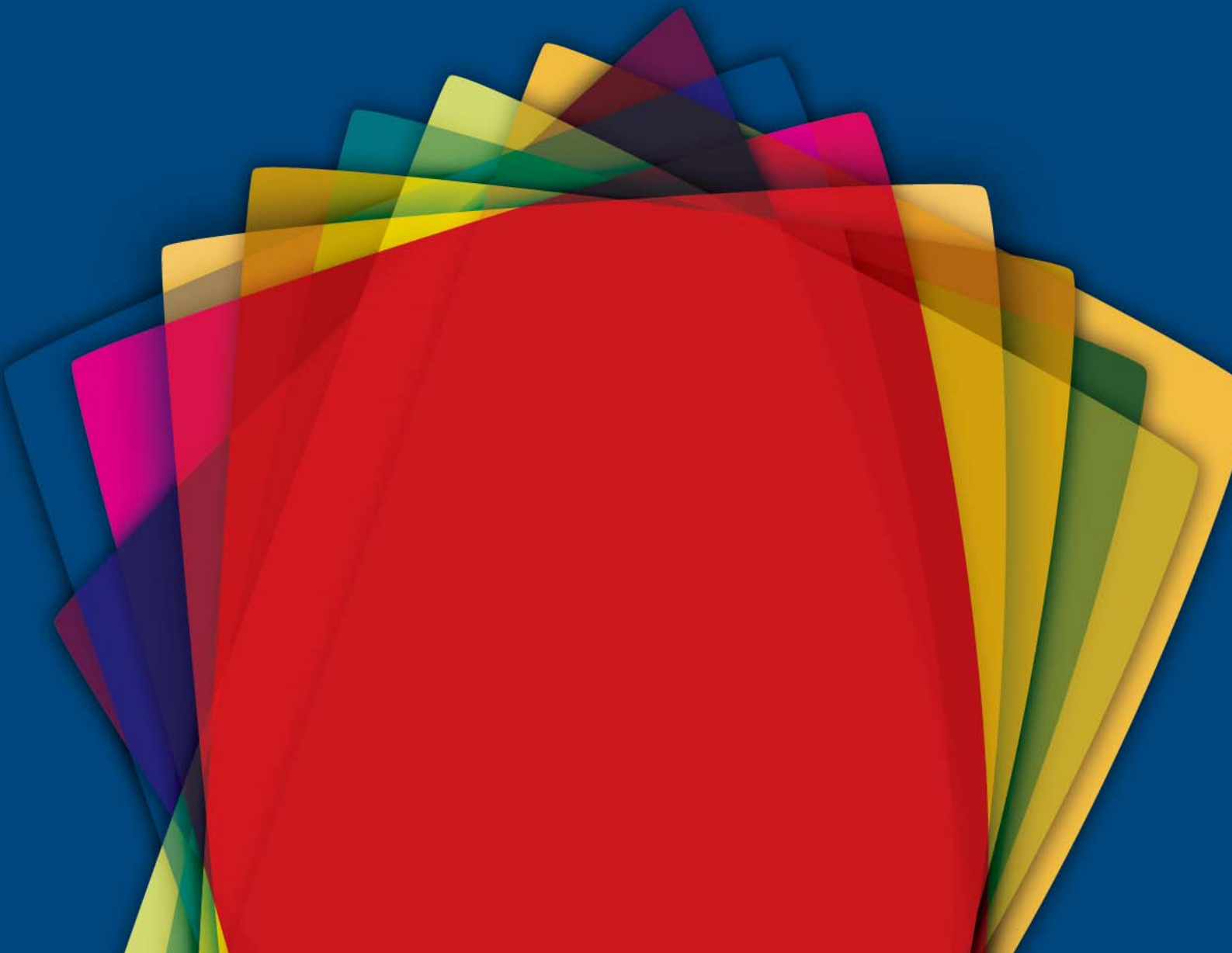




FINANCIAL REGULATOR  
*Rialtóir Airgeadais*

**Financial Review**  
Year ended 31 December 2007



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# 1. Introduction

The Financial Regulator has systems in place for preparing the annual estimate of income and expenditure in accordance with legislative requirements and for the monitoring and reporting on actual expenditure on a regular basis. Our annual statement of estimated income and expenditure for 2007 was submitted to the Minister for Finance in accordance with the legislative requirements.

The Financial Regulator is responsible for keeping books and records that properly record and explain the Financial Regulator's transactions. We assisted the CBFSAI in the preparation of its statement of accounts and have decided to publish the attached statement of our income and expenditure.

## 2. Commentary on Income

The funding levy raised €22.3 million from industry in 2007. In line with our stated policy we aim to maintain the levy at approximately 50 per cent of our budget with the balance of the total annual costs being provided by the CBFSAI in accordance with Section 33(L) of the Central Bank Act, 1942 (as inserted by Section 26 of the Central Bank and Financial Services Authority of Ireland Act, 2003). In 2007, the CBFSAI, with the approval of the Minister for Finance, bore the full cost of certain securities market supervision activities carried out within the Financial Regulator. These costs totalling €2.2 million were excluded from the Net Industry Funding levies issued in 2007.

The Regulations, detailing the levy amounts payable for 2007, were made on 19 June 2007. The 2007 levy calculations were based on an allocation of the Financial Regulator's 2007 budget, the methodology of which was subjected to an independent review by Deloitte & Touche; no issues arose from this review. Overall there was a high level of compliance with the Regulations in 2007 with the majority of regulated financial service providers paying the levy on a timely basis. An amount of €448,000 has been charged to the Income & Expenditure Account in 2007 to cover amounts written-off during the year and the provision at year end of €396,000. See also Note 1 on Page 8.

### 3. Commentary on Expenditure

Total expenditure for the year ended 31 December 2007, which comprises direct and indirect costs, amounted to €49.3 million. This compares with a budgeted figure for the year of €51.6 million. Table 1 below analyses total expenditure of the Prudential and Consumer Directorates and the Office of the Registrar of Credit Unions.

<b>Table 1 - Analysis of Expenditure by Directorate</b>				
	<b>Prudential Directorate</b>	<b>Consumer Directorate</b>	<b>Registrar of Credit Unions</b>	<b>Total</b>
	€'000	€'000	€'000	€'000
<b>Salaries/PRSI</b>	13,820	5,571	1,591	20,982
<b>Pension</b>	<u>1,962</u>	<u>791</u>	<u>226</u>	<u>2,979</u>
<b>Staff Expenses</b>	15,782	6,362	1,817	23,961
<b>Non-Pay Operating Expenses</b>	<u>1,425</u>	<u>3,954</u>	<u>201</u>	<u>5,580</u>
<b>Total Direct Expenses</b>	<b>17,207</b>	<b>10,316</b>	<b>2,018</b>	<b>29,541</b>
<b>Financial Regulator Support Departments (1)</b>	3,826	1,730	436	5,992
<b>Shared Services (2)</b>	<u>8,648</u>	<u>4,166</u>	<u>931</u>	<u>13,745</u>

<b>Total Direct Expenses And Shared Services</b>	<b><u>29,681</u></b>	<b><u>16,212</u></b>	<b><u>3,385</u></b>	<b><u>49,278</u></b>
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Financial Regulator direct costs which cannot be directly allocated to a directorate (e.g. Financial Regulator support costs such as Legal, Planning and Finance etc.) have been determined by the application of a cost allocation methodology, which has been reviewed by independent external consultants.

The process of allocating budgeted costs to each directorate takes into account the direct costs (pay, pension and non-pay) of each directorate.

(1) This represents direct costs of Financial Regulator support departments of €4.110 million, together with €1.882 million of the shared services costs for services received from the CBFSAI which have been allocated to the support departments of the Financial Regulator.

(2) This represents the amount of shared services costs allocated directly to the three divisions. Total shared services costs for services received from the CBFSAI amounted to €15.627 million; the balance of €1.882 million has been allocated to Financial Regulator support departments - see note 1 above.

Total expenditure for the year ended 31 December 2007 was below budget due to a combination of a small under spend in pay costs together with a significant under spend in non-pay costs. In spite of the charge for provisions and write-offs in 2007, the total amount collected from industry was in excess of the 2007 funding requirement, because of the lower than budgeted expenditure. The 2008 levies calculation has been adjusted to take account of the excess of income over expenditure for the year ended 31 December 2007.

A combination of staff complement short of requirements and management action on cost containment, especially in the area of attendance at international meetings together with a significant reduction in both the legal and consultancy fees and the deferral of a small number of projects to 2008 has resulted in non-pay operating expenses being below budget. In addition, both legal fees and consultancy fees were lower than budget. Legal fees are, by their very nature, difficult to forecast with any degree of accuracy both in terms of the amount and the expected pattern of expenditure. The under spend in consultancy fees was attributable to factors such as the cost of appointing external accountants to carry out inspections of credit unions on our behalf being borne by the credit unions themselves and difficulties in identifying suitably qualified consultants.

Expenditure on shared services and depreciation was also below budget arising from a combination of factors including lower information technology charges and reduced human resources related costs, primarily training and recruitment expenses, as fewer training courses were undertaken and the allocation to the Financial Regulator was less than anticipated in both categories.

## 4. Statement of Income and Expenditure and Report of Deloitte & Touche

The following section sets out the Statement of Income and Expenditure for the Financial Regulator for the year ended 31 December 2007.

### ACCOUNTING POLICIES

#### **(a) Form of Presentation of Income and Expenditure Account**

The Financial Regulator is a constituent part of the CBFSAI. It does not have either assets or liabilities of its own and accordingly it is not considered appropriate to produce either a balance sheet or cash flow statement.

The Statement of Income and Expenditure has been prepared (i) on the historical cost basis of accounting and (ii) in accordance with accounting standards generally accepted in Ireland in so far as they are applicable to the structure of the Financial Regulator. Accounting standards generally accepted in Ireland in preparing accounts giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.

The accounting unit is the euro.

#### **(b) Income Recognition**

The accruals concept in accounting for income and expenses has been adopted.

#### **(c) Superannuation**

The employment contracts of staff appointed by the Financial Regulator are with the CBFSAI. Under the CBFSAI's superannuation scheme permanent staff obtain the same superannuation benefits as established civil servants. The CBFSAI pays these benefits out of current income as they fall due. For the year ended 31 December 2007 the CBFSAI has adopted Financial Reporting Standard ("FRS") 17 "Retirement Benefits" in full, recognising the cost of providing pensions over the period during which it benefits from the employees services. See also Accounting Policy (d) and Note 34 of the Statement of Accounts of the Central Bank and Financial Services Authority of Ireland for the year ended 31 December 2007.

Irish Financial Services Regulatory Authority  
Statement of Income and Expenditure for the year ended 31  
December 2007

	Note	2007	2006
		€'000	€'000
<b>Industry Funding</b>			
Credit Institutions		8,174	7,423
Insurance Undertakings		4,707	4,854
Intermediaries		2,071	2,888
Securities and Investment Firms		1,653	1,445
Collective Investment Schemes and Service Providers		4,318	3,529
Credit Unions		1,417	1,298
Moneylenders		187	158
Approved Professional Bodies		22	20
Exchanges		168	101
Bureau de Change/Money Transmitters		40	28
<b>Total Funding</b>		<b>22,757</b>	<b>21,744</b>
<b>Less Provision/Write-offs</b>		<b>448</b>	<b>350</b>
<b>Net Industry Funding</b>	<b>1</b>	<b>22,309</b>	<b>21,394</b>
Excess of Income over Expenditure c/f from prior year		2,193	2,110
<b>Subvention from Central Bank and Financial Services Authority of Ireland</b>	<b>2</b>	<b>25,375</b>	<b>24,364</b>
		49,877	47,868
Other Income	<b>3</b>	3,329	2,887
<b>Total Income</b>		<b>53,206</b>	<b>50,755</b>
Direct Expenses	<b>4</b>	33,651	31,469
Shared Services	<b>5</b>	15,627	14,206
		49,278	45,675
Other Expenses	<b>3</b>	3,329	2,887
<b>Total Expenses</b>		<b>52,607</b>	<b>48,562</b>
<b>Excess of Income over Expenditure Carried Forward</b>	<b>6</b>	<b>599</b>	<b>2,193</b>

# NOTES TO THE STATEMENT OF INCOME AND EXPENDITURE

## Note 1: Net Industry Funding and Provisioning

Net Industry Funding income is included in the Statement of Accounts of the CBFSAI under Other Income. This figure comprises income from levies imposed upon the above industry categories (net of appeals and adjustments) under the Central Bank Act, 1942 (Sections 33J and 33K), Regulations 2004 (as amended by the 2007 Regulations) and other income in respect of fees and charges. An amount of €448,000 in respect of provision/write-offs has been offset against total funding income to arrive at Net Industry Funding. Outstanding levy amounts are being pursued as part of the ongoing debt recovery process.

The provision/write-offs are as follows:

	2007	2006
	€'000	€'000
Opening Provision for Unpaid Levy Notices	186	213
Less: Write-Offs 2004 Levy	82	68
Less: Write-Offs 2005 Levy	148	127
Less: Write-Offs 2006 Levy	8	182
Less: Write-Offs 2007 Levy	-	-
<b>Add: Charge to Income &amp; Expenditure Account - Provision/Amounts Written-Off</b>	448	350
Closing Provision for Unpaid Levy Notices	396	186

## Note 2: Subvention from Central Bank and Financial Services Authority of Ireland

By agreement with the Minister for Finance in September 2006, over the three-year period 2007-2009 approximately 50 per cent of the total costs of the Financial Regulator have been met by the imposition of levies on the industry. The balance of the total annual costs is provided by the CBFSAI in accordance with Section 33(L) of the Central Bank Act, 1942 (as inserted by Section 26 of the Central Bank and Financial Services Authority of Ireland Act, 2003). In 2007, the CBFSAI, with the approval of the Minister for Finance, bore the full cost of certain securities market supervision activities carried out within the Financial Regulator. These costs totalling €2.2 million were excluded from the Net Industry Funding levies issued to the industry in 2007.

## Note 3: Other Income/Other Expenses

In 2007, the Irish Stock Exchange collected €3.3 million in fees payable to the Financial Regulator in accordance with Regulation 109 of the Prospectus (Directive 2003/71/EC) Regulations 2005 and Regulation 78 of the Transparency (Directive 2004/109/EC) Regulations 2007. In accordance with Part 17(h) of the Prospectus Directive and Market Abuse Directive, delegation agreements entered into by the Financial Regulator with the Irish Stock Exchange, the Financial Regulator confirmed to the Irish Stock Exchange that it could retain the sum of €3.3 million to put towards the costs that it had incurred in undertaking the delegated functions under the delegation agreements.

## Note 4 :Direct Expenses

	<b>2007</b>	<b>2006</b>
	€'000	€'000
Salaries/Allowances	22,231	20,498
PRSI	<u>1,573</u>	<u>1,484</u>
	23,804	21,982
Pension Provision	3,380	3,121
<b>Staff Expenses</b>	<b><u>27,184</u></b>	<b><u>25,103</u></b>
Training, Recruitment & Other Staff Costs	477	449
Equipment, Stationery and Requisites	449	414
Business Travel	775	664
Publishing & Media Relations	2,833	3,016
Professional Fees	1,749	1,669
Miscellaneous	<u>184</u>	<u>154</u>
<b>Non-Pay Operating Expenses</b>	<b><u>6,467</u></b>	<b><u>6,366</u></b>
<b>Direct Expenses</b>	<b><u>33,651</u></b>	<b><u>31,469</u></b>

Direct expenses (excluding the pension provision of €3.380 million) are included in the Statement of Accounts of the CBFSAI as set out in Note 34 to those accounts.

- (i) Total fees paid to Members of the Financial Regulator in respect of 2007 were €175,000 (2006: €172,083).
- (ii) Auditors' fees payable to Deloitte & Touche in respect of the examination of the Statement of Income and Expenditure of the Financial Regulator amounted to €6,655 (2006: €6,353).
- (iii) The pension provision represents the estimated actuarial pension costs of the CBFSAI in respect of Financial Regulator staff serving in 2007. This provision does not form part of the CBFSAI's expenses for 2007.

## Note 5: Shared Services

Shared services (excluding the pension provision of €1.1 million) are included in the Statement of Accounts of the CBFSAI as set out in Note 8 to those accounts.

The Financial Regulator receives various services including premises, human resources administration, accounting, internal audit, statistical and information technology services from the CBFSAI. The cost of these services in 2007 was €15.6 million (2006: €14.2 million).

The costs involved have been determined by the application of a cost allocation methodology which has previously been reviewed by independent external consultants. Allocation is based on well-recognised industry practice including occupied floor space, PC numbers and headcount (staff numbers) as appropriate. The main components of the above costs are as follows:

	2007	2006
	€'000	€'000
Corporate Services incl. Premises	7,576	6,802
Information Technology Services	2,848	2,655
Human Resources	2,242	2,077
Other Services	2,961	2,672
<b>Total</b>	<b>15,627</b>	<b>14,206</b>

### Other services explained

**Other services include accounting and other administrative services (2007: €1.4 million; 2006: €1.3 million), statistical services (2007: €0.4 million; 2006: €0.4 million) and estimated actuarial pensions costs (2007: €1.1 million; 2006: €1.0 million) in respect of Central Bank staff engaged in the provision of services to the Financial Regulator.**

## Note 6: Excess of Income over Expenditure

This represents the amount of levies collected from industry in 2007 in excess of the 2007 funding requirement. The 2007 funding requirement is the total of Direct Expenses and Shared Services (€49.3 million) expenditure less the subvention from the CBFSAI. The excess of income over expenditure has been carried forward and the calculation of the amount of industry levies for 2008 has been adjusted to take account of this excess.

## Note 7: Superannuation Liabilities

Superannuation liabilities of all staff employed by the CBFSAI are dealt with in Note 34 of the Statement of Accounts of the CBFSAI for the year ended 31 December 2007.

## Note 8: Post-Balance Sheet Events

There were no post-balance sheet adjusting events.

## Note 9: Approval of Accounts

The Members of the Authority approved the Statement of Income and Expenditure on 28 May 2008.

# INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF THE IRISH FINANCIAL SERVICES REGULATORY AUTHORITY ("THE FINANCIAL REGULATOR")

We have examined the Statement of Income and Expenditure set out in Section 4 of the Financial Regulator's Annual Report for the year ended 31 December 2007.

## **Respective Responsibilities of Members and Auditors**

The Members are responsible for preparing the Statement of Income and Expenditure. Our responsibility is to report to you our opinion on the consistency of the Statement of Income and Expenditure within the Annual Report with the Statement of Income and Expenditure for the Financial Regulator disclosed in the Notes to the Accounts of the full Statement of Accounts of the Central Bank and Financial Services Authority of Ireland for the year ended 31 December 2007. We also read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Statement of Income and Expenditure.

This statement, including the opinion, has been prepared for and only for the Financial Regulator's members as a body and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

## **Basis of Opinion**

We conducted our work in accordance with Bulletin 1999/6 "The auditors' statement on the summary financial statement" issued by the Auditing Practices Board.

## **Opinion**

In our opinion the Statement of Income and Expenditure is consistent with the Statement of Income and Expenditure for the Financial Regulator disclosed in the Notes to the Accounts of the full Statement of Accounts of the Central Bank and Financial Services Authority of Ireland for the year ended 31 December 2007.

**Deloitte & Touche**  
**Chartered Accountants & Registered Auditors**  
**Dublin**  
**17th June 2008**

## 5. Review of Cost Allocation Model used by the Financial Regulator

This section contains an overview of the work carried out by Deloitte & Touche on the allocation of Financial Regulator 2007 costs (Outturn) to industry sectors.

This independent report is contained in section 6.

### **Review of Financial Regulator's 2007 Model**

Section 33J of the 2003 Act empowers the Chief Executive of the Financial Regulator, with the agreement of the other members of the Authority, to make regulations prescribing levies to be paid by regulated entities to the Financial Regulator.

Under the current levy arrangements, the amounts levied by the Financial Regulator are set by reference to the relevant budgeted costs attributable to each industry category. These costs are determined using a Model developed by the Financial Regulator in conjunction with external consultants (the "Financial Regulator's Model"). The Financial Regulator's Model takes into account the activities involved in supervising each industry category and, in the case of costs which cannot be directly allocated to an industry category, a basis considered appropriate by the Financial Regulator has been used to allocate such costs.

In 2008 Deloitte & Touche were appointed independent reporting accountants to form an independent opinion on the logical integrity, internal consistency and arithmetical accuracy of the formulae, algorithms and calculations contained within the Financial Regulator's Model employed by the Financial Regulator to allocate costs to industry categories and on the application of the Financial Regulator's Model to 2007 actual costs (the "Financial Regulator's 2007 Actual Model") and to report that opinion to the Members of the Authority. A copy of their report, dated 17 June 2008, to the Members of the Authority is included section 6.

# 6. Statement of Allocation of Financial Regulator Actual Costs to Industry Sectors

## 1. Introduction

Section 33J of the Central Bank Act, 1942 ('the Act') as inserted by Section 26 of the Central Bank and Financial Services Authority of Ireland Act, 2003 empowers the Chief Executive of the Irish Financial Services Regulatory Authority ("Financial Regulator"), with the agreement of the other members of the Irish Financial Services Regulatory Authority, to make regulations prescribing levies to be paid by regulated entities to the Financial Regulator.

Each year the Financial Regulator sets the levy by reference to the allocation applicable to industry categories of the Financial Regulator's actual outturn costs for the previous year and the budgeted cost for the forthcoming year.

The 2007 budget model has been re-run using actual costs for 2007 in order to determine the 'actual' costs - the 'outturn'. Note 3 below sets out the allocation of budgeted and actual costs for the year ended 31 December 2007.

The Outturn was subject to independent assessment by reporting accountants Deloitte & Touche. Their report is set out in section 4 below.

## 2. Notes to the Statement of allocation of actual costs for the year ended 31 December 2007

### **Method of allocation**

In setting the annual funding requirement any surplus or deficit from the previous year is offset against the budgeted costs. The resultant amount is allocated across industry categories. There are a total of 12 industry categories. The process of allocating costs to each industry category takes into account the activities involved in supervising each industry category. In the case of costs which cannot be directly allocated to an industry category a basis considered appropriate by the Financial Regulator has been used to allocate such costs.

### 3. Statement of Allocation of Costs for the year to 31 December 2007

	<b>Industry Category</b>	<b>Budget Allocated costs</b>	<b>Actual Allocated costs</b>
		€'000	€'000
A	Credit Institutions	9,006	8,558
B	Insurance Undertakings	5,008	4,760
C	Intermediaries	2,359	2,371
D	Securities and Investment Firms	1,812	1,734
E	Collective Investment Schemes ("CIS") and Providers to CIS	4,249	4,058
F	Credit Unions <sup>1</sup>	1,959	1,724
G	Moneylenders	200	175
H	Approved Professional Bodies	26	24
I	Exchanges	122	101
J	Bureau de Change/Money Transmitters	53	55
<b>Total</b>		<b>24,794</b>	<b>23,560</b>

(Category I Exchanges - includes Approved Exchanges authorised under the Stock Exchange Act, 1995 and Financial Futures and Options Exchanges authorised under the Central Bank Act, 1989)

The actual allocated costs detailed above were the result of the application of the actual costs for 2007 to the cost allocation model as described in section 2 above. These amounts, together with other information such as amounts actually collected in 2007, were then used to determine the surplus arising for each industry sector in 2007 which was offset against the 2008 levy amount to be collected.

<sup>1</sup> This represents the credit union funding contribution for 2007 which has been capped at 0.01 per cent of total assets.

## 4. Independent Report by Deloitte & Touche

The Members of the Irish Financial Services Financial Regulatory Authority ("the Financial Regulator")  
PO Box 9138 College Green Dublin 2

17 June 2008.

Dear Sir/Madam,

### **INDEPENDENT ACCOUNTANT'S REPORT TO THE MEMBERS OF THE FINANCIAL REGULATOR IN CONNECTION WITH THE OUTTURN REVIEW**

We have examined the allocation of actual costs within the Financial Regulator to each of the industry categories for the purpose of calculating levies payable by regulated entities to the Financial Regulator for the year ending 31 December 2007 - "the Outturn". The Outturn has been prepared in accordance with the descriptions provided by the Financial Regulator's management to us for each of the cost centres involved in regulating financial services entities, providing services to these cost centres.

Our report is made solely to the members of the Financial Regulator in accordance with the terms of our engagement letter, dated 14 April 2008. Our work has been undertaken so that we might state to them those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Financial Regulator for our work, for our report or for the opinions we have formed.

### **Respective responsibilities of the Financial Regulator and Deloitte & Touche**

The Financial Regulator is responsible for the preparation of the Outturn in accordance with the bases set out in the preparation note. It is our responsibility to form an independent opinion, based on our examination, on the Outturn and to report our opinion to you. Therefore we are responsible for selective testing of the allocation of actual costs as outlined below.

### **Work performed**

We conducted our work in accordance with the terms of our engagement letter. Our work included a review of evidence relevant to the Outturn. Our work excluded audit procedures and is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit.

Our review consisted principally of the performance of the following procedures;

- We agreed the total population of costs in the Outturn to the Financial Regulator's management accounts for the year ended 31 December 2007 (subject to any audit adjustments thereto) presented for and subject to audit.
- We agreed the total population of costs to the accounts of the full Statement of Accounts of the Central Bank and Financial Services Authority of Ireland for the year ended 31 December 2007.
- We verified that the actual costs, and only those costs, for each of the cost centres included in the budgeted model have been included in the Outturn.
- We verified that the allocation metrics used in the Outturn for each of the cost centres to be allocated, are consistent with those used in the budgeted model and have been applied correctly.
- We verified the "standing data", used to determine the allocation metrics and used to perform the allocation of costs to industry categories, to supporting material provided by departments independent of the Financial Regulator.
- We checked the logical integrity, the consistency and arithmetic accuracy of the formulae, algorithms and calculations in the Outturn with those in the budgeted model.

## **Conclusion**

Based on our examination, as outlined above;

- in our opinion the Outturn has been prepared in a manner that is consistent with the budgeted model;
- nothing came to our attention that would indicate that the Outturn has been prepared on a basis that is inconsistent with our understanding the budgeted model and/or the operations of the Financial Regulator; and
- We are not aware of any material modifications that should be made to the Outturn.

**Deloitte & Touche**  
**Chartered Accountants & Registered Auditors**  
**Dublin**  
**17th June 2008**



**FINANCIAL REGULATOR**  
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