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PRISM - CBI Revises Prudential Impact Models

Changes

Where a regulated entity's PRISM rating is revised upwards following the Central Bank of Ireland's (the "**CBI**") "PRISM Impact Review" (the "**Review**" - Link) the firm can expect more hands-on supervision from the CBI. This will also result in the firm having to pay a higher industry funding levy.

Impacted sectors

Under the PRISM supervisory framework firms which are judged to have the greatest impact on consumers and/or the economy if they were to fail are subject to the highest level of supervision and structured engagement with the CBI.

The Review has revised the prudential impact models in the asset management, credit union, fund service provider, insurance, payments, e-money and market infrastructure sectors.

Previously, the key driver of impact in the prudential impact models was size. However, after analysis, the CBI has concluded that size is not generally the sole factor in determining how impactful a firm is. The CBI has introduced new metrics to some of the impact models in the above sectors to capture other aspects of impact such as connectivity, substitutability, and the scale and spread of the financial service provider's failure. As a result of the Review, the number of impact models in the above sectors has been reduced from 28 to 16.

For further information on any of the issues discussed in this article please contact:

Muireann Reedy
DD: +353 (0)1 674 1002
Muireann.reedy@dilloneustace.ie

The Review forms part of a general review of the CBI's PRISM supervisory framework in which the CBI is also reviewing its supervisory minimum engagement and its supervisory risk appetite.

What happens next?

The CBI will inform firms of their impact categorisation on a phased basis over the next few months. It has advised that insurers, reinsurers and credit unions can expect a letter "in the coming weeks". Asset managers, fund service providers and those in the market infrastructure and payments/e-money sectors can expect to hear from the CBI as regards their impact rating "in the first half of 2020".

What does this mean?

A firm's PRISM rating determines the level of supervision which it can expect from the CBI. The current impact ratings are high, medium high, medium low and low. In general, the higher impact a firm, the more intensely it is supervised.

We expect that as a result of the Review, some firms may find that their PRISM rating has moved to a higher category, resulting in more intensive supervision by the CBI. According to CBI's "PRISM Explained" document - which we are told will be revised once the work relating to the PRISM framework is concluded - impact classifications are a matter of supervisory judgment and are not subject to appeal.

The CBI has said that some firms will be required to submit certain data to the CBI on a quarterly basis to ensure that the prudential impact models will be refreshed using the most appropriate data. In this regard the CBI has said that it will be in contact with asset managers, fund service providers, and firms in the market infrastructure, payments and e-money sectors.

Impact on funding levy

The CBI has confirmed that no changes are planned to the industry funding levy methodologies in the 2020 billing cycle, as a result of the Review. However the CBI has signalled that there may be changes in future, noting that it intends to test alternative levy methodologies for insurers, asset managers, fund service providers and firms in the market infrastructure, payment and e-money sectors. However it has confirmed that if there are to be any changes to the approach used to determine the industry funding levy in future, these will be clearly communicated.

Notwithstanding the above confirmation as to methodologies, where a firm's PRISM rating is increased following the Review, it will have to pay a higher industry funding levy. This is because the levy payable by a firm is connected to its impact category. For example, an alternative investment fund manager which has an impact category of medium low currently pays a levy of €95,485, however if that firm's impact category is changed to medium high it will be required to pay a levy of €480,317 (based on the industry funding levies currently quoted on the CBI's website).

Therefore the Review could have a significant financial impact on any firms whose impact ratings are revised upwards.

Contact information

If you have any queries about the information contained in this article, please contact Muireann Reedy of our Regulatory Investigations Unit at Muireann.Reedy@dilloneustace.ie or at 01-674 1002.

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DILLON EUSTACE

Dublin
33 Sir John Rogerson's Quay, Dublin 2, Ireland. Tel: +353 1 667 0022 Fax: +353 1 667 0042.

Cayman Islands
Landmark Square, West Bay Road, PO Box 775, Grand Cayman KY1-9006, Cayman Islands. Tel: +1 345 949 0022 Fax: +1 345 945 0042.

New York
245 Park Avenue, 39th Floor, New York, NY 10167, U.S.A. Tel: +1 212 792 4166 Fax: +1 212 792 4167.

Tokyo
12th Floor, Yurakucho Itocia Building, 2-7-1 Yurakucho, Chiyoda-ku, Tokyo 100-0006, Japan. Tel: +813 6860 4885 Fax: +813 6860 4501.