



Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Gabriel Makhoul
Gobharnóir / Governor

Deputy John McGuinness T.D.
Chairman
Committee of Finance, Public Expenditure and Reform, and Taoiseach
Leinster House
Kildare St
Dublin 2

1 November 2023

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I am writing with responses to the outstanding questions raised by members at the Committee on Wednesday 20 September, as well as your letter of 11 October on accounting standards.

1. Defective Block Redress

Deputy Doherty asked a number of questions on the issue of redress for the owners of homes affected by defective building blocks.

I can confirm that the Central Bank has met with the representative group to discuss specific issues on banking and insurance matters, including to hear about the homeowners' experiences and specific concerns with respect to banking and insurance aspects and seek detailed information from them to build our understanding further. We have also been engaged with the Banking and Payments Federation of Ireland (BPF) and Insurance Ireland to ensure the financial services sector plays its proper role in supporting the resolution of the situation in which the homeowners have found themselves, and in particular to support the implementation of the government scheme to that end. We will continue to engage with the financial services industry and its representative groups to advance this work.

Our view remains that greater coordination is needed across the range of bodies and industry sectors involved for the remediation scheme to work and be effective in supporting

the homeowners. We are aware that the BPFII has outlined the actions taken to date by its members to support affected customers, and to detail its request to the Minister for Housing to establish an Oversight Committee tasked with overseeing the implementation and roll-out of the Scheme. This would include the Department of Housing, the construction sector and representative bodies, and valuation bodies, along with the representatives of the banking and insurance sectors.

We believe that only through such a coordinated approach, under the auspices of the Scheme introduced by the Department of Housing, can the various aspects of this matter (as outlined to us by the representative group) be dealt with effectively. The Central Bank will play its part in supporting that outcome, while recognising that at its core this matter has arisen outside of financial services. We also remain vigilant to ensure that the regulatory framework we are responsible for is being complied with by the firms we regulate, including for instance in the context of any mortgage arrears faced by affected homeowners.

I confirm that loans are classified by lenders as non-performing if there are material exposures which are more than 90 days past due, or the borrower is assessed as 'unlikely to pay' their credit obligations in full without realisation of collateral. Both the repayment levels and the value of the collateral will determine the extent of provisioning/capital set aside for each loan. This can include adjusting the provisioning for any exposures held to homes affected by defective concrete blocks (both the level of provisions on the mica impacted 'performing' loans, and the mica impacted 'non performing' loans).

2. Inflation

Deputy Tóibín asked whether the Central Bank has quantified exactly how much of the current inflation rate increases have been caused directly by Government decisions.

The Government can influence the rate of inflation directly by either changing prices directly under its control (administered prices – hospital charges, bus, taxi and rail fares, for example) or by changing the rate of indirect tax on certain products, for example excise duty on petrol and diesel and VAT on gas and electricity. Since 2020, the Government introduced a range of measures to support economic activity through the pandemic and increases in the cost of living. Some of these measures decreased the rate of inflation. The taxation measures included a reduction in VAT on the tourism and catering sector, the

decline in excise on transport and heating fuel, as well as a decline in excise on gas and electricity and in transport fares. The Government also introduced a range of measures that would increase the rate of inflation. These include the announced reversal of some of the declines on excise on energy products, increased carbon taxes on certain energy products, an increase in hospital charges and an increase in road tolls.

The exact extent of the impact on inflation of changes in indirect taxes is complicated by varying degrees of pass-through in certain products. The HICP at constant taxes (HICP-CT) assumes that changes in tax rates are passed on to the consumer instantaneously and fully. Thus, the HICP-CT tends to provide an indication of the upper limit of the impact of tax changes on inflation. We calculated the net effect of tax policies on inflation using the HICP-CT and HICP for administered prices. Overall, the net impact of changes in administered prices and indirect taxes is estimated to have been nearly zero in 2020-21 but positive in 2022 (0.38p.p.). So far in 2023, the net effect has been slightly negative (-0.05p.p.) but it turned positive in recent months (0.43p.p. in August from -0.55p.p. in January).

3. Mortgage Interest Rates

Deputy Conway-Walsh asked a number of questions about mortgage interest rates which are answered in the table below:

Estimates of the distribution of Interest Rates of Outstanding PDH Mortgages: June 2022 versus June 2023 (cumulative percentage of mortgages at each interest rate interval)*

End-June 2022				End-June 2023			
Interest Rate Intervals (%)	Banks	Lending RCFs	Non-lending firms	Interest Rate Intervals (%)	Banks	Lending RCFs	Non-lending firms
<= 0.5	2%	0%	14%	<= 0.5	2%	0%	11%
<= 1.0	15%	0%	35%	<= 1.0	2%	0%	12%
<= 1.5	30%	3%	55%	<= 1.5	2%	0%	12%
<= 2.0	32%	17%	57%	<= 2.0	2%	16%	13%
<= 2.5	44%	45%	60%	<= 2.5	16%	45%	14%
<= 3.0	68%	69%	65%	<= 3.0	36%	70%	16%
<= 3.5	83%	98%	69%	<= 3.5	56%	87%	18%
<= 4.0	93%	99%	78%	<= 4.0	67%	91%	21%

<= 4.5	99%	99%	94%	<= 4.5	71%	92%	39%
<= 5.0	100%	100%	96%	<= 5.0	86%	93%	70%
<= 5.5	100%	100%	98%	<= 5.5	98%	95%	76%
<= 6.0	100%	100%	99%	<= 6.0	99%	97%	80%
<= 6.5	100%	100%	99%	<= 6.5	100%	99%	89%
<= 7.0	100%	100%	100%	<= 7.0	100%	100%	93%
<= 7.5	100%	100%	100%	<= 7.5	100%	100%	98%
<= 8.0	100%	100%	100%	<= 8.0	100%	100%	99%
<= 8.5	100%	100%	100%	<= 8.5	100%	100%	100%
<=9.0	100%	100%	100%	<=9.0	100%	100%	100%

**Estimates based on CCR data. These are not official Central Bank Statistics.*

4. Mortgage switching

Deputy Conway-Walsh also asked about mortgage switching.

The Central Bank has engaged intensively with firms since last year on the operation of specific aspects of the consumer protection framework to ensure regulated firms:

- Enhance the supports available to borrowers in or facing arrears. This includes enhancing and monitoring of early warning indicators as rate increases impact on borrowers and the analysis conducted by firms to identify those borrowers who may require additional support;
- Have sufficient operational capacity in place to manage applications by borrowers to switch their mortgage or mortgage provider, and that there is no discrimination against borrowers based on where they currently hold their mortgage; and
- That increases in mortgage interest rates are in line with mortgage terms and conditions, firms' published variable rate policy statements and the regulatory framework for which the Central Bank is responsible.

As outlined in the update published in April, the initial phase of our work established that, properly applied, the regulatory framework is well-positioned to deliver for consumers. Our analysis has also shown that there is no evidence of discrimination for switching applicants coming from non-banks based purely on where their mortgage is currently held.

As we have progressed our current phase of work, we have seen tangible outcomes emerge from individual firms and collectively including:

- Firms have further developed their early warning indicators to improve their identification and proactive engagement with customers who are in, or in danger of, falling into arrears;
- In response to these early warning indicators, firms have introduced a range of measures to help support borrowers including increased resources to support customers;
- Firms have continued to enhance the alternative repayment arrangement supports (or ARAs) for borrowers in or facing arrears including the introduction of fixed rate ARA options which has been announced publicly;
- Firms have enhanced borrower communications initiatives on switching and some have launched proactive outreach campaigns aimed at specific groups of borrowers;
- We have also seen a system-wide initiative across all firms with the recent announcement of the new support measures for borrowers in the BPFII “Dealing with Debt” campaign, that has introduced system-wide initiatives to support mortgage switching for the first time and increased coordination with MABS and mortgage brokers to enhance how the mortgage market operates for consumers.

I welcome the second phase of the BPFII’s Dealing with Debt campaign, which follows on from the Central Bank’s engagement with industry as part of Phase 2 of our ongoing work. The Dealing with Debt campaign covers a range of new and existing supports available for mortgage customers who may be experiencing financial difficulties in light of the continued cost of living pressure and recent increase in interest rates. These include enhanced collaboration with MABS and additional supports for customers of credit servicing firms who wish to discuss their mortgage switching options (e.g. dedicated phone lines and additional published information on switching). We encourage all borrowers to engage with these supports, which are themselves set against the backdrop of a highly protective regulatory regime.

As part of this package of measures, BPFII members listed in the recent announcement agreed and published initial eligibility criteria, to provide clear guidelines for home mortgage customers of non-bank non-lenders (NBNLs) who are seeking to switch their mortgage. I welcome the clarity provided by the publication of these criteria and reiterate that the most important thing is for consumers at credit servicing firms to seek the advice of their lender or a third party (such as a regulated mortgage intermediary or MABS) to explore their options (including the option of switching and how their circumstances relate

to the criteria published by the BPFi). We will continue to monitor the level of engagement by borrowers with these supports, through our ongoing engagement with the firms we regulate and with the BPFi, while noting there is a low base in terms of existing switching activity. (The latest data on mortgage approvals shows that re-mortgage/switching activity fell by 54.4% year on year in volume terms.)

In terms of the specific question on numbers of switchers, our focus will be on the degree to which affected consumers seek to access these supports and are supported to switch. What is clear, however, is that the population to which the BPFi's initiative speaks is substantial.

Previously, we set out that initial internal calculations, based on Central Bank data indicate that the number of accounts held by NBNLs that have been assessed as never having been in financial difficulties was just under 23,000 in March 2023. We estimate, based on the criteria of accounts which have not been in arrears for 2 years or more, and paying full capital and interest, that there are approximately 27,000 accounts currently in NBNLs that may potentially be able to switch. Of this 27,000, approximately 15,500 are on tracker rates and approximately 11,000 are on variable rates (where we see the higher rates amongst NBNLs). However, this estimate must be considered in the context that any switching application would be subject to an individual credit assessment and other criteria that will need to be considered.

While it is not possible to predict with precision the level of accounts that may be able to switch on foot of the BPFi announcement, it is clear that the initiative has the potential to be availed of by a substantial number of borrowers currently with NBNLs, including borrowers on higher rates. Much will depend on the scale of engagement by consumers and, importantly, the quality of support regulated firms provide to those consumers who do engage, alongside the equally important supports for consumers in or facing arrears.

5. Issues around the closure of Ulster Bank

Deputy Conway-Walsh raised the problems faced by customers of retail banks that have recently closed.

We established a dedicated programme of work to manage the implications of the Ulster Bank and KBC Bank Ireland exits on customers, the retail banking sector and the wider

financial system. The large-scale migration of customer bank accounts was a significant challenge for customers and the financial services system as whole, through which firms have a duty to support their customers and to ensure that customers' experiences are in line with their expectations.

Throughout our engagement with firms, we have made clear our expectation that the large-scale migration of customer bank accounts must happen in line with customer needs and expectations. This has included ensuring that all reasonable action is taken to ensure that customers' interests are protected and to avoid systemic consumer detriment as well as financial and/or operational losses (e.g. missed mortgage repayments, delays to the receipt of social welfare/wages payment etc.).

As part of our work we also engaged with the largest Direct Debit Originators (DDOs) that are regulated as financial service providers (e.g. insurance companies and payment institutions) to reinforce their duty to take action to ensure this exercise is completed efficiently. Firms who also operate as DDOs were required to take all necessary action to ensure they can support their customers switching bank accounts in a smooth and timely manner. This included recognising that some customers may experience unexpected issues with their direct debit payments, and they should not suffer any cost or penalty as a result of issues outside of their control.

6. UBIDAC and Global Restructuring Group Ireland customers

You raised the issue of the treatment of some customers of Global Restructuring Group Ireland (GRGI).

Since the publication of the Tomlinson Report in the UK in 2013, we engaged with Ulster Bank Ireland DAC (UBIDAC) in relation to GRGI customers to ensure that GRGI customers were treated fairly. In 2017, UBIDAC announced a complaints process for customers who had been in GRGI along with a refund process for complex fees. As part of this process, UBIDAC wrote to all SMEs who were in GRGI to make them aware of the GRGI complaints process.

In addition, we conducted an onsite inspection in UBIDAC in 2018. Following the inspection, detailed feedback was provided, together with demanding but reasonable actions and timelines for UBIDAC to comply with.

We also undertook a review of the other main SME lenders in Ireland to see if there was any evidence of unfair treatment of SMEs across the system. The review did not identify any indication or evidence of systemic unfair treatment of SMEs. However, some lenders failed to satisfy us that they had taken appropriate actions to ensure that SMEs were treated fairly and in accordance with the SME Codes and/or Regulations. Detailed findings were communicated to each of the main SME lenders, including associated deadlines for addressing the issues identified.

While the dedicated GRGI complaints process is now closed, any customers who have concerns about how they were treated, or believe they have been mistreated by their lender, have the ability to make a complaint to UBIDAC, and may have the ability to complain to the Financial Services and Pensions Ombudsman if they remain dissatisfied.

7. EBS Tied Agents

You also raised the issue of EBS tied agents.

The issues mentioned in relation to EBS have been subject to detailed work including engagement with the firm. All of the allegations which have been brought to our attention, and which fall within our mandate, have received significant attention from our supervisory staff and from management over a number of years. It would be inappropriate to comment further on the EBS matter at this time given a process remains ongoing.

8. AIB Belfry Funds

You raised the issue of AIB Belfry Funds.

As you know AIB instigated a programme to review all investments in the Belfry Property (UK) funds on a case-by-case basis to determine if redress may be due to investors.

The sales of Belfry Funds predated the 2006 and 2012 Consumer Protection Codes and the latter would apply to the sale of such a product today. There was a 2001 Code for Investment Business Services in place but this provided limited protections, compared to the protections in place for the sale of such a product today. There are therefore limitations to the regulatory framework that applied when this product was sold. Nevertheless we have worked to ensure that the review structures and principles that were put in place by AIB

were comprehensive, and focused on fair outcomes for their customers, in line with similar approaches required under the framework for the Tracker Mortgage Examination (for example).

Following settlement of a legal case in 2021, AIB commenced a case-by-case lookback review and associated redress framework for investors. The Review was completed in Q4 2022. For those investors dissatisfied with the outcome, the appeals mechanism remains open until 30 November 2023 (or the end of January 2024 depending on when the investor received the review outcome letter) to allow investors to challenge AIB's assessment of their individual case. Separate to the Appeals Process, investors continue to have the right to complain to the Financial Services and Pensions Ombudsman, should they so wish.

Since July 2021 we have had significant supervisory engagement with AIB on both the design and execution of the Belfry lookback review framework. We have been clear that, as in all such cases, we expect the firms we regulate to ensure investors' best interests are protected and to comply fully with the relevant regulatory requirements and expectations. In particular, we require firms to put things right where they have made errors or cause consumer or investor harm.

We intervened with AIB at different stages of the process to ensure that the lookback review and redress framework was designed in a manner that met our expectations. Through our continuing supervision of firms, we monitor the investigation and provision of redress and compensation for consumers and investors.

We understand that AIB will provide the Committee with a written overview in relation to Belfry funds.

9. Customers Whose Mortgage Has Been Sold To a Non-Bank

You also raised issues relating to customers whose mortgage has been sold to a non-bank lender.

The regulatory framework ensures that where credit institutions choose to reduce their levels of non-performing loans through sales, securitisations, purchases or transfers of residential mortgage loans, consumers retain all regulatory protections afforded under the Code of Conduct on Mortgage Arrears, 2013 and the Consumer Protection Code, 2012.

Firms are required at all times to conduct their affairs in a manner that ensures that consumers are protected.

We set out expectations of firms in respect of sales, securitisations, purchases and transfers of residential mortgage loans, with particular reference to due diligence and reporting obligations, in 2019.

Any customer can take a claim through the courts system in respect of contractual and non-contractual issues related to their mortgage account. However, the Central Bank has no role in determining such matters and/or enforcing subsequent court judgements. We welcome information received from public representatives, consumers and through other channels, which we review and consider in detail. This information is used to guide and inform the scope of all our supervisory work and engagement with firms, including in relation to our post supervision monitoring of loan sales.

We also welcome information received directly from customers and their representatives about their experiences with regulated firms. We consider all information received in relation to individual firms, which can be received through our public contacts team, protected disclosures or our customer charter. Hearing directly from customers and their representatives about their experience informs our work and our supervision of financial firms.

To date this year we have received 198 consumer contacts in relation to non-bank lenders.

In responding to individual consumers, we acknowledge their correspondence and share the information for review with the relevant supervisory teams. In some cases, we will contact the consumer to seek further information or their permission for us to discuss their specific case with the firm. However, we are restricted from disclosing details of any action that we might take as a result of the information provided. We also inform consumers that they can seek a resolution of their individual case through the complaint process provided for in the Consumer Protection Code and by way of the Financial Services and Pensions Ombudsman (FSPO). The FSPO is the statutory body charged with resolving an individual's complaint against a regulated financial service provider.

The Consumer Protection Code provides that any consumer who is not satisfied with how a regulated firm is dealing with them in the course of providing a service can make a

complaint directly to the regulated firm. If a consumer is not satisfied with how their complaint is dealt with, they have the option of then making a complaint to the FSPO.

10. Accounting Standards

You raised the issue of accounting standards and subsequently wrote to me on 11 October on the same issue (Ref: JCFPERT-I-0858).

Deputy Governor Rowland's letter of 9 June this year set out our position on the topic of accounting standards which remains unchanged.

The Central Bank's mission is to serve the public interest by maintaining monetary and financial stability while ensuring that the financial system operates in the best interests of consumers and the wider economy.

While there are complementarities between some of the statutory roles of the Central Bank, the firms it supervises, the auditors of those firms, and the Irish Auditing & Accounting Supervisory Authority (IAASA), their roles are ultimately different. It is the responsibility of directors of banks to prepare financial statements in accordance with the applicable financial reporting framework and applicable laws and regulations. In addition, auditors have a series of statutory responsibilities prescribed by company law. Under company law, IAASA is responsible for the supervision of the accounting profession and is the competent authority for the oversight of statutory auditors in Ireland.

There are legal gateways for the Central Bank to communicate with the auditor of banks and with IAASA. The Central Bank has in place an Auditor Protocol to enhance the information sharing between the Central Bank and auditors of regulated financial service providers thereby improving the regulatory and statutory audit processes. Auditors are also required to make a written report to the Central Bank, within one month of the date of the auditor's report on the financial service provider's financial statements. The Statutory Duty Confirmation is sent directly to the Central Bank and is a statement to the Central Bank that there is no matter, not already reported in writing to the Central Bank by the auditor, that has come to the attention of the auditor during the ordinary course of the audit that gives rise to a duty to report to the Central Bank. The Statutory Duty Confirmation does not replace the auditor's obligation to report under other relevant legislation. Auditors of financial services providers must provide the Central Bank with a copy of any

report made on an entity or those concerned with its management during the course of a financial statement audit or while carrying out any work for the entity of a kind specified by the Central Bank. The European Banking Authority (EBA) has in place guidelines on the communication between competent authorities supervising credit institutions and statutory auditors of those institutions, designed to contribute to fostering financial stability and safety and soundness of the banking system by facilitating the task of supervision of credit institutions.

Accounting practices and the amendments to accounting frameworks following the Global Financial Crisis were discussed extensively during the Oireachtas Banking Inquiry, with which the Central Bank engaged fully.

11. Distributional Wealth Accounts

Finally, Deputy Boyd-Barrett requested more information on Distributional Wealth Accounts (DWA).

Distributional Wealth Accounts (DWA) are a new experimental dataset developed by the ECB in tandem with the national central banks. DWA match low-frequency micro-economic distributional data from the Household Finance and Consumption Survey (HFCS) with quarterly macroeconomic national and financial accounts data on households. In essence, the distribution across households based on the HFCS is applied to instruments totals available in quarterly national and financial accounts, with the results for quarters after 2021 based on the latest available HFCS wave.

DWA provide information on the national aggregates for net wealth, total assets and total liabilities and some of other financial and non-financial components (deposits, equity, mortgages and other loans, housing) each broken down by

- Wealth deciles, classified in:
 - Bottom 50% of the net wealth distribution
 - Each following decile (6, 7, 8, 9, 10)
- Housing status, classified in:
 - Home-owners
 - Tenants

- Employment status, classified in:
 - Employee
 - Self-employed
 - Retired
 - Unemployed
 - Other

The ECB will publish DWA, including Irish results, later this year. The data will have a quarterly frequency, starting in Q2 2013 for Ireland, due to the limited availability of HFCS survey results.

We also plan to publish an Economic Letter based on the latest available results which will update the information published in the 'Behind the data on Irish Household Wealth inequality' from November 2022.

The DWA will therefore be a useful source to answer questions such as:

- What is the share (and amount) of total wealth held by the richest 10% of households?
- What is the share (and amount) of a specific financial (e.g., deposits, equity, bonds) or non-financial (housing) instrument held by households by wealth decile/housing status/employment status?
- Has wealth inequality in Ireland increased/decreased throughout the years (i.e., the evolution of the Gini coefficient)?
- What is the difference in wealth composition of richer households/households with a specific occupation/tenancy status compared to others?

12. Politically Exposed Persons

Finally, as we made clear to the Committee, the legislation relating to Politically Exposed Persons comes from both EU and the Irish State, with guidelines issued by the Department of Justice. The Central Bank oversees the controls for the Irish financial system, and the approaches of Irish banks, to prevent the proceeds of crime and financial crime. We have an influence in frequency of testing, for example, but the rule framework is set separately. We fully support the current risk-based approach.

I hope that the above information is helpful.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Gabriel Makhoul', with a long horizontal flourish extending to the right.

Gabriel Makhoul