess of €15m.

143 As noted above, sufficient evidence to support a proposal to change the overall cascade capacity for Fund B is not available at this time.

Ex post levies and credit facilities

144 Ex post levies can be a useful supplementary buffer that can be used either to meet obligations exceeding the target cascade or to replenish cascade capacity following a significant drawdown but are not considered as part of the target cascade capacity.

145 Similarly, ICCL is not proposing to include credit facilities in the target cascade capacity.

7. Levy apportionment

(I) INTRODUCTION

146 Having determined the level of reserves required as part of the cascade model, the next step is to determine how this amount should be raised from firms using ex ante levies. The fund's annual operational costs also need to be covered using ex ante levies.

147 In this section, ICCL has considered the levy apportionment methodology for Fund A and B firms. Our starting point is the current methodology used by the ICCL.

(II) EVALUATION OF POTENTIAL APPROACHES

148 There is a wide spectrum of methodological approaches that could be adopted for the apportionment of levies across firms. The choice of approach requires a balancing of the key guiding principles outlined on page 20. In particular, the levy structure should:

- avoid distorting the competitive structure of the market;
- avoid creating perverse incentives—for example, risky behaviour should not be incentivised or subsidised by the levy;
- minimise shocks to firms' cash flows and be reasonably predictable to firms;
- be diversified across a wide range of firms;
- be sustainable over the long term;
- avoid overreliance on a small number of firms or specific market segments;
- reflect firms' financial capacity;
- be simple and transparent so that firms can understand how their levy is determined;
- be practical to administer for firms and the ICCL.

149 These principles can be distilled into the following three overarching guiding principles.

- **Proportionate:** the levy should take account of firm size, avoiding undue burden on any individual firm or group of firms.
- **Risk-based:** the levy should reflect the likelihood that a firm will fail and give rise to a compensatable loss. Relevant risk factors include whether

the firm holds client assets, the nature of its activities, its financial condition, its internal controls, and its governance.
- **Evidence-based:** the methodology should rely on robust, consistent and accessible data that is available across all firms that are subject, or may be subject, to a levy. This ensures that the levy can be calculated practically and remains transparent and explainable.

150 These factors inevitably involve trade-offs. For example, while a risk-based approach may be desirable in principle, its implementation may be constrained by the availability and reliability of firm-level data. Moreover, even where data is available, a fully risk-sensitive levy could result in excessive burden on a small number of firms, potentially undermining the long-term viability of the funding model.

151 As such, a balanced and pragmatic approach is required, one that weighs the relative merits of different methodologies while considering their operational implications and alignment with the guiding principles.

(III) PROPOSED LEVY APPORTIONMENT METHODOLOGY

152 The starting point for the levy apportionment methodology is the amount of reserves that are to be raised using ex ante levies, in line with the recommendations set out in the section on Cascade Model Analysis and Recommendations. To minimise the burden on firms, this reserve build-up may take place over multiple years.

- **Fund A:** target reserve level of €50m–€100m. The current forecast reserves level at 31 July 2026 of €96m could be raised by approximately €4m in order to reach the upper bound of this range.
- **Fund B:** maintain current cascade capacity and approach to reserve level.

153 The annual funding requirement is then determined based on:

- **the reserve contribution for the year,** depending on the number of years over which the target reserve is to be reached (e.g. three or five years);
- **the fund's annual operational costs**, including administration and any ongoing scheme-related expenses;
  and
- **the fund's annual investment income return,** as estimated by ICCL

154 The next step is to apportion levies across two broad groups of firms, such that each fund's annual funding requirement is raised from the firms it covers. This approach supports the principles of proportionality and risk sensitivity.

155 Consistent with the ICCL's current framework, firms can be allocated to Fund A or Fund B based on their authorisations and registrations, which reflect the types of business activities that they are permitted to undertake. ICCL proposes to retain the existing approach as this method offers a practical and transparent means of introducing some risk sensitivity into the levy structure. It also relies on consistent, readily available data.

156 The final step in the levy apportionment methodology is to allocate specific levy amounts to individual firms through a banding structure.

157 Given the differing funding requirements, firm characteristics and data availability between Fund A and Fund B, the appropriate banding design for each fund has been considered separately in the sections that follow.

Fund A levy band design

158 For Fund A firms, levy bands are currently determined based on the number of eligible clients. The use of a scale-based metric provides a strong basis for ensuring proportionality, as scale typically correlates with a firm's financial capacity.

159 The scale of the firm is also likely to correlate with the potential exposure faced by the ICCL in the event of failure, providing some measure of risk. ICCL has analysed the relationship between the number of eligible clients and the total potential exposure for Fund A firms in 2024/25. There is an observed upward-sloping relationship which suggests that the number of eligible clients is generally a reasonable proxy for a firm's potential exposure, including for the largest firms. This supports the continued use of eligible clients as a useful scale metric in the banding structure.

160 Firms with no reported eligible clients are still required to pay a minimum levy, ensuring that all firms contribute to the ongoing operational costs of the fund.

161 In addition, there is an extra layer of risk sensitivity through a supplementary levy for firms subject to the CBI's CAR. Where a firm is subject to CAR and also has eligible clients, it is charged an additional 10% levy. This reflects the increased risk profile associated with firms that hold client assets directly, and the potentially higher cost to the fund in the event of failure.

162 At a conceptual level, the current approach provides a simple and transparent basis for apportioning levies. The number of eligible clients serves as a practical proxy for the potential exposure faced by the fund. The use of CAR status is a pragmatic mechanism to incorporate an additional degree of risk sensitivity, using readily available data.

163 However, while the framework is broadly sound, further consideration is warranted regarding whether the current structure of the levy bands adequately captures the scale and nature of potential exposure, particularly for the largest firms. This is important to ensure that the levy remains proportionate and risk-sensitive across the full spectrum of firms.

164 ICCL also analysed the relationship between the total annual levy and number of eligible clients, and the relationship between the total annual levy and the total potential exposure for Fund A firms in 2024/25. The analysis demonstrated a clear upward-sloping relationship between the levy paid and the firm's potential exposure for the majority of the distribution, both when measured directly and when proxied by the number of eligible clients. This indicates that the current banding structure does incorporate a degree of risk sensitivity. However, this relationship weakens at the upper end of the distribution; the largest firms create significantly higher potential exposures without a proportionate increase in the levy paid. This suggests a degree of flattening in the levy structure for the largest firms, potentially limiting the extent to which the current approach fully captures fund exposure risk for the largest firms.

165 To address the flattening in the levy-to-exposure relationship identified above, the following two potential adjustments have been considered.

- **Recalibrate the levy amounts for firms in the upper bands based on eligible client numbers.** Given the continued positive correlation between eligible clients and potential exposure—even among the largest firms—a targeted recalibration of levy amounts within the top bands could address the flattening issue without altering the broader banding framework.
- **Introduce a direct measure of exposure into the banding structure.** This represents a more fundamental change, more directly aligning levies with potential exposure. In practical terms, this involves adopting a hybrid banding approach whereby firms are banded according to the number of eligible clients, and separately by the level of theoretical exposure (e.g. as reported in Return 2). The total levy that each firm pays would then be broken down into two elements, and the relative weighting set by ICCL. The relative weighting could be changed over time (i.e. such that, in the initial years, the relative weighting for the 'exposure' element could be small in order to phase it in over time).

166 ICCL considers that the second option is preferable as it would more directly link the levy rates to measures of risk (for instance, some firms with many eligible clients may have lower exposure). However, the ICCL does not currently collect sufficient data from firms to be able to implement this robustly from the start of the next funding cycle.

167 The current levy bands are based on the number of eligible clients that were eligible at any point during the assessment period. In contrast, the theoretical maximum exposure reported in Return 2 reflects only those clients that are eligible as at a single point in time.[31] Aligning these data sources would require methodological adjustments to Return 2 to ensure consistency and fairness.

168 Furthermore, potential exposure may be more volatile year on year than client numbers driven by fluctuations in investment performance and changes in client asset holdings. A levy structure tied to a single point in time exposure estimate could therefore introduce greater volatility and unpredictability in annual levy amounts.

169 It is ICCL's view that to implement this option, the ICCL would need to collect data on the theoretical maximum exposure of Fund A firms measured over time rather than at a single point in time. Practically, firms will be asked to report exposure calculated as of multiple points in the year (e.g. quarterly), while retaining the existing formula in Return 2. The ICCL also proposes to collect this data return (containing four quarters data), once a year, to reduce the administrative burden on firms.

170 Pending the outcome of the above data collection recommendation, ICCL is proposing to adopt the first approach with effect from 1 August 2026 for at least two funding years, thereby recalibrating the existing levy structure based on the number of eligible clients. As referred to earlier, the correlation between eligible clients and potential exposure holds even among the largest firms, supporting the continued use of eligible clients as an appropriate proxy for exposure. Indicative levy rates for the funding years commencing in August 2026 and August 2027 are set out in Table 7.1 below.

Indicative levy bands for Fund A based on eligible client numbers (with taper adjustment for the upper bands).

171 Outlined below is how the recalibration of the existing levy banding, based on number of eligible clients, is proposed to be deployed. In practice, the exact implementation will depend on the funding requirement to be raised in a given year and the evolving composition of firms.[32]

[31] ICCL (2020), 'ICCL Returns for Fund A Participant Firms (incorporating eligible client guidance)'.

[32] The indicative reduction in levy rates set out in tables 7.1, 7.2, 7.3 and 7.4 are based on forecasts and subject to change. Circumstances which could alter the indicative levy rates set out in this document include any unforeseen failure case with associated compensation liabilities, changes to ICCL's operational cost base or changes in the underlying population of participant firms (both quantum and levy bands at which firms are assessed)

- **Bands 1–10:** maintain the current classification criteria (i.e. the number of eligible clients) but revise the levy amounts. The updated levy levels should retain the current proportional split of levy income across bands (the specific amounts will depend on the final target fund size).
- **Bands 11 and above:** introduce a steeper progression by increasing the levy increment amount for bands 11 and above by a set percentage (e.g. 20%). This adjustment would reduce the observed tapering effect for the largest firms without eliminating it entirely. [33]

Table 7.1 Indicative Fund A levy rates (with/without CAR uplift) (100% of levy from eligible client bands applying the taper reduction)

Band	Number of Eligible Clients	Existing Levy Fee (No CAR) €	Existing Levy Fee (CAR) €	Proposed Levy Fee to reach €100m from forecasted €96m reserves, with updated Operational Costs net of Investment Income (No CAR) €	Proposed Levy Fee to reach €100m from forecasted €96m reserves, with updated Operational Costs net of Investment Income (CAR) €
0	Zero	5,400	5,400	1,600	1,600
1	1 – 49	20,000	22,000	6,000	6,600
2	50 – 749	30,000	33,000	9,000	9,900
3	750 – 2,499	60,000	66,000	18,000	19,800
4	2,500 – 4,999	100,000	110,000	30,000	33,000
5	5,000 – 9,999	140,000	154,000	42,000	46,200
6	10,000 – 19,999	180,000	198,000	54,000	59,400
7	20,000 – 29,999	220,000	242,000	65,000	71,500
8	30,000 – 39,999	260,000	286,000	77,000	84,700
9	40,000 – 49,999	300,000	330,000	89,000	97,900
10	50,000 – 74,999	340,000	374,000	101,000	111,100
11	75,000 – 99,999	365,000	401,500	109,000	119,900
12	100,000 – 124,999	390,000	429,000	117,000	128,700
13	125,000 – 149,999	415,000	456,500	125,000	137,500
14	150,000 – 174,999	440,000	484,000	133,000	146,300
15	175,000 – 199,999	465,000	511,500	141,000	155,100
16	200,000 – 224,999	490,000	539,000	149,000	163,900
17	225,000 – 249,999	515,000	566,500	157,000	172,700
18	250,000 – 274,999	540,000	594,000	165,000	181,500
19	275,000 – 299,999	565,000	621,500	173,000	190,300
20	300,000 – 324,999	590,000	649,000	181,000	199,100
21	325,000 – 349,999	615,000	676,500	189,000	207,900
22	350,000 – 374,999	640,000	704,000	197,000	216,700
23	375,000 - 399,999	665,000	731,500	205,000	225,500
24	400,000 - 424,999	690,000	759,000	213,000	234,300
25	425,000 - 449,999	715,000	786,500	221,000	243,100
26	450,000 - 474,999	740,000	814,000	229,000	251,900
27	475,000 - 499,999	765,000	841,500	237,000	260,700
28	500,000 - 524,999	790,000	869,000	245,000	269,500
29	525,000 - 549,999	815,000	896,500	253,000	278,300
30	550,000 - 574,999	840,000	924,000	261,000	287,100

31	575,000 - 599,999	865,000	951,500	269,000	295,900
32	600,000 - 624,999	890,000	979,000	277,000	304,700
33	625,000 - 649,999	915,000	1,006,500	285,000	313,500
34	650,000 - 674,999	940,000	1,034,000	293,000	322,300
35	675,000 - 699,999	965,000	1,061,500	301,000	331,100

Indicative levy bands for Fund A based on a hybrid approach that introduces a direct measure of exposure into the banding structure (levy comprised of an eligible client component and an exposure component).

172 Outlined below is how the hybrid banding approach could be introduced (whereby firms are banded according to the number of eligible clients, and separately by the level of theoretical exposure). In this indicative example, a 90:10 weighting is applied to client numbers and exposure respectively. [34]

173 To calculate the levy payable by a firm there are two components, the first component of the levy is derived from its eligible client numbers using Table 7.2 and the second component is derived from its exposure using Table 7.3. The two values are then summed to arrive at the annual levy payable by the firm. Under this indicative example, this would mean that 90% of the levy income would arise from the component based on eligible client numbers, and 10% of the levy income would arise from the component based on theoretical exposure.

- **All Eligible Client Bands:** maintain the current classification criteria (i.e. the number of eligible clients) but revise the levy amounts. The updated levy levels should retain the current proportional split of levy income across bands (the specific amounts will depend on the final target fund size). The taper reduction would not be applied.
- **Exposure Bands:** the bands are designed to reflect the distribution of exposure among Fund A firms. They are set to avoid any tapering effect and show a broadly linear relationship between the levy and firm exposure.

[34] The indicative reduction in levy rates set out in tables 7.1, 7.2, 7.3 and 7.4 are based on forecasts and subject to change. Circumstances which could alter the indicative levy rates set out in this document include any unforeseen failure case with associated compensation liabilities, changes to ICCL's operational cost base or changes in the underlying population of participant firms (both quantum and levy bands at which firms are assessed)

Table 7.2 Indicative Fund A levy rates (with/without CAR uplift) (90% of levy from eligible client bands no taper reduction applied)

Band	Number of Eligible Clients	Levy Fee, with updated Operational Costs net of Investment Income (No CAR) €	Levy Fee, with updated Operational Costs net of Investment Income (CAR) €
0	Zero	1,500	1,500
1	1 – 49	5,000	5,500
2	50 – 749	8,000	8,800
3	750 – 2,499	16,000	17,600
4	2,500 – 4,999	27,000	29,700
5	5,000 – 9,999	38,000	41,800
6	10,000 – 19,999	49,000	53,900
7	20,000 – 29,999	59,000	64,900
8	30,000 – 39,999	70,000	77,000
9	40,000 – 49,999	81,000	89,100
10	50,000 – 74,999	92,000	101,200
11	75,000 – 99,999	99,000	108,900
12	100,000 – 124,999	106,000	116,600
13	125,000 – 149,999	113,000	124,300
14	150,000 – 174,999	120,000	132,000
15	175,000 – 199,999	127,000	139,700
16	200,000 – 224,999	134,000	147,400
17	225,000 – 249,999	141,000	155,100
18	250,000 – 274,999	148,000	162,800
19	275,000 – 299,999	155,000	170,500
20	300,000 – 324,999	162,000	178,200
21	325,000 – 349,999	169,000	185,900
22	350,000 – 374,999	176,000	193,600
23	375,000 - 399,999	183,000	201,300
24	400,000 - 424,999	190,000	209,000
25	425,000 - 449,999	197,000	216,700
26	450,000 - 474,999	204,000	224,400
27	475,000 - 499,999	211,000	232,100
28	500,000 - 524,999	218,000	239,800
29	525,000 - 549,999	225,000	247,500
30	550,000 - 574,999	232,000	255,200
31	575,000 - 599,999	239,000	262,900
32	600,000 - 624,999	246,000	270,600
33	625,000 - 649,999	253,000	278,300
34	650,000 - 674,999	260,000	286,000
35	675,000 - 699,999	267,000	293,700

Table 7.3 Indicative Fund A levy rates (with/without CAR uplift) (10% of levy attributable to exposure component)

Exposure Lower Bound	Exposure Upper Bound	Levy Fee, with updated Operational Costs net of Investment Income (No CAR) €	Levy Fee, with updated Operational Costs net of Investment Income (CAR) €
€ 0	€ 0	100	100
€ 1	€ 249	100	110
€ 250	€ 499	100	110
€ 500	€ 749	200	220
€ 750	€ 999	200	220
€ 1,000	€ 1,499	300	330
€ 1,500	€ 1,999	300	330
€ 2,000	€ 2,999	400	440
€ 3,000	€ 3,999	600	660
€ 4,000	€ 4,999	700	770
€ 5,000	€ 7,499	800	880
€ 7,500	€ 9,999	1,000	1,100
€ 10,000	€ 14,999	1,200	1,320
€ 15,000	€ 19,999	1,500	1,650
€ 20,000	€ 29,999	1,900	2,090
€ 30,000	€ 39,999	2,300	2,530
€ 40,000	€ 49,999	2,700	2,970
€ 50,000	€ 74,999	3,100	3,410
€ 75,000	€ 99,999	3,600	3,960
€ 100,000	€ 149,999	4,200	4,620
€ 150,000	€ 199,999	4,800	5,280
€ 200,000	€ 249,999	5,300	5,830
€ 250,000	€ 299,999	5,900	6,490
€ 300,000	€ 349,999	6,500	7,150
€ 350,000	€ 399,999	7,100	7,810
€ 400,000	€ 449,999	7,600	8,360
€ 450,000	€ 499,999	8,200	9,020
€ 500,000	€ 599,999	9,100	10,010
€ 600,000	€ 699,999	10,100	11,110
€ 700,000	€ 799,999	11,000	12,100
€ 800,000	€ 899,999	11,900	13,090
€ 900,000	€ 999,999	12,800	14,080
€ 1,000,000	€ 1,249,999	14,600	16,060
€ 1,250,000	€ 1,499,999	16,300	17,930
€ 1,500,000	€ 1,749,999	18,000	19,800
€ 1,750,000	€ 1,999,999	19,700	21,670
€ 2,000,000	€ 2,249,999	21,500	23,650
€ 2,250,000	€ 2,499,999	23,800	26,180
€ 2,500,000	€ 2,749,999	26,100	28,710
€ 2,750,000	€ 2,999,999	28,400	31,240
€ 3,000,000	€ 3,249,999	30,700	33,770
€ 3,250,000	€ 3,499,999	33,000	36,300
€ 3,500,000	€ 3,749,999	35,300	38,830
€ 3,750,000	€ 3,999,999	37,600	41,360
€ 4,000,000	€ 4,249,999	39,900	43,890
€ 4,250,000	€ 4,499,999	42,200	46,420
€ 4,500,000	€ 4,749,999	44,500	48,950
€ 4,750,000	€ 4,999,999	46,800	51,480
€ 5,000,000	€ 5,249,999	49,100	54,010
€ 5,250,000	€ 5,499,999	51,400	56,540
€ 5,500,000	€ 5,749,999	53,700	59,070
€ 5,750,000	€ 5,999,999	56,000	61,600

Risk Equalisation Levy

174 The RER was introduced by ICCL in March 2020 and was updated following consultation with industry in April 2024. Further background information on the RER is available on the ICCL website under the Publications section.

Conceptual approach

175 The RER currently operates as a standalone mechanism, outside of the standard funding arrangements. This is viewed as a sensible approach given that the RER seeks to address situations where the quantum of assets covered by the Scheme 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 or any transfer, restructuring or other arrangement leading to such an increase.

176 ICCL considered the viability of subsuming an RER mechanism into the annual levy process however it would likely introduce significant volatility and reduce the predictability of the annual levy amounts paid by firms. Separation of the RER allows the ICCL to respond flexibly to large transfers, provides certainty and transparency to the firm making the transfer on the amount it will need to pay and avoids imposing additional volatility in annual levies.

177 The existing RER mechanism is linked to the ICCL's current approach to setting the target fund size, which includes ensuring that the fund is at least 0.5% of the value of client monies and financial instruments held, administered, or managed by investment firms. However, since ICCL has proposed a revised approach to cascade capacity which among other factors draws on exposures, it is appropriate to revisit the basis of the RER formula. In that context, the methodology deployed seeks to balance fairness between firms that have contributed to the Fund over a prolonged period and firms that are introducing a very significant level of covered client assets and associated elevated exposures to the Fund.

178 ICCL has considered a range of options for the redesign of the RER in the context of the proposed revisions to cascade capacity setting and levy apportionment.

Practical implementation

179 The approach identified by ICCL as the most appropriate is to calculate the RER using the theoretical maximum exposure (i.e. in-scope eligible client assets after applying the per client compensation limits of 90% or €20,000, whichever is lower). This approach draws on the risk-based approach that is a core feature of the proposed revisions to the cascade capacity model.

180 The proposed RER formula seeks to ensure predictability and transparency in the computation of required levies for impacted firms and has been designed by reference to the guiding principles, and aims to ensure the RER is fair, predictable, transparent and proportionate to all in-scope firms. The proposed RER would be linked to the amount of theoretical exposure being brought into scope of the ICCL Scheme (instead of the level of covered assets). This approach would therefore enable the ICCL to maintain a link between the theoretical exposure of the Scheme and the level of cash reserves held by the Fund. It would also ensure that firms migrating very substantial amounts of eligible client assets to the ICCL scheme would not disproportionately benefit from other firms having contributed to the cash reserves over a number of years.

The proposed RER formula would be applied as follows:

$$RER = Target\ cash\ reserves\ * \frac{Firm\ additional\ exposure - Threshold}{ICCL\ Total\ Fund\ A\ exposure}$$

181 In light of the proposed move to a theoretical exposure-based RER, it is also necessary to consider an appropriate threshold; ICCL considers that a threshold should be incorporated into the formula. Having regard to a range of scenarios and the ICCL's risk tolerance, it is proposed to establish the threshold for the funding cycle 2026-29 at €1,000m in theoretical exposure. This level is within the risk tolerance of the ICCL and would be subject to review on the scheduled annual assessment of the funding arrangements. Firms that increase the theoretical exposure-base at levels below the threshold would not be subject to the RER mechanism but would instead be required to pay annual levies in accordance with the proposed rates set out in this consultation.

182 The target cash reserve level for the formula would be €100m (at the upper bound of the proposed cash reserve range) and the aggregate exposure of Fund A would be set at the start of the next funding cycle (to be determined from actual Fund A Return 2 data collected during Q1 2026).

183 The ICCL is proposing to retain the optional alternative payment mechanism it introduced to the RER in April 2024 whereby, at the request of the firm subject to the RER, a minimum initial RER payment of 25% of the estimated asset migration would be required within 30 days of the initial transfer (RER0). Additional payments would arise at each 12-month lookback date. A firm subject to the RER, if it elects to stagger its payments, would therefore discharge its RER liability over up to four payment dates (broadly speaking, over a three-year period). However, if a firm does not elect for the alternative payment mechanism, the firm would continue to make the full payment at RER0 and continue to pay any additional lookback amounts arising at RER1,

RER2 and RER3. The first lookback date (RER1) (and subsequent lookbacks) would continue to be the initial date of migration plus 12 months (24 months and 36 months respectively) resulting in a full 3-year lookback period.

184 The eligible client annual levy relief introduced to the RER in April 2024 whereby relief from the requirement to pay an annual levy in respect of eligible clients whose assets transferred as part of an in-scope RER transaction during the period between RER0 and RER3 is proposed to be retained. The relief in this case would provide a credit in respect of eligible client numbers that are included within the "Firm Additional Exposure" value migrated by the firm subject to the RER against the annual levy of the firm, for a maximum of three funding years during the application of the RER and related lookback period. In calculating its annual levy, a firm's total number of eligible clients would be adjusted down as appropriate to exclude RER-related clients over the subsequent 3 years. This would be applied as follows:

- For each ICCL funding year during which a firm is subject to the RER, when submitting the value of "Firm Additional Exposure" to enable calculation of the Initial Risk Equalisation Levy (RER0) (and/or) the Lookback Risk Equalisation Levy 1 (RER1) and/or 2 (RER2) and/or 3 (RER3), the firm will advise the ICCL of the number of eligible clients to which the "Firm Additional Exposure" projected or known covered assets related to.
- When submitting the ICCL Return 1 (Self-assessment for annual levy) which currently requires a firm to identify the band within which its eligible client numbers arise, in order to avail of the RER annual levy relief, it would be necessary for the firm to undertake enhanced reporting to ICCL.
- Enhanced reporting would require the firm to report both its total eligible client number and the number of eligible clients that were in-scope for the RER during the firm's financial year which ended immediately prior to the commencement of the ICCL's funding year. This period will not align with the RER periods (unless the RER initial transfer was on the first date of the firm's financial year) so it will create an additional reporting requirement for firms.
- This control is necessary to ensure, on completion of the RER lookback periods, that the number of excluded RER clients from the annual levy process aligns with the number of clients returned during the RER process.
- The relief could only be claimed in three consecutive funding years during the application of the RER. This is to prevent a firm obtaining four years of relief which could otherwise occur due to the timing of an RER transaction whereby a firm's RER transaction could straddle four funding years. It is proposed that in such circumstances, a schedule of funding years to which the Annual Levy relief can be claimed will be considered and the firm will be notified by the ICCL which three years relief will be applied against.

185 Depending on whether the proposal to introduce a hybrid basis of assessment for Fund A firms (refer to paragraphs 165 to 173) proceeds in the Funding Year commencing on 1 August 2028, the eligible client annual levy relief as set out in paragraph 184 above would be extended to also ensure that a credit applies for the exposure element that would then form part of the annual levy calculation.

Fund B levy band design

186 For Fund B firms, levy bands are currently based on the income derived from a firm's regulated investment and insurance business. As with Fund A, the use of a scale-based metric provides a strong basis for ensuring proportionality, as scale typically correlates with a firm's financial capacity. The income metric is also likely to have some degree of correlation with the potential exposure faced by the fund in the event of failure, but, given that potential exposure data is not currently collected for Fund B firms, it is not possible to examine how effective a measure of risk this is.

187 Therefore, as set out in "Discussion of cascade capacity" section for Fund B, the ICCL is proposing to explore collecting data on the number of eligible clients initially of Fund B firms. This would allow the ICCL to distribute the levy in closer proportion to the risk represented by each firm. The collection of this data is also envisaged as being assistive in determining whether the collection of theoretical maximum exposure of Fund B firms could be achieved.

188 In the absence of this data being readily available, the ICCL is recommending the retention of the current levy band structure based on the income metric.

Practical implementation

189 Set out below is how the determination of the levy amount per band could be approached while the current levy band structure is retained.

190 As explained in the "Discussion of cascade capacity" section for Fund B, ICCL is recommending that the current cascade capacity for Fund B is not materially changed.

191 Therefore the ICCL is proposing to keep levy payments at a level that covers operational costs, which would be consistent with current practice.[35]

[35] Current levy rates seek to meet only the operational costs of administering Fund B. See ICCL (2022), 'Funding Arrangements of the Investor Compensation Scheme August 2022 to July 2025', p. 23.

Therefore, the levy amounts per band could, in theory, be kept broadly unchanged.

192 Outlined below in Table 7.4 are indicative levy bands for the funding years 2026 to 2029.[36]

Table 7.4 A Table of recalibrated levy rates per existing income band to broadly meet operational costs net of investment income, such that Fund B reserves should not materially grow/shrink over 3 year period if ICCL's forecasting assumptions hold.

Price Group Level	Income Band Structure	Existing Levy Fee €	Calibrated Levy Fee to meet Operational Costs (net of Investment Income) €
Level 1	< €150,000	100	70
Level 2	€150,001 - €400,000	200	130
Level 3	€400,001 - €700,000	270	180
Level 4	€700,001 - €1.5m	500	330
Level 5	€1,500,001 - €3m	900	590
Level 6	€3,000,001 - €6m	1,600	1,040
Level 7	€6,000,001 - €15m	6,500	4,230
Level 8	€15,000,001 - €25m	10,500	6,830
Level 9	Over €25m	13,000	8,450

[36] The indicative reduction in levy rates set out in table 7.4 are based on forecasts and subject to change. Circumstances which could alter the indicative levy rates set out in this document include any unforeseen failure case with associated compensation liabilities, changes to ICCL's operational cost base or changes in the underlying population of participant firms (both quantum and levy bands at which firms are assessed)

(IV) FORECAST RESERVES AS AT 31 JULY 2026

193 Tables 7.5 and 7.6 below set out the fund reserves of Fund A and Fund B over the life of the Scheme[37] / [38].

TABLE 7.5 - FUND A RESERVES FOR THE FUNDING YEARS ENDED 31 JULY 1999 TO 2026 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 – 2022	€29,410,741	Nil	€559,862	(€4,026,074)	€62,092,087
2023 – 2025	€34,950,923	Nil	(€492,611)	(€5,082,644)	€91,467,755
2026[39]	€6,830,038	Nil	(€44,992)	(€2,234,626)	€96,018,175
Totals	**€140,233,842**	**€4,925,230**	**(€25,921,395)**	**(€23,219,502)**	**€96,018,175**

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

[38] Figures for 2022 – 2025 include figures extracted from the draft Financial Statements for the year ended 31 July 2025.

[39] Figures for 2026 are forecasted

TABLE 7.6 - FUND B RESERVES FOR THE FUNDING YEARS ENDED 31 JULY 1999 TO 2026 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 – 2022	€2,405,911	Nil	Nil	(€1,885,896)	€26,013,210
2023 – 2025	€4,369,747	Nil	Nil	(€2,420,812)	€27,962,145
2026[40]	€1,314,724	Nil	Nil	(€1,371,626)	€27,905,243
Totals	**€43,776,364**	**Nil**	**(€60,145)**	**(€15,810,976)**	**€27,905,243**

[40] Figures for 2026 are forecasted

(V) FORECAST CASCADE CAPACITY TO 31 JULY 2029

194 Table 7.7 and 7.8 below sets out the projected Fund Reserve levels for Fund A and Fund B based on the proposals.

TABLE 7.7 - FUND A: PROJECTED CASCADE CAPACITY UNDER FUNDING PROPOSALS

Year	Levies	Interest Income	Top Up	Compensation & Related Costs	Administration Expenses	Fund Reserve (at end of period)	Insurance Coverage	Cascade Capacity
2026[41]						€96,018,175	€240,000,000	€336,018,175
2027	€1,795,000	€1,466,851	Nil	(€44,998)	(€1,726,943)	€97,508,085	€200,000,000	€297,508,085
2028	€1,645,000	€1,425,000	Nil	(€44,998)	(€1,761,797)	€98,771,290	€200,000,000	€298,771,290
2029	€1,645,000	€1,425,000	Nil	(€44,998)	(€1,799,131)	€99,997,161	€200,000,000	€299,997,161
Totals	**€5,085,000**	**€4,316,351**	**Nil**	**(€134,994)**	**(€5,287,871)**			

[41] Figures for 2026 are forecasted

TABLE 7.8 - FUND B: PROJECTED CASCADE CAPACITY UNDER FUNDING PROPOSALS

Year	Levies	Interest Income	Top Up	Compensation & Related Costs	Administration Expenses	Fund Reserve (at end of period)	Insurance Coverage	Cascade Capacity
2026[42]						€27,905,243	€10,000,000	€37,905,243
2027	€560,000	€433,319	Nil	Nil	(€982,690)	€27,915,872	€10,000,000	€37,915,872
2028	€590,000	€412,500	Nil	Nil	(€1,006,995)	€27,911,377	€10,000,000	€37,911,377
2029	€614,000	€412,500	Nil	Nil	(€1,033,623)	€27,904,254	€10,000,000	€37,904,254
Totals	**€1,764,000**	**€1,258,319**	**Nil**	**Nil**	**(€3,023,308)**			

[42] Figures for 2026 are forecasted

(VI) FURTHER EFFICIENCIES TO THE GENERAL OPERATION OF FUNDING

195 The ICCL currently provides payment terms of 35 days for annual levies and 30 days for RER levies. With effect from 1 August 2026, the ICCL will align all levy payment terms at 30 days which is reflective of standard industry terms.

196 The ICCL offers a discount of 5% capped at €25 for firms that pay their annual levy by a Single Direct Debit annually. ICCL is proposing to retain this discount unchanged for the next 3-year cycle.

197 The ICCL offers a discount of 5% capped at €25 for firms that pay avail of e-invoicing. ICCL is proposing to retain this discount unchanged for the next 3-year cycle.

8 Submissions sought

198 The Board of the ICCL invites all stakeholders, in particular participant firms to consider the contents of this paper and to respond, to the issues and proposals set out, by ***30 January 2026*** at the latest.

All respondents 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.

199 Please make your submission electronically as a pdf document by email, on or before ***30 January 2026***.

Submissions should be marked "Funding Consultation 2026-2029" and sent by email to info@investorcompensation.ie .

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

200 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.

9 Proposed timelines

201 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.

202 The Board intends to complete the consultation element of the review of its funding arrangements by March 2026 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 2026. These arrangements will take effect from 1 August 2026.

8 December 2025

10 Summary Recommendations

RECOMMENDATION 1 – FUND A (Capacity)

ICCL is proposing to adjust how it establishes cascade capacity. Based on the analysis undertaken, ICCL considers that a €200m–€300m target Fund A capacity is appropriate. The analysis is based on evidence of past compensation costs, exposure of the population of covered firms, and scenarios that may arise in the future, while striking the right balance between the guiding principles.

QUESTION 1 – FUND A (Capacity)

Do you agree with the proposed changes set out in recommendation 1?

Yes

No

If you have further comments in relation to the proposal, please provide these with any appropriate references and provide reasons and evidence where available to support your answer.

RECOMMENDATION 2 – FUND A (Capacity Allocation)

ICCL is proposing a reserves target at a range of €50m–€100m within the Fund A cascade capacity target range of €200m-€300m. Specifically, ICCL is proposing that it should attain the upper-bound of the reserves range of €100m by July 2029.

ICCL is proposing an insurance target at a range of €100m–€250m within the Fund A cascade capacity target range of €200m-€300m. On the basis that ICCL is proposing to achieve the €100m upper bound of the reserves target, ICCL is proposing that the €200m of insurance would be required to attain the €300m cascade capacity.

QUESTION 2 – FUND A (Capacity Allocation)

Do you agree with the proposed changes set out in recommendation 2?

Yes

No

If you have further comments in relation to the proposal, please provide these with any appropriate references and provide reasons and evidence where available to support your answer.

RECOMMENDATION 3 – FUND B (Capacity and Allocation)

ICCL is proposing that a €38m target Fund B capacity is adequate currently.

ICCL is proposing to maintain a reserves target of €28m within the Fund B cascade capacity target of €38m.

ICCL is proposing to maintain an insurance target of €10m within the Fund B cascade capacity target of €38m.

QUESTION 3 – FUND B (Capacity and Allocation)

Do you agree with the proposed changes set out in recommendation 3?

Yes

No

If you have further comments in relation to the proposal, please provide these with any appropriate references and provide reasons and evidence where available to support your answer.

RECOMMENDATION 4 – FUND A (Taper reduction)

ICCL is proposing to address the identified weakening relationship between potential exposure and the levy paid at the bands for firms with greater than 75,000 eligible clients (Band 11+) by adjusting the relevant levy rates. The adjustment would introduce a steeper progression by increasing the levy increment amount for bands 11 and above by a set percentage (20%). This adjustment would reduce the observed tapering effect for the largest firms without eliminating it entirely.

QUESTION 4 – FUND A (Taper reduction)

Do you agree with the proposed changes set out in recommendation 4?

Yes

No

If you have further comments in relation to the proposal, please provide these with any appropriate references and provide reasons and evidence where available to support your answer.

RECOMMENDATION 5 – FUND A (Return 2)

To support the introduction of a direct measure of exposure into the banding structure, ICCL is proposing to collect the existing ICCL Return 2 data, at each calendar quarter instead of solely at the calendar year end. ICCL is proposing that ICCL Return 2 (containing each quarters data) would only be submitted once per year. ICCL is proposing to commence collecting this data with effect from the calendar 1 January 2027 – 31 December 2027 (i.e. the first Return 2 containing four calendar year quarters would be made up to 31 December 2027 and submitted to ICCL in January 2028).

QUESTION 5 – FUND A (Return 2)

Do you agree with the proposed changes set out in recommendation 5?

Yes

No

If you have further comments in relation to the proposal, please provide these with any appropriate references and provide reasons and evidence where available to support your answer.

RECOMMENDATION 6 – FUND A (Hybrid banding)

Subject to the successful introduction of recommendation 5 as set out earlier, the ICCL is proposing to introduce a hybrid banding approach to Fund A levies with effect from 1 August 2028. This would replace the tapered approach that would be introduced as an interim measure. ICCL is proposing to weight the annual levy requirement 90% on the eligible client basis, and 10% on theoretical exposure basis. ICCL would review the approach at a future date and determine whether the weighting should be modified.

QUESTION 6 – FUND A (Hybrid banding)

Do you agree with the proposed changes set out in recommendation 6?

Yes

No

If you have further comments in relation to the proposal, please provide these with any appropriate references and provide reasons and evidence where available to support your answer.

RECOMMENDATION 7 – FUND A (RER link to exposure)

ICCL is proposing to **establish a new RER formula** for Fund A firms to replace covered assets with exposure values, as set out below.

$$RER = Target\ cash\ reserves * \frac{Firm\ additional\ exposure - Threshold}{ICCL\ Total\ Fund\ A\ exposure}$$

ICCL is also proposing to apply a threshold at which an RER levy obligation is triggered at €1,000m based on firm additional exposure values.

QUESTION 7 – FUND A (RER link to exposure)

Do you agree with the proposed changes set out in recommendation 7?

Yes

No

If you have further comments in relation to the proposal, please provide these with any appropriate references and provide reasons and evidence where available to support your answer.

RECOMMENDATION 8 – FUND B (Data collection)

ICCL is seeking views from Fund B participants on the feasibility of collecting eligible client numbers from all Fund B firms initially to facilitate the estimation of an outer bound of exposure for Fund B.

QUESTION 8 – FUND B (Data collection)

Do you have any comments in relation to proposal 8?

Yes

No

Please provide these with any appropriate references and provide reasons and evidence where available to support your answer.

RECOMMENDATION 9 – FUND B (Levy requirement and apportionment basis)

ICCL is not proposing to make any change to the existing levy banding approach to Fund B levies.

ICCL is proposing to align the annual levy requirement for Fund B firms as closely as possible with the ongoing operational costs for Fund B.

QUESTION 9 – FUND B (Levy requirement and apportionment basis)

Do you agree with the proposal set out in recommendation 9?

Yes

No

If you have further comments in relation to the proposal, please provide these with any appropriate references and provide reasons and evidence where available to support your answer.

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