



# Summary Report of External Reviews of Regulatory Function

Prepared for

**The Central Bank of Ireland**

October 30, 2015

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## I. Overall Summary

The Central Bank of Ireland (Central Bank) requested Promontory Financial Group, LLC to prepare a summary of five recent external reviews of Irish financial law and regulatory functions (the Reviews). These Reviews, completed between 2013 and 2015 by the IMF, the International Credit Union Regulators' Network (ICURN), and the Netherlands Authority for the Financial Markets (AFM) evaluated the status and recent progress made in Ireland by the Irish Government, and by the Central Bank and other Irish regulators (collectively, the Authorities) to comply with recognized international principles or guidelines of financial regulation in banking supervision, securities regulation, insurance, credit unions and consumer protection. We present the requested summary in this report.

Each of the five Reviews found that Ireland has made considerable progress in strengthening the legal framework for financial regulation and concluded that the Central Bank has developed a robust, systematic risk-based approach to supervision. Overall, the four Reviews that assigned ratings gave their top rating to a majority of the international standards, 68 out of the 115.

The Reviews noted also that, in the wake of all of the environmental changes in the Irish legal and regulatory systems, it would be important to review the overall legal and regulatory structure. The Authorities welcomed the acknowledgement of the strengthening of the supervisory process, and had specific comments most of which concurred with the findings and ratings.

We note that a number of changes in the legal framework across Europe have either occurred since certain of the Reviews were performed or are imminent. For example, profound changes to the regulatory regime have come into effect since the Review on Banking Supervision was published in April 2014. The European Central Bank (ECB) established the Single Supervisory Mechanism (SSM) in November 2014. The SSM is a system of financial supervision comprising the ECB and the national competent authorities of participating EU countries. The main aims of the SSM are to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe. With the establishment of the SSM, a number of supervisory responsibilities and decision making powers moved to the ECB. The ECB is responsible for all core supervisory responsibilities as defined in the Council Regulation (EU) No. 1024/2013 (SSMR). With the establishment of the SSM, the Central Bank retains responsibility for the supervision activities defined in the SSMR as non-core including anti-money laundering and consumer protection.

Additionally, in June 2013 the Capital Requirements Directive (CRD) IV entered into force. It contains significant corporate governance, liquidity and capital requirements. As well, Solvency II requirements are poised to be in place in 2016 for insurance companies, with significant effects on the manner and method of supervision.

We identified a number of themes that are reflected across the Reviews.

**1. Overall Compliance with Principles/Standards/Guidelines.** The Reviews all recognized that the years leading up to the evaluations had been difficult for Irish financial institutions and the financial system. Several Reviews suggested additional changes in legislation would be appropriate. The Reviews generally gave high marks to the Authorities for their performance under difficult circumstances.

**2. Staffing. Inability to attract and retain high calibre talent, un-competitive pay scales, vacancies.** A point of concern across the Reviews was the resources available to the Central Bank. The Reviews noted that the regulators were subject to the Financial Emergency Measures in the Public Interest (FEMPI) Acts of 2009 and 2013 and asserted that the resulting pay cuts had significantly reduced the capacity of regulators to compete with the private sector in attracting and retaining qualified staff, particularly in technical positions. Some Reviews found that staffing was below levels suggested by the Central Bank's Probability Risk and Impact System (PRISM) and several noted that staffing was below budgeted positions. These concerns extended to staffing at the Irish Auditing & Accounting Supervisory Authority. The Central Bank acknowledged this challenge.

**3. Need to further calibrate supervision.** There was recognition that the implementation of a risk-based supervisory approach, PRISM, provided a valuable structured tool that has helped the Central Bank systematically to apply resources to high-risk situations in the financial system. The Reviews suggested that it

was appropriate to recalibrate supervisory tools to adopt a more proactive approach, review the emphasis on credit issues, refine the application for different sectors in finance and apply additional resources to institutions with impact ratings of Medium-Low and Low. At the time of the Reviews, Medium Low and Low impact institutions were being assessed primarily on the basis of written reports and judgments on systemic risk. The Reviews expressed concern that the range of supervisory information and engagement with these institutions may not be adequate. In particular, the reviewers concluded that the supervisory focus for these institutions needed to be increased, as desk-based review of exception reporting without sufficient direct engagement with lower risk institutions (and development of a suite of supporting documentation) to make an accurate assessment of the internal control environment was not adequate. Moreover, off-site compliance monitoring of returns needed to be strengthened, as reports filed by banks lacked information to monitor terms, rates and other requirements of the Related Party Lending (RPL) Code.

The Reviews of securities regulation and insurance raised several points that touched on consumer protection issues. These points dovetailed with recommendations in the Consumer Protection Review that a problem-based approach to consumer protection could identify serious market-wide conduct risks on a cross-sectoral basis and target resources at those themes/problems.

**4. Independence of the Central Bank.** The Reviews authored by IMF and ICURN personnel expressed concern about the independence of the Central Bank and the potential for interference in Central Bank operations by the Government. Notwithstanding these comments, each Review noted that they had seen no evidence of any such interference. The concerns focused on the conditions under which members of the Central Bank Commission (Commission) can be removed or dismissed by the Minister of Finance, the requirement for the Central Bank to seek Ministerial approval to revoke a license or deny an application for a banking license and other measures. Permission must be sought from the Government to increase levies to support supervision. The Central Bank noted also that independence of the Central Bank is a core pillar of the financial system and that the Government has introduced a range of measures to strengthen the powers of the Central Bank.

**5. Several Reviews suggested changes in legislation.** These proposals included calls for additional sanctions for abusive market activities and unauthorized insurance activities for providing the Central Bank with the ability to issue enforceable rules on institutional requirements regarding anti-money laundering and combating terrorist financing programs. The Review of the securities sector suggested that there be a consolidation of laws for public use or, alternatively, creation of unofficial consolidated versions of key acts and regulations. This idea was echoed in the Reviews on credit unions and consumer protection, which emphasized a need for guidance and communication due to the volume and complexity of legislation in recent years. Several Reviews, such as banking, insurance and securities, called for more legislative authority to provide for more oversight of the group level management and oversight, including greater authority to assess fitness and probity of significant owners. There were recommendations also that Central Bank needed to obtain the authority to reject or rescind the external auditor.

The Reviews also called for increased guidance and requiring dedicated officers to be established for monitoring abusive financial services activities, and adoption of specific requirements for anti-money laundering and counter terrorism finance, such as Statutory guidelines envisaged by Section 107 of the Criminal Justice Act (Money Laundering and Terrorist Financing) 2010 (CJA 2010), as amended, that needed to be issued.

### **Common Themes Arising in External Reviews of the Irish Financial Regulatory Functions**

Looking more granularly at individual principles, the Reviews showed considerable consistency in both positive and critical comments, as detailed in **Figure 1**. This figure indicates which of the Reviews provided comment on common themes, several of which are highlighted above.

Figure 1: Common Themes across Reviews

Common Themes / Concerns in Reviews	Banking Supervision (Sep - Oct 2013)	Securities Regulation (Sep - Oct 2013)	Insurance Core Principles (Nov - Dec 2014)	ICURN Guiding Principles (April 2015)	Consumer Protection (Apr 14 - Mar 15)
1. Overall Compliance with Principles-Standards-Guidelines	Ireland has significantly enhanced the legal framework to support banking supervision and implemented a risk-based supervisory approach. Compliance with the Basel Core Principles for Effective Banking Supervision (BCPs) was satisfactory.	Ireland exhibited a high level of implementation of the International Organization of Securities Commissions (IOSCO) principles.	The regulatory regime had a high level of observance of the ICPs.	The Central Bank effectively performed its functions in the regulation and supervision of the credit union sector in Ireland and has effectively undertaken the demanding task of introducing a comprehensive regulatory structure.	Though the Central Bank's consumer protection mandate is relatively new, a lot had been achieved in a relatively short timeframe.
2. Staffing: ability to attract and retain high calibre talent, due to un-competitive pay scale; vacancies	✓	✓	✓	✓	✓
3. Need to calibrate supervisory tools /Increase engagement with entities rated Medium-Low and Low	✓	✓	✓	✓	✓
4. Independence of the Central Bank	✓	✓	✓	✓	
5. Need for additional legislation or additional authority at regulators, such as ability of the Central Bank to reject or rescind the external auditor; deepening oversight of groups or significant owners and providing specific requirements for AML/CFT	✓	✓	✓	✓	

## II. Summary of the IMF ROSC on Banking Supervision

### A. Summary of Key Findings and Recommendations

The assessment of the Basel Core Principles (BCP) for effective Banking Supervision was conducted during September and October 2013 as part of the IMF Report on the Observance of Standards and Codes (ROSC) of the financial system of Ireland undertaken by the International Monetary Fund (IMF).

This Review stated that Ireland had significantly enhanced the legal framework to support banking supervision and implemented a risk-based supervisory approach. These actions reflected the continued strengthening of the supervisory process undertaken by the authorities. The financial crisis and subsequent state intervention transformed the Irish banking system, yet there was continued elevated stress within the system, and vulnerabilities persisted.

The Authorities made significant progress in strengthening the legal framework and supervisory structure to support banking supervision through the Central Bank Reform Act 2010, The Central Bank (Supervision and Enforcement) Act 2013 and The Central Bank Credit Institution Resolution (CBCIR) Act 2011. The Central Bank was designated also as the competent authority under the CJA 2010 for supervising compliance with the act by banks.

The Central Bank implemented the foundation for a risk-based supervisory approach in 2011, PRISM, to provide a structured approach to supervision, including banking supervision. This supervisory approach has been implemented based on consolidated supervision, and PRISM, a process to profile banks by risk and systemic significance. Under PRISM, banks are assigned one of four Impact ratings: High, Medium High, Medium-Low, and Low. The Central Bank increased resourcing and adopted a more intrusive approach to supervision than was in place before the crisis.

The IMF noted that the Central Bank Banking Supervision Divisions were operating below the approved staffing level and suggested that prompt staffing of vacancies would enhance the ability of the Central Bank to conduct its activities. Since 2010, the staffing has dropped from 113 to 96, with the greatest drop in the front line supervisor level, from 66 to 49. Pay levels were being driven by the fact that the Central Bank staff had become part of the wider public service resulting in an uncompetitive pay scale for attracting talent to the Central Bank. The Review suggested that these circumstances be studied, along with the turnover rates. The IMF also noted that industry sources had observed that the Central Bank staff was professional and had increased its skills.

Overall compliance with the BCPs was satisfactory. However, some Banking Supervision issues required continued attention. The ROSC produced the following profile of ratings on 29 Basel Committee on Bank Supervision (BCBS) Principles.

**Figure 2 - ROSC Ratings for BCBS Supervision Principles**

Rating	Definition of Rating	Count
Compliant	All Essential Criteria (EC) are met without any significant deficiencies, including instances where the principle has been achieved by other means.	14
Largely Compliant	Only minor shortcomings, which do not raise serious concerns about the authority's ability to achieve the objective of the principle and there is clear intent to achieve full compliance with the principle within a prescribed period of time.	11
Materially Noncompliant	Severe shortcomings, despite the existence of formal rules and procedures and there is evidence that supervision has clearly not been effective, the practical implementation is weak or that the shortcomings are sufficient to raise doubts about the authority's ability to achieve compliance.	4
Noncompliant	Not substantially implemented, several ECs are not complied with, or supervision is manifestly ineffective.	-
Non-applicable	Those cases for which the criteria would not relate the country's circumstances.	-

## B. Information and Methodology Used for Assessment — Overview

The IMF assessment was prepared according to the Revised Core Principles (RCP) Methodology issued by the BCBS. The RCPs have a heightened focus on risk management and its practice by supervised institutions and assessment by the supervisory authority, which produces a more demanding measure of the effectiveness of a supervisory framework. The Irish Authorities chose to be assessed against the Essential Criteria and Additional Criteria (EC and AC respectively), but to be graded only against the Essential Criteria. The smaller number of ACs are recommended best practices. The assessment of compliance with each RCP was made on a qualitative basis. The assessment did not include the Irish Credit Union Sector, which was the subject of a separate Review.

## C. Detailed Assessment and Recommended Actions

The IMF ROSC assigned 15 BCP ratings of Materially Noncompliant or Largely Compliant out of the total of 29 BCPs. These ratings were accompanied by Recommendations, a summary of which is contained in **Figure 3**. Appendix 2-A has a full list of BCPs, ROSC ratings and summaries of Observations and Recommendations for Banking Supervision.



Figure 3 – Summary of BCPs Rated Materially Noncompliant and Largely Compliant

Basel Core Principles & Rating	Summary of Observations & Key Recommendations
<b>2. Independence, accountability, resourcing and legal protection for supervisors</b>  <b>Materially Non-Compliant</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Legislation provides for the approval of the Minister for Finance for setting the levy structure to fund supervision, denying a license application, or imposing involuntary revocation of a banking license.</li> <li>- The Minister may remove Commission members for specified reasons.</li> <li>- There is no observed interference.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Amend existing legislation to detail the framework for Central Bank independence. Also align the reasons for removal of Commission members to be similar to Governor.</li> <li>- Take steps to fill vacancies in Banking Supervisory Department.</li> </ul>
<b>9. Supervisory techniques and tools</b>  <b>Materially Non-Compliant</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- A primary concern is whether the calibration of PRISM is appropriate for the mix of onsite and offsite supervision for Medium-Low and Low Impact banks. Analysis of regulatory returns should be strengthened.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Consider the distribution of resources and supervisory tasks across Medium-Low and Low Impact ratings.</li> <li>- Consider expanding KRIs in PRISM to include a broader suite of risk metrics i.e. operational risk and IRRBB.</li> </ul>
<b>20. Transactions with related parties</b>  <b>Materially Non-Compliant</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Only credit transactions are covered by the regulation.</li> <li>- Compliance monitoring is mainly offsite, but reports filed by banks lack information to monitor terms, rates, and other requirements of the RPL Code.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Amend the RPL code to include asset sales, deposits and other areas addressed in the Core Principle. Also expand information in RPL regulatory reports so that a more complete offsite compliance assessment may be made.</li> </ul>
<b>29. Abuse of financial services</b>  <b>Materially Non-Compliant</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Branches of foreign banks have not been incorporated in AML compliance reviews.</li> <li>- Most reviews of compliance have been through the review of risk assessment questionnaires sent to banks, with limited onsite testing.</li> <li>- The Central Bank has not issued specific requirements for internal audit and/or external experts to independently evaluate the relevant risk management policies, processes and controls for AML.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Expand supervisory scope to include branches of foreign banks.</li> <li>- Review the current balance between onsite and offsite reviews; currently emphasis is heavily weighted on offsite.</li> <li>- Statutory guidelines, approved as envisaged by Section 107 of the CAJA 2010, should be issued.</li> </ul>
<b>7. Major acquisitions</b>  <b>Largely Compliant</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Too early for a record of compliance and enforcement to be reviewed.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- No action recommended</li> </ul>



Basel Core Principles & Rating	Summary of Observations & Key Recommendations
<b>14. Corporate governance</b>  <b>Largely Compliant</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- For Medium-Low and Low Banks the range and frequency of supervisory activities to assess governance is not adequate.</li> <li>- Also an inadequate level of attention to a board's stewardship and understanding of risk and corporate governance</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- No action recommended.</li> </ul>
<b>15. Risk management process</b>  <b>Largely Compliant</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Insufficient information to assess the status of business continuity &amp; ongoing monitoring of robustness of arrangements. Frequency of testing needs to be enhanced.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- For banks accredited to use internal models, annual assessment that banks comply with supervisory standards (e.g. validation).</li> <li>- Implementation of framework to assess IT across regulated banks.</li> </ul>
<b>17. Credit risk</b>  <b>Largely Compliant</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Onsite credit risk review frequency and depth for lower risk institutions and the allocation of credit risk specialists is not sufficient.</li> <li>- Medium-Low and Low Bank Prism variance analysis might not necessarily provide timely insight into the application of credit risk management processes.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Increase frequency and loan sample size for Medium-Low banks.</li> </ul>
<b>18. Problem assets, provisions, and reserves</b>  <b>Largely Compliant</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Greater frequency and depth of onsite reviews of loan loss provisioning practices.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Greater frequency and depth of onsite reviews of loan loss provisioning practices (e.g. testing of assumptions against experience, recognition of default, prudent valuations).</li> </ul>
<b>21. Country and transfer risks</b>  <b>Largely Compliant</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank has developed a monitoring process and is conducting initial reviews to determine compliance.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- No action recommended.</li> </ul>
<b>23. Interest rate risk in the banking book</b>  <b>Largely Compliant</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Detailed reviews are conducted on High Impact banks.</li> <li>- A less intensive process is used for lower Impact banks with a reliance on a self-assessment.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- No action recommended.</li> </ul>
<b>25. Operational risk</b>  <b>Largely Compliant</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Effectiveness of monitoring and enforcement cannot be assessed at this time.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- No action recommended.</li> </ul>
<b>26. Internal control and audit</b>  <b>Largely Compliant</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- No requirement in regulations for the Board to take responsibility for establishing the internal control environment.</li> <li>- Supervisory activities to assess the effectiveness of the internal control function for Non High Impact Banks rely upon desk based review, and hence are unable to make an accurate assessment of the effectiveness of the control environment.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- No action recommended.</li> </ul>
<b>27. Financial reporting and external audit</b>  <b>Largely Compliant</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Central Bank does not have the power either to reject or rescind the external auditor.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Enact legislation giving the Central Bank the power to reject or rescind external auditors.</li> </ul>

## D. Central Bank Response to the Assessment

The Central Bank was generally in agreement with the findings from the assessment. The Central Bank commented on four Basel Core Principles which were rated Materially Non-Compliant:

- (1) Core Principle (2) — Independence: The Irish Authorities were pleased to note that there was no observed political interference with the Central Bank of Ireland. The IMF finding related to hypothetical concerns regarding a small number of legislative provisions from within the corpus of Irish financial services law, rather than any manifest experience of the Central Bank's statutory or regulatory independence being compromised. The Government further introduced a range of measures to strengthen the powers of the Central Bank and to extend its remit into new areas of responsibility such as bank resolution.
- (2) Core Principle (9) — Supervisory Techniques and Tools: Ireland's approach to supervision was risk based and started with the premise that all firms are not equally crucial in the banking system and the wider economy. The specific issues raised by the IMF mainly relate to potential calibration issues with the supervisory engagement model for the least risky and non-systemically important cohort of Irish licensed banks (i.e. Medium or Low impact banks). This cohort of 10 non-retail institutions comprised 3 percent of total Irish banking system assets, did not take retail deposits, 2 percent of all Irish corporate deposits and was not involved in retail lending. The Central Bank indicated it would consider the two IMF recommendations.
- (3) Core Principle (20) — Related Party Transactions: Related party transactions in the Irish banking system were predominantly in respect of lending rather than service contracts or deposits, and accordingly the Central Bank tailored its supervisory regime to capture higher risk transactions in this area. The Central Bank indicated it would undertake an evaluation of related party transactions and evidence any potential risks outside the current Code.
- (4) Core Principle (29) — Abuse of Financial Services: The Central Bank indicated it would consider the IMF recommendations. The Irish Authorities also noted the comments regarding the balance between onsite and offsite reviews and said it would undertake a review to ensure the appropriate balance exists. Branch inspections of foreign banks were to be performed.

The Irish Authorities indicated they would evaluate and consider the IMF's recommendations in the context of the IMF's endorsement of Ireland's supervisory approach, as reflected in the compliant rating for *Core Principle 8 – Supervisory Approach*. The Irish Authorities recognized that the SSM would fundamentally alter the manner in which credit institutions were supervised within the euro area and would consequently change the way in which the Central Bank supervised credit institutions in Ireland.

## III. Summary of the IMF ROSC on Securities Regulation

### A. Summary of Key Findings and Recommendations

The assessment of the Basel Core Principles (BCP) for effective Securities Regulation was conducted during September and October 2013 as part of the IMF Report on the Observance and Standards and Codes (ROSC) of the financial system of Ireland undertaken by the International Monetary Fund (IMF).

Ireland exhibited a high level of implementation of the International Organization of Securities Commissions (IOSCO) principles. The legal framework was robust and provided the Central Bank with broad supervisory, investigative and enforcement powers. There were arrangements for on-site and off-site monitoring of regulated entities. Thematic reviews in selected areas had complemented such monitoring. The Central Bank and the Irish Stock Exchange had also developed sound systems for market surveillance. The Central Bank's key objectives included monitoring and mitigating systemic risk. The Central Bank routinely reviewed the perimeter of regulation. Its powers to cooperate with domestic and foreign counterparts were extensive. Accounting and auditing standards were high.

The ROSC produced the profile of ratings on the 38 IOSCO Principles in Figure 4.

Figure 4 — ROSC Ratings for IOSCO Principles

Rating	Definition of Rating	Count
Fully Implemented	All assessment criteria specified for that Principle are generally met without any significant deficiencies.	23
Broadly Implemented	Exceptions to meeting the assessment criteria specified for that Principle are limited to those specified under the broadly implemented benchmark for that Principle and do not substantially affect the overall adequacy of the regulation that the Principle is intended to address.	8
Partly Implemented	Assessment criteria specified under the partly implemented benchmark for that Principle are generally met without any significant deficiencies.	6
Not Implemented	Major shortcomings (as specified in the not implemented benchmark for that Principle) are found in adhering to the assessment criteria specified for that Principle.	-
Non-applicable	Does not apply because of the nature of the country's securities market and relevant structural, legal and institutional considerations.	1

However, some areas of supervision and enforcement required strengthening, such as making more use of on-site inspections for all types of market intermediaries. Certain aspects of the legal provisions regarding the governance structure of the Central Bank raised concerns about its independence (such as the presence of a member of the Department of Finance on the Commission of the Central Bank and the authority of the Minister to remove a Commissioner for reasons other than misconduct or incompetence), although there had been no indications of any interference with day-to-day operations. The Central Bank lacked the power to appoint administrators or a monitor to step in and run a firm that is in crisis to investments firms in the event of financial difficulties within the firm. The regime that applied to entities that had issued their securities to the public where their securities were not admitted to trading on a regulated market needed to be strengthened.

The IMF noted that there were impediments to the ability of the Central Bank to attract and retain high calibre staff, due to its compensation programs. The Central Bank needed to be able to structure its compensation programs to accommodate the difficulty in recruiting and retaining high calibre staff with appropriate skill sets for particular positions. The Government's recent legislation, which imposed a pay-cut on Central Bank staff, had a constraining effect on the Central Bank's ability to seek and retain experienced regulators.

## B. Information and Methodology Used for Assessment – Overview

The Review was carried out using the 2011 IOSCO Methodology for Assessing Implementation of the IOSCO Principles (the Assessment Methodology), which required that assessors look not only at the legal and regulatory framework in place, but also at how it was been implemented in practice. The assessment relied on information from a detailed self-assessment submitted by the Authorities (primarily the Central Bank), supplemented by extensive interviews and reviews of documentation.

## C. Detailed Assessments & Recommended Actions

The IMF ROSC assigned 15 ratings for IOSCO Core Principles of Partially Implemented or Largely Implemented. These ratings were accompanied by Recommendations, a summary of which is contained in **Figure 5**. Appendix 2-B presents a full list of IOSCO Core Principles, ROSC ratings and summaries of Observations and Recommended Actions for Insurance.

Figure 5 - Summary of IOSCO Principles with Rated Partly Implemented and Broadly Implemented

IOSCO Core Principle & Rating	Summary of Observations & Recommended Actions
2. The Regulator should be operationally independent and accountable in the exercise of its functions and powers.	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank operates free of influence from the Government and the industry on a day-to-day basis. However, there are two impediments to independence. The Minister for Finance may remove an appointed member of the Commission. Secondly, the Secretary General of the Department of Finance is an ex-officio</li> </ul>

IOSCO Core Principle & Rating	Summary of Observations & Recommended Actions
<p><b>Partially Implemented</b></p>	<p>member of the Commission.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- The law should be amended to state that a Commission member may be removed only for specified, objective causes (such as bankruptcy, persistent failure to attend meetings, acting in conflict of interest, etc.).</li> <li>- The Government should amend the Central Bank Act 1942 (CBA) to remove the inclusion of a Ministry official on the Central Bank Board.</li> <li>- Consideration should be given to including provisions permitting the Central Bank to indemnify staff, officers and Commissioners for their legal costs in the event they are sued in relation to Central Bank duties and making those moneys available to pay costs during the course of the suit.</li> </ul>
<p><b>3. The Regulator should have adequate powers, proper resources and the capacity to perform its functions and exercise its powers.</b></p> <p><b>Partially Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank has sufficient powers to carry out its functions in the capital markets. The effect of the Government's pay cuts on Central Bank staff has a constraining effect on the Central Bank's ability to seek and retain experienced regulators. Additional resources are required.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- The Government should give the Central Bank additional resources and the flexibility to depart from the civil service compensation rules.</li> </ul>
<p><b>12. The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance program.</b></p> <p><b>Partially Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank's risk-based system, PRISM, informs its supervisory and investigative program supplemented by the thematic reviews as well as formal and informal reports. An administrative Sanction Procedure with public reporting has proved a successful approach to obtaining monetary sanctions.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- A more proactive approach to supervision of firms designated by PRISM as Low Impact should be implemented.</li> <li>- More prosecutions should be pursued against individuals.</li> <li>- The Government should consider raising the maximum fines that the District Court can impose on defendants in summary criminal matters to provide a more significant deterrent.</li> </ul>
<p><b>16. There should be full, accurate and timely disclosure of financial results, risk and other information that is material to investors' decisions.</b></p> <p><b>Partially Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The initial disclosure requirements for offers of securities to the public are extensive. All public issuers are required to prepare audited annual financial statements.</li> <li>- The Central Bank and the ISE contribute to the monitoring and review of the non-financial disclosures of issuers.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- All companies that have issued shares to the public should be subject to continuing disclosure requirements, regardless of their status as listed companies or the nature of the systems on which their securities are traded or quoted.</li> <li>- Larger companies should be expected to issue their audited financial statements in a maximum of ninety days; smaller issuers may be given somewhat longer. The reporting period for interim statements of ESM companies should be shortened from three to two months at the longest.</li> <li>- A change in auditor should be considered to be a material change that gives rise to an obligation for all public companies to immediately inform the relevant authorities, both IAASA and the Central Bank.</li> <li>- The continuing disclosure documents issued by public companies should be subject to at least a periodic review by a competent authority.</li> </ul>
<p><b>36. Regulation should be designed to detect and deter manipulation and other unfair trading practices.</b></p> <p><b>Partially Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- There are rules in place with respect to market manipulation and insider trading.</li> <li>- Proposed EU amendments to the Market Abuse Directive are expected to address gaps in MTFs &amp; off-exchange trading.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- The Companies Law should be amended or other legislation introduced to prohibit</li> </ul>

IOSCO Core Principle & Rating	Summary of Observations & Recommended Actions
<p>4. Regulation should aim to ensure the proper management of large exposures, default risk and market disruption.</p> <p><b>Partially Implemented</b></p>	<p>the full scope of activities that are abusive to the market regardless of where that trading takes place or whether the securities are admitted to trading on an RM.</p> <p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Trades in Irish securities are settled on systems physically located outside Ireland.</li> <li>- The functions of monitoring market exposures that are sufficiently large to create a substantial risk to the market or to a clearing firm are performed by supervised entities outside of the Central Bank's jurisdiction. The Central Bank is relying on the supervision of the regulators in those jurisdictions.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank should carry out reasonable due diligence on the regimes where the principal clearing and settlement of trades by Irish intermediaries or in Irish securities take place, both on the regulatory oversight conducted and the effects of bankruptcy/ insolvency regimes on positions (client or intermediary) held in those jurisdictions. Obtaining opinions from legal counsel on the treatment of assets and positions on insolvency, particularly in Belgium, the U.K. and Germany, would also be prudent.</li> <li>- The MOU with the U.K. Authorities regarding oversight of CREST should be updated, and one should be put in place with BaFin regarding the oversight of Eurex Clearing to ensure an effective gateway for clearing related information.</li> </ul>
<p>17. Holders of securities in a company should be treated in a fair and equitable manner.</p> <p><b>Broadly Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Investors are treated equitably with respect to voting and the ability to participate in any takeover bid. There are extensive disclosure requirements for substantial shareholders, officers, directors and other parties.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Detailed guidance on the information that must be included in any materials sent to shareholders in connection with a shareholder meeting should be issued by a competent authority, and those requirements should apply to all public issuers.</li> <li>- Consideration should be given to rationalizing and simplifying the requirements that apply to substantial shareholders, officers, directors and other parties. This regime should apply equally to all public issuers.</li> </ul>
<p>19. Auditors should be subject to adequate levels of oversight.</p> <p><b>Broadly Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- There is a system in place that subjects auditors to appropriate levels of oversight.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- As for the Central Bank, IAASA should be given additional resources and greater freedom to contract with staff on appropriate terms in order to recruit and retain staff with the necessary expertise.</li> </ul>
<p>22. CRAs should be subject to adequate levels of oversight. The regulatory system should ensure that credit rating agencies whose ratings are used for regulatory purposes are subject to registration and ongoing supervision.</p> <p><b>Broadly Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- This grade is that given to ESMA, as the direct supervisor of CRAs in Europe, in a review conducted in December 2012. All CRAs that provide services in Ireland were subject to a thorough registration process by colleges of European regulators.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- None.</li> </ul>
<p>26. Regulation should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a collective investment scheme for a particular investor and the value of the investor's interest in the scheme.</p> <p><b>Broadly Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- All publicly offered funds must be approved by the Central Bank. Investor protection provisions are robust.</li> <li>- The reporting requirements for both AIFs and UCITS, although regular and adopted through the EU, are too slow to be effective.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- The periods within which CIS are required by EU directives to publish annual and semi-annual financial statements should be reduced to enhance transparency for investors and the ability to take prompt investigative or remedial action.</li> </ul>



IOSCO Core Principle & Rating	Summary of Observations & Recommended Actions
<p><b>4. Regulation should ensure that there is a proper and disclosed basis for asset valuation and the pricing and the redemption of units in a collective investment scheme.</b></p> <p><b>Broadly Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Securities and assets are required to be valued fairly and independently. However, it is not clear that the valuation of CIS assets is to be performed in accordance with International Financial Reporting Standards (IFRS) or U.K. and Irish General Accepted Accounting Principles (GAAP), or some other high quality accepted accounting standard.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank should issue clear guidance that the valuation of CIS assets are to be performed in accordance with IFRS or U.K. and Irish GAAP, or some other high quality accepted accounting standard applied on a consistent basis.</li> <li>- The Central Bank should publish rules relating to pricing errors.</li> </ul>
<p><b>31. Market intermediaries should be required to establish an internal function that delivers compliance with standards for internal organization and operational conduct, with the aim of protecting the interests of clients and their assets and ensuring proper management of risk, through which management of the intermediary accepts primary responsibility for these matters.</b></p> <p><b>Broadly Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Market intermediaries are required to have systems of risk management and internal controls in place. If an intermediary holds client assets, an auditor's review of the systems and controls is required on at least an annual basis.</li> <li>- There are regulations for proper protection of clients, including requirements for segregation of clients' assets and business conduct rules.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank should introduce a general requirement that all firms conduct an annual review of risk management and controls. This review should be required to be performed to objective standards and by a function or entity that is independent of the business of the firm.</li> </ul>
<p><b>32. There should be procedures for dealing with the failure of a market intermediary in order to minimize damage and loss to investors and to contain systemic risk.</b></p> <p><b>Broadly Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank has plans in place for dealing with a firm's failure.</li> <li>- The Central Bank does not have the authority to appoint an administrator to run a firm that is in crisis, nor can it take possession of the assets held by the intermediary.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank should be given the authority to appoint an administrator or monitor to step in and run a firm that is in crisis.</li> </ul>

## D. Central Bank Response to the Assessment

The IMF's overall assessment recognized that Ireland exhibited a high level of compliance with the IOSCO Objectives and Principles of Securities Regulation. The Central Bank generally accepted the recommendations but had a significant observation as to the way in which comments on Principle 37 were framed. This principle was aimed at jurisdictions that had domestic clearing and settlement market infrastructures. The Central Bank disagreed with the assertion in the report that the State has "outsourced" its clearing and settlement functions, noting it would be more correct to state that clearing and settlement for the Irish securities markets is provided within the EU Single Market by regulated service providers in other EU Member States. The European System of Financial Supervision allows Member States in the EU to mutually recognize and rely on the supervisory practices of other EU competent authorities. Given the purpose and intent of this Principle, the Irish Authorities believed that a "not applicable" rating would be more appropriate.

The Irish Authorities acknowledged that the assessment report provides a valuable point-in-time assessment of the Irish regulatory and legislative regime. The Irish Authorities indicated they would consider carefully the comments and recommendations made in the report which would inform priorities and work-load for the coming years.

## IV. Summary of the IMF ROSC on Insurance Core Principles

### A. Summary of Key Findings and Recommendations

The assessment was prepared in the context of an IMF stand-alone Report on the Observance of Standards and Codes (ROSCs) mission in Ireland during November–December, 2014.

The IMF assessment noted the need for the Authorities to address the significant challenges faced by the Central Bank in attracting and retaining staff, and enhance Central Bank's independence. The turnover rates for insurance supervisors in Central Bank were considered high by international standards largely due to the Central Bank's unattractive remuneration package as compared with the market. The Review observed that while there had been no evidence of political and commercial interference over Central Bank's operational autonomy, the legal framework for the Central Bank's governance arrangements could potentially introduce political considerations that could have implications for Central Bank's independence.

The IMF's overall assessment indicated a high level of observance of the Insurance Core Principles (ICPs) of the International Association of Insurance Supervisors (IAIS), which could be further enhanced by fine-tuning the regulatory framework and existing supervisory practices. The ROSC produced the following profile of ratings on the 26 IAIS Principles.

**Figure 6 - ROSC Ratings for Insurance Core Principles**

Rating	Definition of Rating	Count
Observed	All the standards are observed except for those that are considered not applicable. For a standard to be considered observed, the supervisor must have the legal authority to perform its tasks and exercise this authority to a satisfactory level	11
Largely Observed:	Only minor shortcomings exist, which do not raise any concerns about the authorities' ability to achieve full observance.	10
Partly Observed:	Despite progress, the shortcomings are sufficient to raise doubts about the authorities' ability to achieve observance.	5
Not Observed:	No substantive progress toward observance has been achieved.	-

The IMF assessment included advice to review the supervisory risk appetite underpinning the PRISM, including potential reputational risks. The Review noted that there were significant merits in a more proportionate and timely risk assessment of insurers according to their risk profiles to enhance the regulatory incentives for improving governance and risk management practices, and that PRISM should also be updated to incorporate appropriate risk-based supervision for insurance groups. The Review indicated a need to evaluate the adequacy of supervisory resources to support a more proportionate supervisory program and effective supervision of insurance groups.

The IMF Review noted that the Central Bank has made significant progress in updating the regulatory regime and remarked on the impending implementation of Solvency II (SII), which is expected to address most of the regulatory gaps mentioned in the areas of risk management and enterprise risk management (ERM), valuation, capital adequacy and group supervision. SII becomes effective on 1 January 2016. Regulatory reporting, both at the entity and group levels, will be significantly enhanced by the introduction of SII. The IMF recommended that the Central Bank address the significant challenges of attracting and retaining skilled; competent and experienced staff. Important considerations include improving the competitiveness of staff remuneration and exempting the Central Bank from the FEMPI Act.

### B. Information and Methodology Used for Assessment – Overview

The IMF performed an assessment of Ireland's observance with the Insurance Core Principles (ICPs) issued by the International Association of Insurance Supervisors in November 2014. The assessment is based solely on the laws, regulations and other supervisory requirements and practices that are in place at the time of the assessment in November 2014.



## C. Detailed Assessment and Recommended Actions

There were 15 ICPs the IMF ROSC assigned ratings Partially Observed (5) or Largely Observed (10). These ratings were accompanied by Recommendations, a summary of which is contained in **Figure 7**. Appendix 2-C has a full list of IOSCO Core Principles, ROSC ratings and summaries of Observations and Recommendations for Insurance.

**Figure 7 - Insurance Core Principles with Ratings of Partly Observed and Largely Observed**

ICP & Level of Observance	Summary of Comments & Recommendations
<b>2 – Supervisor</b>  <b>Partially Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Significant challenge in attracting and retaining experienced supervisor of high calibre.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Enhance Central Bank's statutory independence by: <ul style="list-style-type: none"> <li>▪ Reconsidering the Department of Finance's involvement in the Commission and the role of the Minister in approving the Deputy Governors;</li> <li>▪ Removing or providing more clarity on the general ground for the removal of a Commissioner;</li> <li>▪ Establishing a legal provision on public disclosure of the reasons of the removal of a Governor or Commissioners in the CBA; and</li> <li>▪ Reviewing the Minister's statutory power relating to Central Bank's regulatory functions, including the extent of consultation for rule-making and approval for industry levy structure.</li> </ul> </li> <li>- Address the significant challenges of Central Bank in attracting and retaining skilled; competent and experienced staff. Important considerations include improving the competitiveness of staff remuneration and exempting Central Bank from the FEMPI (Financial Emergency Measures in the Public Interest Act 2010).</li> <li>- Implement measures to enhance Central Bank's data protection governance framework.</li> </ul>
<b>9 – Supervisory review and reporting</b>  <b>Largely Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank's supervisory framework has been significantly enhanced since 2011 with the introduction of PRISM.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Review the PRISM framework, particularly with respect to the one-size-fits-all reactive approach adopted for Low impact (re)insurers. There are significant merits for a more proportionate and timely risk assessment of these insurers according to their risk profiles and enhancing the regulatory incentives for improving governance and risk management practices, e.g., thematic visits covering a sample of Medium/Low impact (re)insurers.</li> <li>- Update PRISM to incorporate appropriate risk-based supervision for insurance groups;</li> <li>- Strengthen regulatory reporting by establishing: <ul style="list-style-type: none"> <li>▪ consistent and more comprehensive regulatory reporting by insurance groups; and</li> <li>▪ explicit requirements for reporting off-balance sheet exposures, material; outsourcing functions and activities; and material changes or incidents that could affect their condition or customers.</li> </ul> </li> <li>- Review the adequacy of supervisory resources to support a more proportionate supervisory program for (re)insurers with Medium-Low impact and effective supervision of insurance groups.</li> </ul>

ICP & Level of Observance	Summary of Comments & Recommendations
<b>17 – Capital adequacy</b>  <b>Partly Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Lack of explicit regulatory framework for the use of a total balance sheet approach, lack of specific regulations pertaining to the solvency levels of groups, and lack of sufficient regulatory criteria for the assessment of capital resources.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- It was recommended that in preparation for SII (which will bring about a total balance sheet approach and a Requirements for Composite Reinsurance Undertakings) the Central Bank: <ul style="list-style-type: none"> <li>▪ Develop and implement any necessary capital adequacy support processes/tools the Central Bank will need to put in place in readiness for SII. These may include expectations for regular insurer stress testing, capital target setting, definition of capital resources, etc.;</li> <li>▪ Establish capital adequacy requirements (both quantitative and qualitative) at the group level; and</li> <li>▪ Build supervisory expertise and processes to adequately approve and monitor internal models.</li> </ul> </li> </ul>
<b>20 – Public disclosures</b>  <b>Partly Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- No explicit public disclosure requirements although (re)insurers have to make disclosures in accordance with IFRS or Irish GAAP.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- To improve its assessment against this ICP, the Central Bank should engage with its insurers and their audit firms on possible changes in disclosure, which could be undertaken individually by (re)insurers, collectively as an industry in Ireland and/or through Central Bank requirements, which would result in more meaningful and useful disclosures by insurers.</li> </ul>
<b>23 - Group supervision</b>  <b>Partly Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank's approach to supervising groups is in line with supplementary supervision under the EU Directives.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Going forward, SII will provide a structured group supervision regime including more comprehensive reporting requirements.</li> </ul>
<b>5 – Suitability of persons</b>  <b>Largely Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The fitness and probity (F&amp;P) regime introduced in 2010. Significant Owners are not covered by the Fitness and Probity (F&amp;P) regime.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Extend the F&amp;P regime to include Significant Owners; and</li> <li>- Establish clear requirements for (re)insurers to notify the Central Bank of any circumstances that may materially adversely affect the suitability of persons appointed to PCFs and Significant Owners.</li> </ul>
<b>7 – Corporate governance</b>  <b>Largely Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The corporate governance (CG) code establishes robust CG requirements.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- The coming into effect of the revised CG Code and CG SII Guideline will largely address some of the regulatory gaps noted above. To further improve insurers' governance practices, it was recommended that the Central Bank: <ul style="list-style-type: none"> <li>▪ Secure the necessary powers to supervise CG at the group level, even for non-regulated holding companies;</li> <li>▪ Review its current checklist approach to assessing the CG of Low impact (re)insurers;</li> <li>▪ Enhance the CG framework regulation in accordance with ICP 7.4 to further explicitly state the responsibility of individual directors to act in the best interests of both the (re)insurer and policyholders; and</li> <li>▪ Define its role in the assessment of the fair treatment of with-profits customers.</li> </ul> </li> </ul>
<b>10 – Preventive and Corrective Measures</b>  <b>Largely Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Enhance the sanctions available for unauthorized insurance activities.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Seek legislative amendments to enhance the sanctions available for unauthorized insurance activities.</li> </ul>

ICP & Level of Observance	Summary of Comments & Recommendations
<b>13 – Reinsurance and other forms of risk transfer</b>  <b>Largely Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Reinsurance Guidelines do not explicitly address liquidity implications arising from reinsurance arrangements.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Establish enforceable regulatory requirements for reinsurance (whether in rules, regulations, etc.). In addition, the wording used in the conditions of authorization with respect to Guidelines should be aligned so that the intent is clear for all Guidelines.</li> <li>- Establish clear regulatory requirements on cedants to control their liquidity positions to take account of the structure of their risk transfer contracts and the likely payment patterns arising from them; and the need for timely documentation of reinsurance contracts at time of inception.</li> <li>- Formulate proportionate (not just reactive) risk-based supervision over Low impact (re)insurers regarding their use of reinsurance due to its importance as a tool in managing risk exposures.</li> <li>- Establish clear regulatory requirements for reinsurance at the group level.</li> </ul>
<b>14 – Valuation</b>  <b>Largely Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The shortfalls observed are expected to be rectified with IFRS for insurers and the advent of SII.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- The current shortcomings in the valuation of Technical Provision are expected to be addressed by SII as from 1 January 2016.</li> </ul>
<b>15 – Investment</b>  <b>Largely Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Central Bank should develop and implement explicit investment requirements both at insurance and group level.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- It was recommended that the Central Bank develop and implement explicit investment requirements both at the insurer and group level.</li> </ul>
<b>16 – ERM for Solvency purposes</b>  <b>Largely Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- ERM requirements are not yet defined at the group level. However, full compliance with Standard 16.4 is expected with the passage to SII.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Establish ERM requirements at the group level.</li> <li>- Enhance the CG Code as necessary to reflect the new developments of the SII Governance Guidelines as well as introducing the need for risk tolerance limits.</li> </ul>
<b>19 – Conduct of Business</b>  <b>Largely Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- There are no explicit requirements relating to group-wide market conduct as well as product development and communication of claims procedures.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- It was recommended that the Central Bank establish clear requirements for: <ul style="list-style-type: none"> <li>▪ Group-wide market conduct;</li> <li>▪ Insurers to take into account the interests of different types of customers in developing and marketing insurance products to the targeted customers;</li> <li>▪ Insurers and intermediaries with respect to replacement of policies; and</li> <li>▪ Insurers to inform claimants about the claim procedures.</li> </ul> </li> <li>- In addition, there is scope for fine-tuning the CoB regulatory returns e.g., persistency rates of insurers and to provide guidance to insurers and intermediaries on their obligations under the Data Protection Act.</li> </ul>
<b>22 - AML and CFT</b>  <b>Largely Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank takes a risk-based approach to AML-CFT supervision.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Empower the Central Bank to issue enforceable rules on AML/CFT obligations consistent with the FATF Recommendations and establish guidelines to facilitate compliance by insurers/intermediaries.</li> <li>- Review the AML-CFT inspection approach for retail intermediaries.</li> <li>- Periodically analyse the ML/TF risks of the non-life insurance sector and reconsider whether the AML-CFT regime should apply to the non-life sector.</li> </ul>

ICP & Level of Observance	Summary of Comments & Recommendations
<b>25 – Supervisory cooperation and coordination</b>  <b>Largely Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Adequate coordination arrangements put in place, which involve supervisors on cross-border issues on a legal entity and a group-wide basis.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Develop and implements a group supervisory framework that (among other things) would identify the various roles and interactions of the group level.</li> <li>- Agree on coordination agreements with the members of colleges led by the Central Bank.</li> </ul>
<b>26 – Cross border Cooperation and Coordination on Crisis Management</b>  <b>Largely Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank is prepared for various elements of ICP 26 relating to cross-border cooperation and crisis management.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Establish clear requirements for High/Ultra-High (re)insurers/groups to maintain and test contingency plans and procedures for use in a going and gone-concern situations.</li> <li>- Regularly review the existence of practical barriers to efficient and internationally coordinated resolutions and collaborate with the relevant supervisor to resolve these issues.</li> </ul>

## D. Central Bank Response to the Assessment

The Central Bank was largely in agreement with the findings from the assessment. The Central Bank commented on three of the ICPs that were rated “Partly Observed”:

- Supervisor: The Central Bank is aware of the challenges it is facing in the areas of staff recruitment and retention and is taking actions. The Central Bank does not see it likely that the current legal framework could lead to commercial and political interference.
- Supervisory review and reporting: The Central Bank employs an appropriate range of techniques and tools to implement its supervisory approach. Its approach is risk based, and, as not all firms are equally important to the economy and consumers, the Central Bank focusses its energies on firms whose failure will have a significant impact on the economy, taxpayer and the consumer.
- Group-wide supervision: The Central Bank accepts that there are certain gaps in relation to the group supervisory framework; however, the implementation of Solvency II will provide a structured group supervision regime in line with this ICP.

## E. Status of the Implementation of the Recommendations Arising from the 2006 Financial Sector Assessment Program (FSAP)

Most of the recommendations arising from the 2006 FSAP were addressed with the creation of a new single unitary body in 2010, the Central Bank, responsible for financial regulation, the introduction of PRISM, the introduction of the Corporate Governance code and the pending implementation of Solvency II. Adequacy of staff remained an issue despite an increase in supervision staff and the introduction of bespoke training. Examples of actions undertaken by the Central Bank included:

- Continuing to develop the necessary expertise and ensure adequacy of staff: The Central Bank put in place bespoke training for the staff of the Insurance Division.
- Enhancing the current scope and intensity of the onsite supervisory programme: Introduction of PRISM in 2011 and the introduction of the corporate governance code in 2010.
- Implementing enhanced public disclosures by insurers: Solvency II will require certain information to be disclosed publicly. Further, accounting standards evolved and disclosure requirements increased significantly.
- Upgrading the position of the Prudential Director on par with the Consumer Director: The Governor and Deputy Governors sit on the Commission (i.e. Board) of the Central Bank.

- Reviewing the regulatory requirements on technical reserves for non-life insurers: The 2014 requirements improved the existing regime for reserve adequacy in non-life and life companies.
- Building capacity on investigations/enforcement: The Central Bank has established a dedicated enforcement directorate with enforcement powers.
- Considering explicit legal provision on public disclosure if the reasons for removing the CEO of the Financial Regulator: The circumstances in which the Governor and Head of Central Banking or Head of Financial Regulation may be suspended or removed are now set out.
- Providing explicit legal powers to the Financial Regulator: Legal powers have been provided to the Central Bank to take actions against significant owners and a new F&P regime has been introduced.

## V. Summary of the ICURN Peer Review of Credit Unions

### A. Summary of Key Findings and Recommendations

The ICURN (International Credit Union Regulators' Network) Peer Review Report was based on the legal and regulatory framework for Irish credit unions in effect at the time of the on-site Review in April 2015.

The ICURN assessment concluded that the Central Bank effectively performed its functions in the regulation and supervision of the credit union sector in Ireland and had effectively undertaken the task of introducing a comprehensive regulatory restructure of credit unions. The ICURN team's report noted that this effort required the Central Bank to gain a sound understanding of the true health of the sector, bringing about essential restructuring as provided in legislation, delivering on requirements to protect members' funds and maintaining the financial stability and wellbeing of credit unions generally.

The ICURN Peer Review Report produced the following profile of ratings on the 23 IAIS Principles.

**Figure 8 - Ratings for ICURN Guiding Principles**

Rating	Definition of Rating	Count
Compliant	Criteria are met without any significant deficiencies, including instances where the Principle has been achieved by other means.	20
Largely Compliant	Only minor shortcomings, which do not raise serious concerns about the authority's ability to achieve the objective of the Principle and where there is clear intent to achieve full compliance.	3
Materially Noncompliant	Severe shortcomings, despite the existence of formal rules and procedures and there is evidence that supervision has clearly not been effective, the practical implementation is weak or that the shortcomings are sufficient to raise doubts about the authority's ability to achieve compliance.	-
Noncompliant	A Principle is assessed "noncompliant" if it is not substantially implemented, several criteria are not complied with, or supervision is manifestly ineffective.	-
Non-applicable	Those cases in which the criteria would not relate to the country's circumstances, or the Principle does not apply given the structural, legal and institutional features of a country.	-

The ICURN Review rated three Guiding Principles as Largely Compliant and provided Recommend Actions to improve effectiveness of compliance for these and several other principles. These recommendations were categorised under three broad areas: the Central Bank's Supervisory Approach to the oversight of credit unions, Communications and Guidance, and Resourcing. The Review provided Recommended Actions in additional areas, several of which are summarized below. A list of all Guiding Principles along with a summary of Comments and Recommended Actions is contained in Appendix viii.

## B. Information and Methodology

The ICURN Review was conducted pursuant to Section 32m of the CBA, which requires a peer review of the Central Bank's performance of its regulatory functions every four years. ICURN is an international organization of credit union regulators. The ICURN team comprised four persons with deep experience in credit union regulation and supervision. ICURN employed 23 Guiding Principles in assessing the effectiveness of the Central Bank's regulatory framework.

The team mapped and assessed Ireland's credit union legal and regulatory framework against ICURN's Guiding Principles For Effective Prudential Supervision of Cooperative Financial Institutions and Guiding Principles for Corporate Governance using the Basel Committee's Core Principles for Effective Banking Supervision as a guide

In conducting their work the ICURN team met with staff of the Registry of Credit Unions, audit firms, credit union organizations, the Department of Finance and credit unions.

## C. Detailed Assessment and Recommended Actions

The Review found the Central Bank to be compliant in 20 of the 23 ICURN Core Principles and largely compliant in three Core Principles. A summary of the ICURN Comments and Recommended Actions for the Principles rated Largely Compliant appears in **Figure 9**. A list of all 23 Core Principles and with Comments and Recommended Actions is found in Appendix 2-D.

**Figure 9 - ICURN Core Principles with Ratings of Largely Compliant**

ICURN Guiding Principle & Rating	Summary of Guiding Principles & Recommended Actions
<b>7 – Credit Risk</b>  <b>Largely Compliant</b>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank has undertaken a range of measures in relation to credit risk in credit unions. These include: 1) a program of loan book reviews in 2011; 2) the introduction of lending restrictions where supervisory concerns exist in relation to weakness in governance, credit practices, and systems and controls for lending, and credit control; and 3) a program of targeted asset reviews in a number of credit unions with increased risk profiles to determine any shortfall in their capital base. The Central Bank has also regularly updated its guidance surrounding credit risk management. The current level of arrears may be an indicator of continuing weaknesses in credit underwriting practices. The Central Bank proposes to update relevant sections of the Credit Union Handbook in advance of the new sections of the 1997 Act and regulations which are planned to come into effect at the end of 2015.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank should consider focusing its attention on the lending area of credit risk, which has real potential to cause material damage to credit unions and impact longer term viability. Under PRISM, the frequency and extent of on-site supervision activities for credit risk may not allow for sufficient oversight of this key risk area. The RCU has indicated that it is to develop a longer term engagement model for credit unions in 2015 to apply thereafter. Given the inherent risks and continuing high levels of loan arrears as a percentage of total loans, RCU's intention to refine the longer term engagement model in the future is welcomed. This should always include a full on-site review of credit risk for all credit unions, including Low Impact credit unions, and a minimum appropriate level of sampling and testing of actual lending and investment practices.</li> <li>- The Central Bank has recently commenced a review of lending restrictions in the credit union sector. It may also wish to consider further refining the approach for lending restrictions to see if these could be applied more rigorously to higher risk credit unions.</li> <li>- It may be helpful when updating relevant sections of the Credit Union Handbook to fully consolidate all current lending and investment guidance into separate reference documents that are more functional and cohesive.</li> </ul>
<b>14 – Abuse of Financial Services</b>  <b>Largely Compliant</b>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Anti-Money Laundering Division has specific expertise and is responsible for the supervision of Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) compliance by credit and financial institutions. The Central Bank has adopted a risk based</li> </ul>



ICURN Guiding Principle & Rating	Summary of Guiding Principles & Recommended Actions
	<p>approach to AML/CFT, conducting a number of inspections and deploying Risk Evaluation Questionnaires (REQs). The completion of an REQ is a key requirement for evaluating AML/CFT risk probabilities and assessing the nature and extent of further action. As part of their on-going AML/CFT Risk Assessment, supervisors determine whether credit unions have established and implemented policies and procedures to achieve compliance with their obligations under the CJA 2010. Risk assessment guidance has been developed to assist supervisors in evaluating the appropriateness of policies and procedures and practices, and compliance with AML/CFT requirements. All credit unions are required to answer questions relating to implementation of AML/CFT requirements on the Annual Return.</p> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- At the present time there are only a limited number of planned AML/CFT inspections for 2015. The level of planned engagement does not seem sufficient given the issues noted in the Central Bank's "Dear CEO" letter published in October 2012. The Central Bank may wish to consider implementing a minimum level of on-site review of key aspects of a credit union's practices.</li> <li>- The Central Bank may wish to consider requiring all credit unions to submit a more detailed annual questionnaire in order to maintain on-going awareness of AML/CFT requirements.</li> </ul>
<p><b>18 – Supervisory Approach, Techniques and Resources</b></p> <p><b>Largely Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank's regulatory framework is comprehensive and provides a systematic, risk-based, and well-defined regulatory approach under PRISM. Although somewhat modified for the credit union sector, PRISM is heavily reliant on data and information, especially for developing a report following a Full Risk Assessment (FRA) for discussion and challenge by the Risk Governance Panel (RGP).</li> <li>- The current level of resources allocated to the RCU supervisory engagement model is only about 60% of the PRISM suggested supervisory resources. In 2015, a Temporary Supervisory Engagement Model was introduced in place of the regular PRISM engagement model. This temporary engagement model includes on-site engagement with Low Impact credit unions.</li> <li>- Some refinements introduced with implementation of the 2015 Temporary Supervisory Engagement Model have somewhat mitigated the effect of this resource deficit. Under this approach, all credit unions will be considered for a modified engagement although no FRAs or related RGPs will be undertaken, for a temporary period.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- Although modified for the credit union sector, PRISM is heavily reliant on off-site risk assessment, analysis and review. The Central Bank may wish to consider embedding some or all of the 2015 refinements into the longer-term supervisory engagement model on an on-going basis.</li> <li>- Refinements to PRISM introduced with implementation of the 2015 Temporary Supervisory Engagement Model have somewhat mitigated the effect of the resource shortfall.</li> <li>- Where possible, RMPs should concentrate on material risk issues that need to be addressed as a matter of urgency while recording other outstanding weaknesses that will need to be addressed over time. Other less critical deficiencies could be individually listed for credit unions to acknowledge, develop and approve appropriate action plans and timelines</li> <li>- In order to assist credit unions in their understanding of the process, the Central Bank may wish to consider publishing an overview of its approach for on-site engagements including key considerations that supervisors use.</li> </ul>

### Supervisory Approach

The Central Bank's supervisory approach PRISM, which is heavily reliant on off-site risk assessment, analysis of data received from credit unions and reviews. The Review noted that Central Bank resources allocated to supervisory engagement were only 60 percent of the level of PRISM suggested supervisory resources.

The ICURN Review concluded that there were elements of PRISM that could be modified or omitted without material detriment to credit union supervision. These involved the requirement of supervisors to comply with a governance and compliance framework that was deemed more suited to the supervision of larger, more complex financial institutions. It was also recognized that the 2015 Temporary Supervisory Engagement Model may have mitigated the resource shortfall and allowed for more hands-on engagement with credit unions.



The ICURN Review recommended that the PRISM governance and compliance framework should be adapted as appropriate for the credit union sector, while ensuring that key risk areas such as credit risk are adequately addressed.

#### Communication and Guidance

The ICURN Review noted the volume and complexity of the new laws and regulations and their effect on the credit union regulatory regime. The Review recommended that the Central Bank increase its communications and guidance to credit union management with respect to these new laws and regulations.

#### Resourcing

The ICURN Review discussed the demanding task represented by a new comprehensive regulatory structure for credit unions, including gaining a sound understanding of the true health of the sector and the restructuring of the sector. The Review concluded that poor quality loan underwriting remained a significant problem for credit unions. The ICURN report recommended that the Central Bank consider refocusing its scarce resources to key risks, particularly credit risk and that the Registry of Credit Unions (RCU) ensure that it has adequate resources to deliver on all aspects of its regulatory strategy.

Since 2010 there has been an increase in the number of staff in RCU. Many Central Bank staff members were subject to pay cuts and reduced pension levels under the FEMPI Acts. RCU's 2015 approved staffing level was below the level necessary to carry out all supervisory activities in line with PRISM as well as RCU's other strategic objectives. At the time of the Review, RCU was operating below its 2015 approved staff complement level.

## **D. Central Bank Response to the Assessment**

The Central Bank was in general agreement with the finding in the peer review report and indicated it would consider in detail how it might implement and enhance its current practices in the areas referred to in the ICURN team's recommendations.

# **VI. Summary of the AFM Peer Review of Consumer Protection Function of the Central Bank of Ireland**

## **A. Summary of Key Findings and Recommendations**

The AFM team was impressed by the dedication of the Central Bank to strive to achieve better outcomes for consumers. Though the consumer protection mandate is relatively new, a lot was achieved in a relatively short timeframe. The AFM noted a motivated and professional staff and leadership team, with a drive to fulfil the Consumer Protection Directorate's (CPD's) mission. The Review further noted a strong commitment to stakeholder management including extensive relations with government bodies and firms, and internationally.

The AFM is responsible for the supervision of Dutch financial markets, and promotes the conscientious provision of financial services to consumers and supervises the honest and efficient operation of the capital markets. The AFM employed G20/OECD High-Level Principals on Financial Consumer Protection in making its assessment. There were no international standards available in the area of consumer protection as there are for the other Reviews. The AFM use of these Principles may be the first time any country has had their standards assessed against these Principles.

Notable achievements by the CPD took place against the background of the economic challenges of recent years. Mortgage arrears were a priority and regulation was introduced into the growing debt management sector. PPI redress, work on remuneration, minimum competency levels for consumer-facing staff in firms and the focus on good governance and culture were highlighted as positives. Market intelligence, monitoring of advertising and the use of behavioural economic insights were commended. The enhanced regulatory toolkit introduced by the Central Bank (Supervision and Enforcement Act) 2013 was also noted. The AFM

acknowledged that consumer protection is a relatively new area in regulation with few harmonized standards. The regulatory models continue to evolve as policy makers recognize that the models traditionally used for prudential purposes cannot always be easily modified for consumer protection supervision.

The AFM identified the following key areas for further consideration:

- *Product Governance and Oversight* – There was scope for the Central Bank to enhance the supervisory approach in respect of the governance and oversight of products that may pose a market-wide threat;
- *Strategic Planning and Outcome Measurement* – There may be benefit in a more elaborate long term plan, with appropriate measurement of the outcomes for consumers;
- *Problem Based Approach* – Change methodology to focus only on the most serious market wide conduct risks on a cross- sectoral basis;
- *PRISM Model* – Further work was required to operationalize the Central Bank's 5 C's Consumer Protection model to identify and prioritise key consumer risks, and from that to devise consumer protection actions to deal with those risks;
- *Prioritising Capacity and Planning* - Consideration of a more integrated prioritisation model with the flexibility to allow the Central Bank to de-prioritise and flexibly deploy its resources towards the greatest consumer protection threats;
- *Low Impact Firms and Enforcement* – Building on compliance motivation measures and with a greater focus on enforcements focused on treating customers fairly could enhance the current strategy in respect of Low impact firms under PRISM; and
- *Compliance Motivation and Corporate Culture* – Building on existing corporate culture work the Central Bank could develop a more systematic and cross-sectoral approach to challenging High and medium High Impact firms in relation to their corporate culture in respect of consumer protection.

## B. Information and Methodology Used for Assessment — Overview

The Mutual Learning Programme was built upon the G20/OECD High-Level Principles on Financial Consumer Protection and the CBA requirement for external reviews of performance of regulatory functions at the Central Bank of Ireland. This programme is and represented an opportunity for mutual learning and the development of best practices with the Netherlands Authority for the Financial Markets (AFM).

The Programme took place between April 2014 and March 2015. The G20 Principles were used as a reference point for the study, and the Central Bank completed a self-assessment against those Principles and provided further information to the AFM team, including at reciprocal site visits. The work had two main components:

- The consumer protection framework within the remit of the Central Bank; and,
- The Central Bank's strategy for consumer protection and the implementation of that strategy.

## C. Detailed Assessment and Recommended Actions

The AFM assessed the Central Bank against 6 of the G20 principles. The AFM noted a general perception that there was a lack of resources within CPD to fulfil all of the many demands for meeting its consumer protection objectives. The AFM Review of consumer protection function of the Central Bank was the only peer review addressed in this report that did not employ a formal rating system; consequently, there is no appendix that summarizes principles and recommendations. The report, however, identified areas for improvement in the Central Bank's compliance with the six of the G20 guiding principles applied to consumer protection.

**These areas for improvement include the following:**

- *Problem Based Approach*: The supervisory approach in place was a firm-based approach as opposed to a problem-based approach. Although a firm-based approach is a reasonable approach for prudential supervision, the approach risked overlooking market-wide consumer protection risks or addressing them less effectively. The Review suggested the Central Bank consider adopting a problem-based supervisory approach. A problem-based approach identifies the most serious market conducts risks on a cross-sectoral basis and directs the supervisory agent's resources only at these risks. In this way, the

problem-based approach is distinct from the performance of thematic reviews. Thematic reviews consist of a single intervention and should be considered one useful instrument among many others belonging to the problem-based approach.

- *Probability Risk and Impact System:* The rigorous and systematic supervisory practice that followed from the PRISM model was regarded as good practice and symbolised the Central Bank's innovative outlook. However, PRISM required further development in key areas. The Central Bank's 5 C's Consumer Protection model did not yet sufficiently identify and prioritize consumer risk so the CPD could pursue appropriate consumer protection actions to address these risks. The supervisory approach under PRISM for branches and inward passporting firms relied primarily on reactive processes and did not mandate the minimum frequency of onsite reviews or engagement with these firms. The Review suggested that the Central Bank consider how the consumer protection function should interact with PRISM and whether a shift to more problem solving supervisory mechanisms might be beneficial – particularly for Low impact intermediaries.
- *Prioritization, Capacity and Planning:* The supervisory resource allocation within PRISM was rigorous, but it not all consumer protection activity was covered. Those activities outside the scope of PRISM had a loose model for prioritisation and would benefit from a more integrated prioritisation that combined the advantages of rigour and flexibility. CPD would also benefit from having policies and procedures in place to reprioritise projects or for use in the case of sudden serious issues arising.
- *Low Impact Firms:* The present process was largely reactive and did not prescribe the minimum frequency for onsite reviews or engagement. Large impact consumer protection issues regularly originated from smaller firms that are by themselves "Low impact". The Review suggested the Central Bank consider developing a more elaborate supervisory strategy for "Low impact" intermediaries.
- *Compliance Motivation and Corporate Culture:* The Central Bank was aware of the complexity of inducing compliance motivation as a regulator; however, the Central Bank lacked a systematic approach to promoting consumer protection compliance motivation. AFM recommended an effort to engage high or medium-high impact firms on corporate culture issues. The AFM recognised this systematic approach would require a significant time/resource investment, a shift in relations with the firms concerned, and preparedness to experiment.
- *Enforcement:* There had not been a sufficient number of consumer detriment cases taken against low-impact intermediaries. The Review suggested the Central Bank should develop a strategy to make more efficient and robust enforcement decisions.
- *Measuring and Reporting Effectiveness:* There was room for improvement in systematically measuring the outcomes of CPD's interventions. A lot of data was available that should be brought together as an integral part of the Central Bank's supervisory process. This step would enable a greater focus on consumer protection outcomes.
- *Stakeholder engagement:* Although the Central Bank's stakeholder engagement was strong, the Central Bank should report back to external stakeholders about what it had done to address their concerns and the reasons for the actions adopted. The Central Bank should engage external stakeholders in strategic dialogue.
- *Prudential and Conduct Risk:* It is important to monitor that there is not an unbalanced supervisory approach between prudential supervision and conduct of business supervision. Where conflicts of interest arise between the two mandates the Central Bank might consider developing appropriate mechanisms to address those conflicts.
- *Behavioural economics:* The Bank could consider further work on behavioural economics. However, taking this step would require substantial investment, a strategic vision of the balance between policy tools, anchoring behavioural economics in the structure and culture of the CPD, and encouraging a shift from legal to behavioural perspectives on consumer protection.
- *Strategic Planning and Outcome Measurement:* The Central Bank should consider a more elaborate long term strategic plan to connect the 5 C's framework<sup>1</sup> and the high level strategic goals to the

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<sup>1</sup> The Consumer Protection strategy is based on what the Central Bank refers to as the 5 "C"s framework – the CONSUMER is at the centre of our thinking alongside CONFIDENCE, COMPLIANCE, CHALLENGE and CULTURE.

tactical and operational planning of consumer protection activity, together with a 'long' thematic prioritisation list. De-prioritisation of lower impact issues would enable a focus on only the highest priorities. But in any event the capacity of CPD presented a challenge and the Bank should consider whether sufficient resources are dedicated to consumer protection.

## **D. Central Bank Response to the Assessment**

The Central Bank welcomed the AFM's recognition of the Central Bank's drive to fulfill its mission of "Getting it right for Consumers" and its achievements to date in the protection of consumers of financial services. It acknowledged the AFM's recommendations for potential improvements in the consumer protection framework aimed at better securing the protection of consumers. The Central Bank indicated that it intends to develop a revised consumer protection model to enhance its approach to product oversight and governance, and to prioritize the greatest threats to consumers. It considers the AFM's findings and recommendations to be a valuable resource in accomplishing these tasks.

## Appendix 1: Overview of Institutional Structure, Market Structure and Preconditions for Effective Regulation

### A. Summary of Selected Sections of the IMF ROSC on Banking Supervision (May 2014)

#### 1) Institutional and Market Structure Review

The Central Bank Reform Act, 2010, created a new single unitary body, the Central Bank of Ireland, responsible for both central banking and financial regulation. The Central Bank is an economic and sectoral regulatory authority charged with the regulation and supervision of financial services in the State; and, as such, a public body subject to administrative law. The objectives in supervising Credit Institutions are twofold: (i) to foster a stable banking system; and (ii) to provide a degree of protection to depositors with individual credit institutions. In relation to the prudential supervision of providers of financial services the Central Bank of Ireland operated a risk based approach to supervision. The Constitution of Ireland vested the sole and exclusive power of making laws for the State in the Oireachtas – the National Parliament: consisting of the President, a House of Representatives called Dáil Éireann and a Senate called Seanad Éireann.

#### 2) Preconditions for Effective Banking Supervision

- a) **Macroeconomic Overview:** Ireland pulled back from a severe banking crisis with the support of the EU-IMF program. The program that began in December 2010 followed an exceptionally deep banking crisis at a public cost of €64.1 billion (some 40 percent of GDP). Credit risk remained high as a result of weak profitability and revenue. Non Financial Corporations debt levels were high, but debt owed to Irish banks was falling. Mortgage arrears remained a key risk to financial stability. In early 2013, the Central Bank of Ireland announced measures, including the publication of performance targets for the main mortgage banks, to address the mortgage arrears problem. Mortgage arrears have increased significantly since 2009. The total outstanding balance on all mortgage loans in arrears of more than 90 days was €27.3 billion at end-June 2013. At end-June 2013, 12.7 percent of accounts of principal dwelling houses (PDH) were 90 days or more in arrears, an increase of 9.4 percentage points since the data were first collected at end-September 2009. Banks thus far concentrated on altering the repayment terms of a mortgage loan on either a temporary or permanent basis. Overall, conditions in the residential property market remained fragile. Irish households' balance sheets remained vulnerable due to high levels of debt and the challenges in servicing it. Personal consumer expenditure declined in recent years, contributing to the drag on domestic economic activity. The Department of Finance projected the Government deficit to narrow from 7.3 per cent of GDP in 2013 to 2.9 per cent in 2015 (meeting the three per cent deficit target required under the external assistance program and EU fiscal framework).
- b) **Overview of the Banking Sector:** Irish banks' balance sheets continued to shrink across the industry, driven by on-going deleveraging by the retail banks and repayments levels exceeding the volume of new business written. In terms of banks' solvency position, while the Core Tier 1 ratios for the domestic banks continued to deteriorate, they remained above the 7 percent target level under Basel III. The stock of impaired mortgages and SME loans continued to rise and was the main short-term risk. Cost-to-income ratios continued to remain under pressure. Domestic banks benefited from a decline in the flow of impaired loans, which, however, remained the single biggest determinant of overall losses. The deleveraging of banks' balance sheets under the Financial Measures Program (FMP) remained on track and at a lower cost than initially foreseen. The ratio of provisions to nonperforming loans increased marginally in the second quarter of 2013. Progress in tackling mortgage arrears was been slow. A review of the Code of Conduct on Mortgage Arrears was completed with the new code coming into effect beginning 1 July 2013. Basel III is to be phased in on a gradual basis across the EU until 2019 and was expected to reduce the banks' headline capital ratios.

- c) **Bank Resolution:** The Irish Bank Resolution Corporation (IBRC) was formed in 2011 through the merger of Anglo Irish Bank and Irish Nationwide Building Society, both of which had been taken fully into public ownership. On February 7th 2013, the Irish Bank Resolution Corporation (IBRC) Act 2013 was passed by the Parliament of Ireland, the Oireachtas, and signed into law by the President, providing for the winding up of IBRC under a special liquidation regime. The National Asset Management Agency (NAMA), through a newly established special purpose vehicle, acquired the floating charge over IBRC's assets from the Central Bank of Ireland, and issued government guaranteed NAMA bonds to the Central Bank of Ireland in exchange. The Central Bank of Ireland was to sell the bonds as soon as possible providing that conditions of financial stability permit.
- d) **Accounting and Auditing:** Company law requires listed entities to prepare their group financial statements in accordance with IFRS as endorsed by the European Union. Company law requires auditors in Ireland (including auditors of Irish licensed credit institutions) to apply International Standards of Auditing (UK and Ireland) as issued by the Financial Reporting Council. The IAASA oversees how the PABs exercise supervision of all their members (auditors, accountants and students), including inspecting audit firms and audit work, as well as investigation of complaints and disciplining where appropriate.
- e) **Payment Systems Framework in Ireland:** The clearing and settlement of retail payments in Ireland was conducted through two companies, namely The Irish Retail Electronic Payments Clearing Company Limited (IRECC) and the Irish Paper Clearing Company Limited (IPCC), each of which constituted a payment system for the purposes of Part 11 of the CBA, 1972. The Central Bank was directly engaged in the oversight of the domestic retail payments system.
- f) **Trade in Irish Securities:** Trade in Irish securities—government bonds, equities and other securities—were all settled in infrastructures physically located outside Ireland.
- g) **Financial Safety Net (Deposit Insurance):** Deposits held with banks, building societies and credit unions authorised in Ireland were protected by the Deposit Guarantee Scheme (DGS) in the event of a credit institution being unable to repay deposits. The DGS is obliged to issue compensation to depositors duly verified as eligible within 20 working days of a credit institution failing.
- h) **Exceptional Liquidity Assistance (ELA):** One of the functions of the Central Bank, similar to other central banks, was to grant Exceptional Liquidity Assistance (ELA) to a credit institution when this was deemed necessary for financial stability purposes. In recent years the Bank has provided ELA to the banking system for financial stability purposes.
- i) **Recovery and Resolution:** The Central Bank Credit Institution Resolution Act (CBCIR) was enacted in 2011 and establishes the resolution regime. The CBCIR permitted the Central Bank to request recovery plans from institutions.

## B. Summary of Selected Sections of the IMF ROSC on Securities Regulation

### 1) Institutional and Market Structure Overview

The Central Bank of Ireland was the primary regulator of the Irish financial system. Its objectives included the stability of the financial system; the resolution of the financial difficulties in credit institutions in Ireland; the efficient and effective operation of payment and settlement systems; the Provision of analysis and comment to support national economic policy development; and Proper and effective regulation of financial institutions and markets, while ensuring that consumers of financial services were protected. The Central Bank has broad powers to regulate capital markets activities in Ireland. The regulator's responsibilities, powers and authority are established by statute.

There are two other bodies whose statutory authority directly interlocks with the Central Bank's markets mandate: the IAASA and ISE. Other Authorities exist whose activities are relevant to securities markets. There was one stock exchange and no derivatives exchange in the jurisdiction. Virtually all the equities on the ISE were also listed or quoted on another exchange.



The number of listed companies and instruments has declined on all three markets over the past five years, while market capitalization has increased. Trading on the Irish market has consisted predominantly of equity and sovereign debt transactions. The growth in the assets under management in retail CIS over the 2010 to 2013 has been significant. The growth in the wholesale CIS market has been in line with that of the retail market. Overall, the number of authorized intermediaries in the jurisdiction has been declining.

The regulatory structure in Ireland makes limited use of self-regulatory organizations (SROs) that exercise some direct oversight responsibilities for certain market participants and whose rules are subject to meaningful sanctions.

## **2) Preconditions for Effective Securities Supervision**

The preconditions for effective supervision appear to be in place in the jurisdiction. The company's legislation is fairly modern and includes provisions pertaining to the management of the company, rights of shareholders, duties of directors and officers, preparation and audit of company accounts and proceedings of shareholder meetings. Rules governing takeovers have been published by the Irish Takeover Panel. The judiciary is independent and there are specialized commercial courts available, but the court process is slow owing to high volumes of matters. The accounting and auditing standards operative in the jurisdiction are of a high and internationally accepted quality.

## **C. Summary of Selected Sections of the IMF ROSC on Insurance Core Principles**

### **1) Institutional and Markets Structure Overview**

The Central Bank is the integrated financial supervisor in Ireland and has the overall supervision of insurers and insurance intermediaries authorised in Ireland. The Central Bank is accountable to the Minister in discharging its statutory functions.

The Central Bank's preparation for Solvency II (coming into force on 1 January 2016) is well advanced and a dedicated Solvency II project has been in place since 2010. The Central Bank's risk based supervision framework PRISM is closely aligned to the Solvency II Supervisory Review Process which calls for a prospective and risk-based approach to supervision. PRISM sets out the minimum supervisory engagements driven by the impact ratings of insurers. Insurers rated Ultra-High/High receive the highest level of supervision under structured engagement plans while insurers rated Low are supervised reactively.

The Irish insurance sector is diversified, encompassing direct insurers, life and reinsurers operating in the domestic and international markets. The number of insurers decreased to 234 at end of June 2014 (from 307 in 2009) with the introduction of the reinsurance regulations in 2006 which resulted in reinsurers reviewing their business models in Ireland and with the forthcoming Solvency II regulation, which has led some firms to exit due to the high compliance cost involved.

Ireland has the second-highest number of reinsurers in Europe and the asset size of the Irish reinsurance industry represented over 30 percent of GDP. The majority of the insurers operating in Ireland are subsidiaries of large international insurance parents, some of which are part of financial conglomerates domiciled in the EU. While Irish reinsurers pose limited domestic financial stability impact, their operations have potential global systemic implications and they confront operating challenges that are exacerbated by global financial conditions. The bulk of Irish reinsurers' business relates to foreign risk, and some Irish reinsurers are part of global insurance groups identified as Globally Systemically Important Insurers (G-SIIs). The Financial Stability Board expects G-SIIs to be subject to enhanced supervision and appropriate policy measures to manage the systemic externalities.

### **2) Preconditions for Effective Insurance Supervision**

Ireland completed its EU-IMF Program on 15 December 2013 without a prearranged precautionary credit facility. The financial sector has undergone significant restructuring since the financial crisis in 2008-09, with key reforms taking place in the banking sector.



Ireland has a well-developed public infrastructure. This includes a comprehensive legal and institutional framework, availability of information and a highly skilled labour force. As part of the EU, financial sector legislation in Ireland is largely driven by EU regulations and EU Directives that are transposed into Irish law through statutory instruments (SI). Accounting and auditing standards in Ireland are geared toward international standards.

Ireland's Corporate Governance (CG) system is in line with the Organization for Economic Cooperation and Development (OECD) Principles of CG. Insurers have access to a broad range of financial instruments in the EU, which facilitates their asset liability management.

## **D. Summary of Selected Sections of the ICURN Peer Review of Credit Union**

### **1) Institutional and Market Structure Overview**

#### Macro-Economic Environment

The Central Bank's Macro Prudential Review (issued in December 2014) noted that since the last review in 2014, there has been a slowdown in economic activity in the euro zone. However, the Irish economy has been improving with a broad based recovery.

#### Overview of the Credit Union Sector

As of 31 December 2014, there were 383 credit unions with a total €14.3 Billion in assets and Savings of €10.3 Billion. 178 credit unions had total assets of less than €20 Million. The average loans to assets ratio was 29 percent down from 36 percent in 2012. 10 credit unions had reserves of less than 10 percent, the regulatory requirement. Average loan arrears were 17% with some 30% of credit unions experiencing arrears greater than 20 percent of total loans.

#### Development in the Credit Union Sector since 2010

The Registrar of Credit Unions (RCU) conducted a strategic review of the sector in 2010. The review highlighted the following deficiencies: The lack of governance and competency requirements, the lack of powers available for the Central Bank to conduct preventative intervention and limitations of external support for credit union liquidity and capital. In 2011 the Central Bank conducted a Prudential Capital Assessment Review of the sector followed by an assessment of the loan book of individual credit unions. These exercises revealed that 66 percent of the individual credit unions needed additional loan loss provisions. All credit unions inspected were provided with corrective action plans.

The Central Bank continued its regulatory actions with a variety of regulatory interventions such as lending restrictions and dividend curtailments. In May 2011 a Commission on Credit Unions (CCU) was established to assess the future of the credit union movement in Ireland. The CCU made 60 recommendations in the areas of prudential regulation, governance and restructure of the sector that were adopted in the Act of 2012. The 2012 Act included new governance and prudential requirements, a stabilization scheme for credit unions, and provides regulation making powers for the Central Bank.

#### Legal and Regulatory Framework

There are six major statutes that relate to credit unions beginning with the CBA that established the position of Registrar of Credit Unions within the Central Bank. A framework for registration, regulation and operation of credit unions was established by the Credit Union Act of 1997. The Central Bank Act of 2010 empowered the Central Bank to set fitness and probity standards for credit union officials. The Central Bank and Credit Institutions (Resolution) Act of 2011 empowered the Central Bank to manage and resolve distressed credit unions. The Credit Union and Co-operation with Overseas Regulation Act of 2012 adopted many of the recommendations of the CCU concerning prudential regulation, restructuring and stabilization. The Central Bank (Supervision and Enforcement) Act of 2013 harmonized regulatory provisions across all financial service providers.

In addition, there are a number of other laws that affect credit union operations such as anti-money laundering laws.

#### Accounting and Audit

Credit unions must prepare their annual accounts in accordance with local GAAP, as well as International Financial Reporting Standards (IFRS). Given their size, most credit unions prepare their statements according to local GAAP.

In Ireland auditors apply international standards as issued by the Financial Reporting Council. The Irish Auditing and Accounting Supervisory Authority oversees how Prescribed Accounting Bodies exercise supervision over their members.

#### Financial Safety Net

The credit union safety net consists of a Deposit Guarantee Scheme (DGS) that generally insures deposits to €100,000. A restructuring support scheme for credit unions has been established with the Minister of Finance contributing €250million to the statutory Credit Union Fund subject to EU State Aid requirements. Stabilization support from the Credit Union Fund is also subject to a Central Bank finding that the credit union is viable and has reserves in excess of 7.5 percent. The Credit Union Restructuring Board (ReBo) plays a role in both restructuring and stabilization support.

#### Restructuring and Resolution

The 2012 Act empowers ReBo to oversee and facilitate the voluntary restructuring of the credit union sector. The Central Bank has developed a policy to ensure that the voluntary restructuring of the credit union sector and the resolution framework of the Central Bank operate in a complimentary and orderly fashion.

In 2014 11 transfer engagements involving 19 credit unions were completed. As of 31 March 2015, 30 further engagements involving 73 credit unions were ongoing.

## Appendix 2: Principles/Guidelines and Recommendations/Recommended Actions

### A. Basel Core Principles for Effective Banking Supervision

Basel Core Principles & Rating	Summary of Observations & Key Recommendations
<b>1. Responsibilities, objectives and powers</b>  <b>Compliant</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank is the primary regulator of the Irish financial system. Its objectives include ensuring that consumers of financial services are protected.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Amend existing legislation to detail the framework for Central Bank independence. Also address reasons for removal of Commission members to be similar to the Governor.</li> <li>- Take steps to fill vacancies in Banking Supervisory Department.</li> </ul>
<b>2. Independence, accountability, resourcing and legal protection for supervisors</b>  <b>Materially Non-Compliant</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Legislation provides for the approval of the Minister for Finance for setting the levy structure to fund supervision, denying a license application, involuntary revocation of a banking license.</li> <li>- The Minister may remove Commission members for specified reasons.</li> <li>- There is no observed interference.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Amend existing legislation to detail the framework for Central Bank independence. Also address reasons for removal of Commission members to be similar to Governor.</li> <li>- Take steps to fill vacancies in Banking Supervisory Department.</li> </ul>
<b>3. Cooperation and collaboration</b>  <b>Compliant</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank is responsible for the regulation of financial service providers and markets in Ireland, and ensuring financial stability.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- No action recommended.</li> </ul>
<b>4. Permissible activities</b>  <b>Compliant</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- No comments in IMF Summary.</li> </ul>
<b>5. Licensing criteria</b>  <b>Compliant</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank issues licenses to banks owned by unregulated entities. These banks are ring-fenced since the Central Bank lacks authority to perform fit and proper reviews on senior management or take enforcement action against the unregulated parent.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Consider options for improving the Central Bank's ability to conduct fit and proper reviews during licensing of banks owned by unregulated parents.</li> <li>- Study enforceability of special conditions to the license that must be accepted by parent company at time of approval to enhance Central Bank enforcement authority.</li> </ul>
<b>6. Transfer of significant ownership</b>  <b>Compliant</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- No comments in IMF Summary.</li> </ul>
<b>7. Major acquisitions</b>  <b>Largely Compliant</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Too early for a record of compliance and enforcement to be reviewed.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- No action recommended.</li> </ul>

Basel Core Principles & Rating	Summary of Observations & Key Recommendations
<b>8. Supervisory approach</b>  <b>Compliant</b>	<b>Observations</b> - The PRISM model is the centrepiece of the supervisory framework.  <b>Recommendations</b> - No action recommended.
<b>9. Supervisory techniques and tools</b>  <b>Materially Non-Compliant</b>	<b>Observations</b> - A primary concern is whether the calibration of PRISM is appropriate for the mix of onsite and offsite supervision for Medium-Low and Low Impact banks. Analysis of regulatory returns should be strengthened.  <b>Recommendations</b> - Consider the distribution of resources and supervisory tasks across Medium-Low and Low Impact ratings. - Consider expanding KRIs in PRISM to include a broader suite of risk metrics i.e. operational risk and IRRBB.
<b>10. Supervisory reporting</b>  <b>Compliant</b>	<b>Observations</b> - No comments in IMF Summary Recommendations.
<b>11. Corrective and sanctioning powers of supervisors</b>  <b>Compliant</b>	<b>Observations</b> - Central Bank has an adequate range of supervisory tools to bring about timely corrective actions.  <b>Recommendations</b> - No action recommended.
<b>12. Consolidated supervision</b>  <b>Compliant</b>	<b>Observations</b> - The Central Bank undertakes supervisory activities.  <b>Recommendations</b> - No action recommended.
<b>13. Home-host relationships</b>  <b>Compliant</b>	<b>Observations</b> - No Comments.
<b>14. Corporate governance</b>  <b>Largely Compliant</b>	<b>Observations</b> - For Medium-Low and Low Banks the range and frequency of supervisory activities to assess governance is not adequate. - Also an inadequate level of attention to a board's stewardship and understanding of risk and corporate governance  <b>Recommendations</b> - No action recommended.
<b>15. Risk management process</b>  <b>Largely Compliant</b>	<b>Observations</b> - Insufficient information to assess the status of business continuity & ongoing monitoring of robustness of arrangements. Frequency of testing needs to be enhanced.  <b>Recommendations</b> - For banks accredited to use internal models, annual assessment that banks comply with supervisory standards (e.g. validation). - Implementation of framework to assess IT across regulated banks.
<b>16. Capital adequacy</b>  <b>Compliant</b>	<b>Observations</b> - No comments in IMF Summary Recommendations.
<b>17. Credit risk</b>  <b>Largely Compliant</b>	<b>Observations</b> - Onsite credit risk review frequency and depth for lower risk institutions and the allocation of credit risk specialists is not sufficient. - Medium-Low and Low Bank Prism variance analysis might not necessarily provide timely insight into the application of credit risk management processes.  <b>Recommendations</b> - Increase frequency and loan sample size for Medium-Low banks.

Basel Core Principles & Rating	Summary of Observations & Key Recommendations
<b>18. Problem assets, provisions, and reserves</b>  <b>Largely Compliant</b>	<b>Observations</b> - Greater frequency and depth of onsite reviews of loan loss provisioning practices. <b>Recommendations</b> - Greater frequency and depth of onsite reviews of loan loss provisioning practices (e.g. testing of assumptions against experience, recognition of default, prudent valuations).
<b>19. Concentration risk and large exposure limits</b>  <b>Compliant</b>	<b>Observations</b> - No comments in IMF Summary Recommendations.
<b>20. Transactions with related parties</b>  <b>Materially Non-Compliant</b>	<b>Observations</b> - Only credit transactions are covered by the regulation. - Compliance monitoring is mainly offsite, but reports filed by banks lack information to monitor terms, rates, and other requirements of the RPL Code. <b>Recommendations</b> - Amend the RPL code to include asset sales, deposits and other areas addressed in the Core Principle. Also expand information in RPL regulatory reports so that a more complete offsite compliance assessment may be made.
<b>21. Country and transfer risks</b>  <b>Largely Compliant</b>	<b>Observations</b> - The Central Bank has developed a monitoring process and is conducting initial reviews to determine compliance. <b>Recommendations</b> - No action recommended.
<b>22. Market risk</b>  <b>Largely Compliant</b>	<b>Observations</b> - Onsite examinations of market risk have been limited. - Insufficient onsite testing of implementation of policies and procedures. - Central Bank's oversight of internal models is inadequate to ensure models are fit for purpose and calculating capital accurately. <b>Recommendations</b> - No action recommended.
<b>23. Interest rate risk in the banking book</b>  <b>Largely Compliant</b>	<b>Observations</b> - Detailed reviews are conducted on High Impact banks. - A less intensive process is used for lower Impact banks with a reliance on a self-assessment. <b>Recommendations</b> - No action recommended.
<b>24. Liquidity risk</b>  <b>Compliant</b>	<b>Observations</b> - The Bank requires each credit institution to establish and maintain a liquidity strategy, liquidity policy and a contingency funding plan approved by the Board. <b>Recommendations</b> - No action recommended.
<b>25. Operational risk</b>  <b>Largely Compliant</b>	<b>Observations</b> - Effectiveness of monitoring and enforcement cannot be assessed at this time. <b>Recommendations</b> - No action recommended.
<b>26. Internal control and audit</b>  <b>Largely Compliant</b>	<b>Observations</b> - No requirement in regulations for the Board to take responsibility for establishing the internal control environment. - Supervisory activities to assess the effectiveness of the internal control function for Non High Impact Banks rely upon desk based review, and hence are unable to make an accurate assessment of the effectiveness of the control environment. <b>Recommendations</b> - No action recommended.

Basel Core Principles & Rating	Summary of Observations & Key Recommendations
<b>27. Financial reporting and external audit</b>  <b>Largely Compliant</b>	<b>Observations</b> - Central Bank does not have the power either to reject or rescind the external auditor.  <b>Recommendations</b> - Enact legislation giving the Central Bank the power to reject or rescind external auditors.
<b>28. Disclosure and transparency</b>  <b>Compliant</b>	<b>Observations</b> - Central Bank will ensure financial statements have an auditor's opinion expressing true and fair view.  <b>Recommendations</b> - No action recommended.
<b>29. Abuse of financial services</b>  <b>Materially Non-Compliant</b>	<b>Observations</b> - Branches of foreign banks have not been incorporated in AML compliance reviews. - Most reviews of compliance have been through the review of risk assessment questionnaires sent to banks with limited onsite testing. - The Central Bank has not issued specific requirements for internal audit and/or external experts to independently evaluate the relevant risk management policies, processes and controls for AML.  <b>Recommendations</b> - Expand supervisory scope to include branches of foreign banks. - Review the current balance between onsite and offsite reviews; currently emphasis is heavily weighted on offsite. - Statutory guidelines, approved as envisaged by Section 107 of the CAJA 2010, should be issued. -

## B. IOSCO Objectives and Principles of Securities Regulation

IOSCO Principle & Rating	IMF ROSC Observations & Recommended Actions
<b>1. The responsibilities of the Regulator should be clear and objectively stated</b>  <b>Fully Implemented</b>	<b>Observations</b> - The Central Bank has a clear mandate defined by law. - The Central Bank has established cooperation arrangements with other Authorities which have responsibility for aspects of the securities markets.  <b>Recommendations</b> - None.
<b>2. The Regulator should be operationally independent and accountable in the exercise of its functions and powers.</b>  <b>Partially Implemented</b>	<b>Observations</b> - The Central Bank operates free of influence from the Government and the industry on a day-to-day basis. However, there are two impediments to independence. The Minister for Finance may remove an appointed member of the Commission. Secondly, the Secretary General of the Department of Finance is an ex-officio member of the Commission.  <b>Recommendations</b> - The law should be amended to state that a Commission member may only be removed for specified, objective causes (such as bankruptcy, persistent failure to attend meetings, acting in conflict of interest, etc.). - The Government should amend the Central Bank Act 1942 (CBA) to remove the inclusion of a Ministry official on the Central Bank Board. - Consideration should be given to including provisions permitting the Central Bank to indemnify staff, officers and Commissioners for their legal costs in the event they are sued in relation to Central Bank duties and make those moneys available to pay costs during the course of the suit.
<b>3. The Regulator should have adequate powers, proper</b>	<b>Observations</b> - The Central Bank has sufficient powers to carry out its functions in the capital

IOSCO Principle & Rating	IMF ROSC Observations & Recommended Actions
<p>resources and the capacity to perform its functions and exercise its powers.</p> <p><b>Partially Implemented</b></p>	<p>markets. The effect of the Government's pay-cuts on Central Bank staff has a constraining effect on the Central Bank's ability to seek and retain experienced regulators. Additional resources are required.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- The Government should give the Central Bank additional resources and the flexibility to depart from the civil service compensation rules.</li> </ul>
<p>4. The Regulator should adopt clear and consistent regulatory processes.</p> <p><b>Broadly Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Regulatory actions undertaken by the Central Bank are fair and reasonable, transparent and comprehensible, and there is consistent application of relevant principles. Laws and regulations need to be consolidated.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- The process of official consolidation of the laws for public use needs to be accelerated. In the meantime, a competent authority in the State or some part of the Government should prepare and post 'unofficial' consolidated versions of the key financial services acts and regulations.</li> </ul>
<p>5. The staff of the Regulator should observe the highest professional standards, including appropriate standards of confidentiality.</p> <p><b>Fully Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank staff observe high standards of professional conduct and are subject to a Code of Ethics.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- The Publish the Employee Code of Ethics on the website so that the public are informed of the high standards of ethical behaviour that Central Bank staff are expected to meet.</li> </ul>
<p>6. The Regulator should have or contribute to a process to monitor, mitigate and manage systemic risk, appropriate to its mandate.</p> <p><b>Fully Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- A key objective of the Central Bank is to monitor and mitigate systemic risk. Domestic Authorities have protocols in place and meet regularly to address systemic issues.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- None.</li> </ul>
<p>7. The Regulator should have or contribute to a process to review the perimeter of regulation regularly.</p> <p><b>Fully Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank regularly reviews the perimeter of regulation, and participates in official domestic and European for a on regulation.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- None.</li> </ul>
<p>8. The Regulator should seek to ensure that conflicts of interest and misalignment of incentives are avoided, eliminated, disclosed or otherwise managed.</p> <p><b>Fully Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank and the legal regime have processes and requirements in place to address conflicts of interest and misalignment of incentives.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- None.</li> </ul>
<p>9. Where the regulatory system makes use of Self-Regulatory Organizations (SROs) that exercise some direct oversight responsibility for their respective areas of competence, such SROs should be subject to the oversight of the Regulator and should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities.</p> <p><b>Fully Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- There are three organizations in Ireland that exercise some direct oversight responsibility for certain market participants. All three are professional accounting associations that are subject to the oversight of the Central Bank (and other regulatory and governmental bodies in Ireland). However, confidentiality rules that bind all Authorities may inhibit efficient cooperation in oversight efforts.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Consideration should be given to exploring adjustments that might be made to the confidentiality requirements to facilitate more open discussions and greater sharing of information among the relevant authorities.</li> </ul>



IOSCO Principle & Rating	IMF ROSC Observations & Recommended Actions
<p><b>10. The Regulator should have comprehensive inspection, investigation and surveillance powers.</b></p> <p><b>Fully Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank has broad inspection, investigation and surveillance powers.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- None.</li> </ul>
<p><b>11. The Regulator should have comprehensive enforcement powers.</b></p> <p><b>Fully Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank has comprehensive powers to investigate and take action against anyone who breaches the laws it administers.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- None.</li> </ul>
<p><b>12. The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance program.</b></p> <p><b>Partially Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank's risk-based system, PRISM, informs its supervisory and investigative program supplemented by thematic reviews, formal and informal reports. An administrative Sanction Procedure with public reporting has proved a successful approach to obtaining monetary sanctions.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- A more proactive approach to supervision of firms designated by PRISM as Low Impact should be implemented.</li> <li>- More prosecutions should be pursued against individuals.</li> <li>- The Government should consider raising the maximum fines that the District Court can impose on defendants in summary criminal matters to provide a more significant deterrent.</li> </ul>
<p><b>13. The Regulator should have authority to share both public and non-public information with domestic and foreign counterparts.</b></p> <p><b>Fully Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank has the ability and capacity to share information and cooperate with other Authorities in Ireland, within Europe, and internationally.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- None.</li> </ul>
<p><b>14. Regulators should establish information sharing mechanisms that set out when and how they will share both public and non-public information with their domestic and foreign counterparts.</b></p> <p><b>Fully Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank is a signatory to the IOSCO MMOU, an MOU with ESMA and a number of bilateral MOUs with its international counterparts. It has bilateral MOUs with the Irish Stock Exchange Ltd. (ISE), the Financial Services Ombudsman, the Office of the Director of Corporate Enforcement (ODCE), and the Irish Auditing &amp; Accounting Supervisory Authority (IAASA).</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- None.</li> </ul>
<p><b>15. The regulatory system should allow for assistance to be provided to foreign Regulators who need to make inquiries in the discharge of their functions and exercise of their powers.</b></p> <p><b>Fully Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank is a signatory to the IOSCO MMOU in December 2012, and has shared information under that agreement. The CIB does not require permission from any authority to share or obtain information.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- None.</li> </ul>
<p><b>16. There should be full, accurate and timely disclosure of financial results, risk and other information that is material to investors' decisions.</b></p> <p><b>Partially Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The initial disclosure requirements for offers of securities to the public are extensive. All public issuers are required to prepare audited annual financial statements.</li> <li>- The Central Bank and the ISE contribute to the monitoring and review of the non-financial disclosures of issuers.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- All companies that have issued shares to the public should be subject to continuing disclosure requirements, regardless of their status as a listed company or the nature of the system on which their securities are traded or quoted.</li> </ul>

IOSCO Principle & Rating	IMF ROSC Observations & Recommended Actions
	<ul style="list-style-type: none"> <li>- Larger companies should be expected to issue their audited financial statements in a maximum of ninety days; smaller issuers may be given somewhat longer. The reporting period for interim statements of ESM companies should be shortened from three to two months at the longest.</li> <li>- A change in auditor should be considered to be a material change that gives rise to an obligation for all public companies to immediately inform the relevant authorities, both IAASA and the Central Bank.</li> <li>- The continuing disclosure documents issued by public companies should be subject to at least a periodic review by a competent authority.</li> </ul>
<p><b>17. Holders of securities in a company should be treated in a fair and equitable manner.</b></p> <p><b>Broadly Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Investors are treated equitably with respect to voting and the ability to participate in any takeover bid. There are extensive disclosure requirements for substantial shareholders, officers, directors and other parties.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Detailed guidance on the information that must be included in any materials sent to shareholders in connection with a shareholder meeting should be issued by a competent authority and those requirements should apply to all public issuers.</li> <li>- Consideration should be given to rationalizing and simplifying the requirements that apply to substantial shareholders, officers, directors and other parties. This regime should apply equally to all public issuers.</li> </ul>
<p><b>18. Accounting standards used by issuers to prepare financial statements should be of a high and internationally acceptable quality.</b></p> <p><b>Fully Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Companies generally are required to prepare their accounts using either FRS or the U.K. and Irish Generally Accepted Accounting Principles (GAAP). Where certain third country accounting standards have been deemed equivalent by ESMA, they also are permitted to be used.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- As for the Central Bank, IAASA should be given additional resources and greater freedom to contract with staff on appropriate terms in order to recruit and retain staff with the necessary expertise.</li> </ul>
<p><b>19. Auditors should be subject to adequate levels of oversight.</b></p> <p><b>Broadly Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- There is a system in place that subjects auditors to appropriate levels of oversight.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- As for the Central Bank, IAASA should be given additional resources and greater freedom to contract with staff on appropriate terms in order to recruit and retain staff with the necessary expertise.</li> </ul>
<p><b>20. Auditors should be independent of the issuing entity that they audit.</b></p> <p><b>Fully Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- There are extensive requirements for auditors to be independent of the entities they audit.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- None.</li> </ul>
<p><b>21. Audit standards should be of a high and internationally acceptable quality.</b></p> <p><b>Fully Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The financial statements must be audited in accordance with the International Standards on Auditing (ISAs) (U.K. and Ireland) as issued by the Financial Reporting Council in the U.K.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- None.</li> </ul>
<p><b>22. CRAs should be subject to adequate levels of oversight. The regulatory system should ensure that credit rating agencies whose ratings are used for regulatory purposes are subject to registration and ongoing supervision.</b></p> <p><b>Broadly Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- This grade is that given to ESMA, as the direct supervisor of CRAs in Europe, in a review conducted in December 2012. All CRAs that provide services in Ireland were subject to a thorough registration process by colleges of European regulators.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- None.</li> </ul>

IOSCO Principle & Rating	IMF ROSC Observations & Recommended Actions
<p><b>23. Other entities that offer investors analytical or evaluative services should be subject to oversight and regulation appropriate to the impact their activities have on the market or the degree to which the regulatory system relies on them.</b></p> <p><b>Fully Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Entities that provide analytical or evaluative services are caught by legislation and have to be authorized by the Central Bank.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- None.</li> </ul>
<p><b>24. The regulatory system should set standards for the eligibility, governance, organization and operational conduct of those who wish to market or operate a collective investment scheme.</b></p> <p><b>Fully Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank authorizes and supervises two CIS regimes - under the UCITS Regulations and EU UCITS Directive and under the Alternative Investment Fund Regulations and the EU Alternative Investment Fund Managers and amending Directives.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- None.</li> </ul>
<p><b>25. The regulatory system should provide for rules governing the legal form and structure of collective investment schemes and the segregation and protection of client assets.</b></p> <p><b>Fully Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Fund prospectuses are obliged to contain detailed information on the legal form of the CIS and the rights of investors. Assets are segregated from those of the operator and distributor and are required to be held by a depositary or custodian.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- None.</li> </ul>
<p><b>26. Regulation should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a collective investment scheme for a particular investor and the value of the investor's interest in the scheme.</b></p> <p><b>Broadly Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- All publicly offered funds must be approved by the Central Bank. Investor protection provisions are robust.</li> <li>- The reporting requirements for both AIFs and UCITS, although regular and adopted through the EU, are too slow to be effective</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- The periods within which CIS are required by EU directives to publish annual and semi-annual financial statements should be reduced to enhance transparency for investors and the ability to take prompt investigative or remedial action.</li> </ul>
<p><b>27. Regulation should ensure that there is a proper and disclosed basis for asset valuation and the pricing and the redemption of units in a collective investment scheme.</b></p> <p><b>Broadly Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Securities and assets are required to be valued fairly and independently. However, it is not clear that the valuation of CIS assets is to be performed in accordance with International Financial Reporting Standards (IFRS) or U.K. and Irish GAAP, or some other high quality accepted accounting standard.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank should issue clear guidance that the valuation of CIS assets are to be performed in accordance with IFRS or U.K. and Irish GAAP, or some other high quality accepted accounting standard applied on a consistent basis.</li> <li>- The Central Bank should publish rules relating to pricing errors.</li> </ul>
<p><b>28. Regulation should ensure that hedge funds and/or hedge funds managers/advisers are subject to appropriate oversight.</b></p> <p><b>Fully Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- "Hedge fund" is not a defined term in Ireland but it is treated by the Central Bank as a CIS regardless of its legal structure under national law.</li> <li>- The AIFM framework governs registration, internal organization and operational conduct. The operator must be authorized by the Central Bank.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- None.</li> </ul>
<p><b>29. Regulation should provide for minimum entry standards for market intermediaries.</b></p> <p><b>Fully Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- A framework is in place for authorization and to apply on-going requirements for market intermediaries.</li> <li>- Applicants are subject to detailed off-site reviews before being authorized.</li> </ul> <p><b>Recommendations</b></p>

IOSCO Principle & Rating	IMF ROSC Observations & Recommended Actions
	<ul style="list-style-type: none"> <li>- The Central Bank should supplement the information made available to the public on the register of firms posted on its website to add: <ul style="list-style-type: none"> <li>• The permitted activities for each investment product intermediary under the Investment Intermediaries Act (IIA); and</li> <li>• The identity of senior management and names of other authorised individuals who act in the name of a MiFID investment firm or an IIA firm.</li> </ul> </li> </ul>
<p><b>30. There should be initial and ongoing capital and other prudential requirements for market intermediaries that reflect the risks that the intermediaries undertake.</b></p> <p><b>Fully Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- There are initial and ongoing capital requirements for all types of intermediaries to ensure that they have adequate resources to meet their business commitments and address the risks of their businesses.</li> <li>- The capital requirements for MiFID firms trading on their own account or holding client assets are based on the EU Capital Requirements Directive.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- None.</li> </ul>
<p><b>31. Market intermediaries should be required to establish an internal function that delivers compliance with standards for internal organization and operational conduct, with the aim of protecting the interests of clients and their assets and ensuring proper management of risk, through which management of the intermediary accepts primary responsibility for these matters.</b></p> <p><b>Broadly Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Market intermediaries are required to have systems of risk management and internal controls in place. If an intermediary holds client assets, an auditor's review of the systems and controls is required on at least an annual basis.</li> <li>- There are regulations for proper protection of clients, including requirements for segregation of clients' assets and business conduct rules.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank should introduce a general requirement that all firms conduct an annual review of risk management and controls. This review should be required to be performed to objective standards and by a function or entity that is independent of the business of the firm.</li> </ul>
<p><b>32. There should be procedures for dealing with the failure of a market intermediary in order to minimize damage and loss to investors and to contain systemic risk.</b></p> <p><b>Broadly Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank has plans in place for dealing with a firm's failure.</li> <li>- The Central Bank does not have the authority to appoint an administrator to run a firm that is in crisis, nor can it take possession of the assets held by the intermediary.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank should be given the authority to appoint an administrator or monitor to step in and run a firm that is in crisis.</li> </ul>
<p><b>33. The establishment of trading systems including securities exchanges should be subject to regulatory authorization and oversight.</b></p> <p><b>Fully Implemented</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Securities exchanges, as RMs, and MTFs, are subject to authorization by the Central Bank.</li> <li>- The conditions that are imposed on the ISE and the oversight arrangements that are in place at the Central Bank generally meet the standards under the SRO Principle.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- As part of the review conducted by the Central Bank before a new trading venue is authorized, it would be prudent to conduct an on-site inspection either immediately before the venue is given authorization or very shortly thereafter. See also the recommendations under Principle 37.</li> </ul>
<p><b>34. There should be ongoing regulatory supervision of exchanges and trading systems which should aim to ensure that the integrity of trading is maintained through fair and equitable rules that strike an appropriate balance between the demands of different market participants.</b></p>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- There is a comprehensive oversight system for exchange supervision. Surveillance of the markets is carried on by the ISE and Central Bank.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- None.</li> </ul>

IOSCO Principle & Rating	IMF ROSC Observations & Recommended Actions
<b>Fully Implemented</b>	
<b>35. Regulation should promote transparency of trading.</b>  <b>Fully Implemented</b>	<b>Observations</b> <ul style="list-style-type: none"> <li>- There is both pre-trade and post-trade real- time transparency of prices on the ISE for trades, in accordance with the provisions of MiFID.</li> <li>- All transactions in any securities by market intermediaries must be reported by T+1.</li> </ul> <b>Recommendations</b> <ul style="list-style-type: none"> <li>- None.</li> </ul>
<b>36. Regulation should be designed to detect and deter manipulation and other unfair trading practices.</b>  <b>Partially Implemented</b>	<b>Observations</b> <ul style="list-style-type: none"> <li>- There are rules in place with respect to market manipulation and insider trading.</li> <li>- Proposed EU amendments to the Market Abuse Directive are expected to address gaps in MTFs &amp; off- exchange trading.</li> </ul> <b>Recommendations</b> <ul style="list-style-type: none"> <li>- The Companies Law should be amended or other legislation introduced to prohibit the full scope of activities that are abusive to the market regardless of where that trading takes place or whether the securities are admitted to trading on an RM.</li> </ul>
<b>37. Regulation should aim to ensure the proper management of large exposures, default risk and market disruption.</b>  <b>Partially Implemented</b>	<b>Observations</b> <ul style="list-style-type: none"> <li>- Trades in Irish securities are settled on systems physically located outside Ireland.</li> <li>- The functions of monitoring market exposures that are sufficiently large to create a substantial risk to the market or to a clearing firm are performed by supervised entities outside of the Central Bank's jurisdiction. The Central Bank is relying on the supervision of the regulator in those jurisdictions.</li> </ul> <b>Recommendations</b> <ul style="list-style-type: none"> <li>- The Central Bank should carry out reasonable due diligence on the regimes where the principal clearing and settlement of trades by Irish intermediaries or in Irish securities take place, both on the regulatory oversight conducted and the effects of bankruptcy/ insolvency regimes on positions (client or intermediary) held in that jurisdiction. Obtaining opinions from legal counsel on the treatment of assets and positions on insolvency, particularly in Belgium, the U.K. and Germany, would also be prudent.</li> <li>- The MOU with the U.K. Authorities regarding oversight of CREST should be updated and one should be put in place with BaFin regarding the oversight of Eurex Clearing to ensure an effective gateway for clearing related information.</li> </ul>
<b>38. Securities settlement systems and central counterparties should be subject to regulatory and supervisory requirements that are designed to ensure that they are fair, effective and efficient and that they reduce systemic risk.</b>  <b>Not Applicable</b>	<b>Observations and Recommendations</b> <ul style="list-style-type: none"> <li>- Not assessed.</li> </ul>

## C. Assessment of Observance on Insurance Core Principles

ICP & Level of Observance	Observations & Recommendations
<b>1 – Objectives, Powers and Responsibilities of the Supervisor</b>  <b>Observed</b>	<b>Observations</b> <ul style="list-style-type: none"> <li>- Clear power and mandate as primary regulator of the insurance industry in Ireland.</li> </ul> <b>Recommendations</b> <ul style="list-style-type: none"> <li>- Establish explicit objectives for the supervision of insurance groups in the primary legislation.</li> </ul>



ICP & Level of Observance	Observations & Recommendations
<b>2 – Supervisor</b>  <b>Partly Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Significant challenge in attracting and retaining experienced supervisor of high calibre.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Enhance Central Bank's statutory independence by: <ul style="list-style-type: none"> <li>▪ Reconsidering the Department of Finance's involvement in the Commission and the role of the Minister in approving the Deputy Governors;</li> <li>▪ Removing or providing more clarity on the general ground for the removal of a Commissioner;</li> <li>▪ Establishing a legal provision on public disclosure of the reasons of the removal of a Governor or Commissioners in the CBA; and</li> <li>▪ Reviewing the Minister's statutory power relating to Central Bank's regulatory functions, including the extent of consultation for rule-making and approval for industry levy structure.</li> </ul> </li> <li>- Address the significant challenges of Central Bank in attracting and retaining skilled; competent and experienced staff. Important considerations include improving the competitiveness of staff remuneration and exempting Central Bank from the FEMPI (Financial Emergency Measures in the Public Interest Act 2010).</li> <li>- Implement measures to enhance Central Bank's data protection governance framework.</li> </ul>
<b>3 – Information Exchange and Confidentiality Requirements</b>  <b>Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Exchange of information with relevant supervisors and a number of executed MOUs in place.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- None.</li> </ul>
<b>4 – Licensing</b>  <b>Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Sole authority for authorising (re)insurers to conduct insurance business in Ireland.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- None.</li> </ul>
<b>5 – Suitability of persons</b>  <b>Largely Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The fitness and probity (FP) regime introduced in 2010. Significant Owners are not covered by the Fitness and Probity (F&amp;P) regime.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Extend the F&amp;P regime to include Significant Owners.</li> <li>- Establish clear requirements for (re)insurers to notify Central Bank of any circumstances that may materially adversely affect the suitability of persons appointed to PCFs and Significant Owners.</li> </ul>
<b>6 – Changes in control and portfolio transfers</b>  <b>Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Changes in control must be notified to the Central Bank. Portfolio transfers are subject to Court approval and the Central Bank is entitled to raise an objection.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- None.</li> </ul>
<b>7 – Corporate governance</b>  <b>Largely Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The corporate governance (CG) code establishes robust CG requirements.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- The coming into effect of the revised CG Code and CG SII Guideline will largely address some of the regulatory gaps noted above. To further improve insurers' governance practices, it was recommended that Central Bank: <ul style="list-style-type: none"> <li>▪ Secure the necessary powers to supervise CG at the group level, even for non-regulated holding companies;</li> <li>▪ Review its current checklist approach to assessing the CG of Low impact (re)insurers;</li> <li>▪ Enhance the CG framework regulation in accordance with ICP 7.4 to further explicitly state the responsibility of individual directors to act in the best interests of both the (re)insurer and policyholders; and</li> <li>▪ Define its role in the assessment of the fair treatment of with-profits customers.</li> </ul> </li> </ul>



ICP & Level of Observance	Observations & Recommendations
<b>8 – Risk Management and internal control</b>  <b>Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The CG and FP regimes provide a comprehensive framework on risk management and internal controls.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Establish clear supervisory expectations of PCFs at the group level.</li> <li>- Review its current checklist approach to assessing the risk management practices Low impact insurers.</li> <li>- Clarify its expectations for the actuarial function, taking into account the changing nature of the actuarial function (i.e., Appointed Actuary, Signing Actuary, Chief Actuary, SII actuarial function, etc.).</li> </ul>
<b>9 – Supervisory review and reporting</b>  <b>Partly Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Central Bank's supervisory framework has been significantly enhanced since 2011 with the introduction of PRISM.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Review the PRISM framework, particularly with respect to the one-size-fits- all reactive approach adopted for Low impact (re)insurers. There are significant merits for a more proportionate and timely risk assessment of these insurers according to their risk profiles and enhance the regulatory incentives for improving governance and risk management practices, e.g., thematic visits covering a sample of Medium/Low impact (re)insurers.</li> <li>- Update PRISM to incorporate appropriate risk-based supervision for insurance groups;</li> <li>- Strengthen regulatory reporting by establishing: <ul style="list-style-type: none"> <li>▪ consistent and more comprehensive regulatory reporting by insurance groups; and</li> <li>▪ explicit requirements for reporting off-balance sheet exposures, material outsourcing functions and activities; and material changes or incidents that could affect their condition or customers.</li> </ul> </li> <li>- Review the adequacy of supervisory resources to support a more proportionate supervisory program for (re)insurers with Medium-Low impact and effective supervision of insurance groups.</li> </ul>
<b>10 – Preventive and Corrective Measures</b>  <b>Largely Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Enhance the sanctions available for unauthorized insurance activities.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- It was recommended that Central Bank seek legislative amendments to enhance the sanctions available for unauthorized insurance activities.</li> </ul>
<b>11 – Enforcement</b>  <b>Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Central Bank's assertive risk-based supervision is intended to be underpinned by a credible threat of enforcement.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- It was recommended that Central Bank regularly review the adequacy of enforcement resources to support its strategy of credible threat of enforcement.</li> </ul>
<b>12 – Winding-up and Exit from the Market:</b>  <b>Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Range of options available for the exit of (re)insurers. Procedures to follow in the event of insolvency of a (re)insurer.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- None.</li> </ul>
<b>13 – Reinsurance and other forms of risk transfer</b>  <b>Largely Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The Reinsurance Guidelines do not explicitly address liquidity implications arising from reinsurance arrangements.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Establish enforceable regulatory requirements for reinsurance (whether in rules, regulations, etc.). In addition, the wording used in the conditions of authorization with respect to Guidelines should be aligned so that the intent is clear for all Guidelines.</li> <li>- Establish clear regulatory requirements on cedants to control their liquidity positions to take account of the structure of their risk transfer contracts and the likely payment patterns arising from them; and the need for timely documentation of reinsurance contracts at time of inception.</li> <li>- Formulate proportionate (not just reactive) risk-based supervision over Low impact (re)insurers regarding their use of reinsurance due to its importance as a tool in managing risk exposures.</li> <li>- Establish clear regulatory requirements for reinsurance at the group level.</li> </ul>

ICP & Level of Observance	Observations & Recommendations
<b>14 – Valuation</b>  <b>Largely Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- The shortfalls observed are expected to be rectified with IFRS for insurers and the advent of SII.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- The current shortcomings in the valuation of Technical Provision are expected to be addressed by SII as from 1 January 2016.</li> </ul>
<b>15 – Investment</b>  <b>Largely Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Central Bank should develop and implement explicit investment requirements both at insurance and group level.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- It was recommended that Central Bank develop and implement explicit investment requirements both at the insurer and group level.</li> </ul>
<b>16 – ERM for Solvency purposes</b>  <b>Largely Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- ERM requirements are not yet defined at the group level. However, full compliance with Standard 16.4 is expected with the passage to SII.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Establish ERM requirements at the group level.</li> <li>- Enhance the CG Code as necessary to reflect the new developments of the SII Governance Guidelines as well as introducing the need for risk tolerance limits.</li> </ul>
<b>17 – Capital adequacy</b>  <b>Partly Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Lack of explicit regulatory framework to the use of a total balance sheet approach, the lack of specific regulations pertaining to the solvency levels of groups and the lack of sufficient regulatory criteria for the assessment of capital resources.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- It was recommended that in preparation for SII (which will bring about a total balance sheet approach and a Requirements for Composite Reinsurance Undertakings) that Central Bank: <ul style="list-style-type: none"> <li>▪ Develop and implements any necessary capital adequacy support processes/tools that Central Bank will need to put in place in readiness for SII. These may include expectations for regular insurer stress testing, capital target setting, definition of capital resources, etc.;</li> <li>▪ Establish capital adequacy requirements (both quantitative and qualitative) at the group level; and</li> <li>▪ Build supervisory expertise and processes to adequately approve and monitor internal models.</li> </ul> </li> </ul>
<b>18 – Intermediaries</b>  <b>Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Central Bank regulates a wide range of insurance intermediaries.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- None.</li> </ul>
<b>19 – Conduct of Business</b>  <b>Largely Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- There are no explicit requirements relating to group-wide market conduct as well as product development and communication of claims procedures.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- It was recommended that Central Bank establish clear requirements for: <ul style="list-style-type: none"> <li>▪ group-wide market conduct;</li> <li>▪ Insurers to take into account the interests of different types of customers in developing and marketing insurance products to the targeted customers;</li> <li>▪ insurers and intermediaries with respect to replacement of policies; and</li> <li>▪ Insurers to inform claimants about the claim procedures.</li> </ul> </li> <li>- In addition, there is scope for fine-tuning the CoB regulatory returns e.g., persistency rates of insurers and to provide guidance to insurers and intermediaries on their obligations under the Data Protection Act.</li> </ul>

ICP & Level of Observance	Observations & Recommendations
<b>20 – Public disclosures</b>  <b>Partly Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- No explicit public disclosure requirements although (re)insurers have to make disclosures in accordance with IFRS or Irish GAAP.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- To improve its assessment against this ICP, Central Bank should engage with its insurers and their audit firms on possible changes in disclosure, which could be undertaken individually by (re)insurers, collectively as an industry in Ireland and/or through Central Bank requirements, which would result in more meaningful and useful disclosures by insurers.</li> </ul>
<b>21 – Countering Fraud</b>  <b>Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- While there is no specific legislation on insurance fraud, there is a broad range of statutory and common law offences under the Irish legal framework that address fraudulent conduct relating to insurance, which are subject to criminal proceedings.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- None.</li> </ul>
<b>22 - AML and CFT</b>  <b>Largely Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Central Bank takes a risk-based approach to AML-CFT supervision.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Empower Central Bank to issue enforceable rules on AML/CFT obligations consistent with the FATF Recommendations and establish guidelines to facilitate compliance by insurers/intermediaries.</li> <li>- Review the AML-CFT inspection approach for retail intermediaries.</li> <li>- Periodically analyse the ML/TF risks of the non-life insurance sector and reconsider whether the AML-CFT regime should apply to the non-life sector.</li> </ul>
<b>23 - Group supervision</b>  <b>Partly Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Central Bank's approach to supervising groups is in line with supplementary supervision under the EU Directives.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Going forward, SII will provide a structured group supervision regime including more comprehensive reporting requirements.</li> </ul>
<b>24 – Macroprudential surveillance and insurance supervision</b>  <b>Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Central Bank should better integrate its various internal ERM processes to improve its focus on emerging prudential and market conduct issues, better manage Central Bank risks and improve Central Bank planning.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- It was recommended that Central Bank better integrate its various internal ERM processes to improve its focus on emerging prudential and market conduct issues, better manage Central Bank risks and improve Central Bank planning.</li> </ul>
<b>25 – Supervisory cooperation and coordination</b>  <b>Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Adequate coordination arrangements put in place, which involve supervisors on cross-border issues on a legal entity and a group-wide basis.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Develop and implements a group supervisory framework that (among other things) would identify the various roles and interactions of the group level.</li> <li>- Agree on coordination agreements with the members of colleges led by Central Bank.</li> </ul>
<b>26 – Cross border Cooperation and Coordination on Crisis Management</b>  <b>Largely Observed</b>	<p><b>Observations</b></p> <ul style="list-style-type: none"> <li>- Central Bank is prepared for various elements of ICP 26 relating to cross-border cooperation and crisis management.</li> </ul> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>- Establish clear requirements for High/Ultra-High (re)insurers/groups to maintain and test contingency plans and procedures for use in a going and gone-concern situations.</li> <li>- Regularly review the existence of practical barriers to efficient and internationally coordinated resolutions and collaborate with the relevant supervisor to resolve these issues.</li> </ul>

## D. Guiding Principles for Credit Unions

ICURN Guiding Principle & Rating	Summary of Comments & Recommendations
<p><b>1 – Objectives, Independence, Powers, Transparency, and Cooperation</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank is the sole authority responsible for the supervision of the credit union sector in Ireland. Under the 1997 Act, the objective of the Central Bank is to "administer the system of regulation and supervision of credit unions provided for by or under this Act with a view to (a) the protection by each credit union of the funds of its members, and (b) the maintenance of the financial stability and well-being of credit unions generally." The Central Bank's performance and exercise of its functions have been delegated to the Registrar of Credit Unions.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank should consider refocusing its attention, and scarce resources, on key risks, particularly credit risk, that have real potential to cause material damage to its objectives.</li> <li>- The RCU needs to ensure that it has the adequate level of resources necessary to deliver on all aspects of its regulatory strategy.</li> <li>- We suggest that consideration be given by the relevant authority to directing a closely-defined, limited, review to evaluate the implementation of the original recommendations of the CCU and to propose any revisions or measures thought necessary in light of that experience.</li> <li>- It may be appropriate to consider the timeframe and arrangements for the establishment of a Credit Union Advisory Group as provided for in the Central Bank Act, 1942.</li> </ul>
<p><b>2 – Permissible Activities</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- Permitted activities are set out in the 1997 Act. Regulations provide that credit unions can provide a number of additional services. The Central Bank may approve an application to provide additional services where there is a mutual benefit to its members and they do not impose undue risk to members' savings. The Central Bank may also approve individual credit unions to lend within longer term lending limits to those that currently apply to all credit unions in the 1997 Act.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>
<p><b>3 – Licensing</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank is the sole authority with the power and responsibility for registering credit unions in Ireland under the 1997 Act. The Central Bank has the power to cancel the credit union registration if the registration was obtained by fraud. The Central Bank has not yet received a formal application for registration as a credit union since becoming the regulator of credit unions.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>
<p><b>4 – Ownership</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- Each member shall have only one vote at an Annual General Meeting or a Special General Meeting irrespective of his or her shareholding. Under the 1997 Act, the board of directors is required to ensure that no single person 1) is responsible for making all of the material decisions of the credit union or 2) has effective control over the business of the credit union. The savings an individual member may have in a credit union is limited to the greater of €200,000 or 1% of total assets.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>
<p><b>5 – Regulatory Reserves</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank has prescribed minimum regulatory reserve levels that are in line with recommendations of the World Council of Credit Unions. The sector supports the maintenance of strong reserves to ensure its long term viability, and stakeholders have indicated the need to address individual credit union circumstances of non-compliance. Current on-site and off-site supervisory assessment and monitoring activities provide assurance that reserve requirements are met and that non-compliance issues are</li> </ul>

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	<p>effectively resolved.</p> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>
<p><b>6 – Risk Management</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- A risk management framework has been introduced for the credit union sector in Ireland, and the Central Bank has provided comprehensive guidance for credit unions on the risk management requirements. Much of the current risk management framework is, however, relatively new and has been implemented with a number of other changes to the governance framework for credit unions over a relatively short period of time. These changes include the introduction of a risk management officer, compliance officer, and internal audit function. It will likely take some time for risk management practices to fully mature given the requirements outlined, especially for smaller credit unions.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>
<p><b>7 – Credit Risk</b></p> <p><b>Largely Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank has undertaken a range of measures in relation to credit risk in credit unions. These include 1) a program of loan book reviews in 2011; 2) the introduction of lending restrictions where supervisory concerns exist in relation to weakness in governance, credit practices, and systems and controls for lending, and credit control; and 3) a program of targeted asset reviews in a number of credit unions with increased risk profiles to determine any shortfall in their capital base. The Central Bank has also regularly updated its guidance surrounding credit risk management. The current level of arrears may be an indicator of continuing weaknesses in credit underwriting practices. The Central Bank proposes to update relevant sections of the Credit Union Handbook in advance of the new sections of the 1997 Act and regulations which are planned to come into effect at the end of 2015.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank should consider focusing its attention on the lending area of credit risk, which has real potential to cause material damages to credit unions and impact longer term viability. Under PRISM, the frequency and extent of on-site supervision activities for credit risk may not allow for sufficient oversight of this key risk area. The RCU has indicated that it is to develop a longer term engagement model for credit unions in 2015 to apply thereafter. Given the inherent risks and continuing high levels of loan arrears as a percentage of total loans, we welcome RCU's intention to refine the longer term engagement model in the future. We recommend this should always include a full on-site review of credit risk for all credit unions, including Low Impact credit unions, and a minimum appropriate level of sampling and testing of actual lending and investment practices.</li> <li>- The Central Bank has recently commenced a review of lending restrictions in the credit union sector. It may also wish to consider further refining the approach for lending restrictions to see if these could be applied more rigorously to higher risk credit unions</li> <li>- It may be helpful when updating relevant sections of the Credit Union Handbook to fully consolidate all current lending and investment guidance into separate reference documents that are more functional and cohesive.</li> </ul>
<p><b>8 – Problem Assets, Provisions and Reserves</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank has focused considerable attention on this area since the financial crisis. This effort prompted the issuance of guidance, such as the Guidance Note on Credit and Credit Control for Credit Unions (October 2007), references in the annual circulars to credit unions and credit union auditors that highlight the importance of ensuring the adequacy of bad debt provisions, and a program of targeted asset reviews. The post-crisis legislation has provided the Central Bank with a robust framework of powers and certain provisioning requirements have already been introduced.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>

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<p><b>9 – Large Exposures</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The current regulatory framework includes lending limits on the maximum exposure a credit union can have to a member. The Central Bank has provided guidance on credit union investments which sets out limits on exposures to specified classes of investments and single investment limits and on policy requirements addressing lending and investment limits, connected persons, large exposures and concentration risk, including individual limits and aggregate limits on commercial lending. Supervisors use the analysis of credit union Prudential Returns as a key tool in monitoring concentration risk. Proposed regulatory changes include strengthening these requirements and adjusting limits based on regulatory capital.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>
<p><b>10 – Conflicts of Interest and Related Party Exposures</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank has given particularly close attention to this area because of specific characteristics of the Irish credit union sector. The Central Bank has recognized that the 1997 Act provisions require some enhancement but has sought to balance changes with the sector's characteristics. At the same time, the Central Bank has sought to enhance the governance requirements in this area and to introduce more transparency than accounting regulations alone provide. Additionally, it is proposed that in the future, the Prudential Return shall include loans to all related parties rather than to officers alone, as at present.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>
<p><b>11 – Interest Rate Risk and Market Risk</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The contemporary economic environment and the range of credit union business models currently employed in Ireland do not give rise to circumstances in which significant interest rate risk generally arises. The statutory and regulatory framework prescribes an approach which minimizes the potential for the creation of interest rate risk and maximizes the likelihood of its early identification by supervisors. Where interest rate risk may exist in credit unions, supervisors have appropriate, effective tools for identifying it, both by analysis of prescribed annual returns and by on-site inspections and examinations.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>
<p><b>12 – Liquidity and Funding Risk</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank has prescribed credit union liquidity requirements, including the requirement to maintain a liquidity ratio of at least 20% at all times, with additional liquidity requirements where credit unions have lending over 5 years in excess of 20% of their loan book. The Report of the CCU concluded that at that time, "liquidity shortfall is not a pressing matter for most credit unions, and indeed the problem for many now appears to be one of excessive liquidity holdings" and indicated there is no compelling need for a central credit union liquidity mechanism then. This situation still pertains.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>
<p><b>13 – Internal Controls</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- All credit unions are required to have governance arrangements that ensure effective oversight of its activities, taking account of the nature, scale and complexity of the business being conducted. Credit unions are also required to have oversight, policies, procedures, practices, systems, controls, skills, expertise and reporting arrangements in place to ensure compliance with governance requirements. Internal controls are assessed on an on-going basis where such concerns may arise through review of the external auditor's year end management letter; issues raised in internal/external reports; and timeliness and accuracy of returns. The Central Bank has issued extensive guidance on internal controls in the Operational Risk section of the Credit Union Handbook.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>



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<p><b>14 – Abuse of Financial Services</b></p> <p><b>Largely Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Anti-Money Laundering Division has specific expertise and is responsible for the supervision of Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) compliance by credit and financial institutions. The Central Bank has adopted a risk based approach to AML/CFT conducting inspections and deploying Risk Evaluation Questionnaires (REQs). The completion of an REQ is a key requirement for evaluating AML/CFT risk probabilities and assessing the nature and extent of further action. Supervisors determine whether credit unions have established and implemented policies and procedures to achieve compliance with their obligations under the CJA 2010. Risk assessment guidance has been developed to assist supervisors in evaluating the appropriateness of policies and procedures and practices, and compliance to AML/CFT requirements. All credit unions are required to answer questions relating to implementation of AML/CFT requirements on the Annual Return.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- At the present time there are only a limited number of planned AML/CFT inspections for 2015. The level of planned engagement does not seem sufficient given the issues noted in the Central Bank's "Dear CEO" letter published in October 2012. The Central Bank may wish to consider implementing a minimum level of on-site review of key aspects of a credit union's practices.</li> <li>- The Central Bank may wish to consider requiring all credit unions to submit a more detailed annual questionnaire in order to maintain on-going awareness of AML/CFT requirements.</li> </ul>
<p><b>15 – Operational Risk</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- Credit unions are required to identify the operational risks that they are exposed to, or likely to be exposed to, and provide for the management and mitigation of those risks in their risk management system. Requirements exist in specific areas of operational risk. In relation to information systems, credit unions are required to develop, prepare, implement and maintain secure and reliable information systems to enable the board of directors and those involved in the management of the credit union to control, direct and manage its affairs. The Central Bank has provided comprehensive guidance on key aspects of operational risk. It is evident, that IT issues are a significant and a continuing risk area in the credit union sector. Responses to recent surveys suggest that limited progress is being made to resolve identified issues in a timely manner.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank may wish to concentrate its further review of IT risks on those credit unions with more complex products and services, or that seek to expand existing services, and where material higher risk issues exist in this space.</li> </ul>
<p><b>16 – Internal Audit</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- Recent changes to the 1997 Act introduced the requirement and established the independence, duties, responsibilities, and reporting requirements for an internal audit function. The Central Bank issued guidance in this area. Credit unions have been required to submit an annual compliance statement which provides information on credit union compliance with certain requirements, including internal audit requirements. Central Bank supervisors review the quality of the internal audit function as part of the ongoing supervision process. During on-site engagements Central Bank supervisors meet with internal auditors.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>
<p><b>17 – Supervisory Access</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank may compel various documents and explanations from a credit union, its officers, members, agents, liquidators, and any other persons that may be "reasonably required." The Central Bank has powers to request documentation from and to interview an individual as part of the Central Bank's consideration of the individual's F&amp;P to serve as a designated credit union official.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>

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<p><b>18 – Supervisory Approach, Techniques and Resources</b></p> <p><b>Largely Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank's regulatory framework is comprehensive and provides a systematic, risk-based, and well-defined regulatory approach under PRISM. Although somewhat modified for the credit union sector, PRISM is heavily reliant on data and information, especially for developing a report following a Full Risk Assessment (FRA) for discussion and challenge by the Risk Governance Panel (RGP).</li> <li>- The current level of resources allocated to the RCU supervisory engagement model is only about 60% of the PRISM suggested supervisory resources. In 2015, a Temporary Supervisory Engagement Model was introduced instead of the regular PRISM engagement model. This temporary engagement model includes on-site engagement with Low Impact credit unions.</li> <li>- Some refinements introduced with implementation of the 2015 Temporary Supervisory Engagement Model have somewhat mitigated the effect of this resource deficit. Under this approach, all credit unions will be considered for a modified engagement although no FRAs or related RGPs will be undertaken, for a temporary period.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- Although modified for the credit union sector, PRISM is heavily reliant on off-site risk assessment, analysis and review. The Central Bank may wish to consider embedding some or all of the 2015 refinements into the longer-term supervisory engagement model on an on-going basis.</li> <li>- Refinements to PRISM introduced with implementation of the 2015 Temporary Supervisory Engagement Model have somewhat mitigated the effect of the resource shortfall.</li> <li>- Where possible, RMPs should concentrate on material risk issues that need to be addressed as a matter of urgency while recording other outstanding weaknesses that will need to be addressed over time. Other less critical deficiencies could be individually listed for credit unions to acknowledge, develop and approve appropriate action plans and timelines.</li> <li>- In order to assist credit unions in their understanding of the process, the Central Bank may wish to consider publishing an overview of its approach for on-site engagements including key considerations that supervisors use.</li> </ul>
<p><b>19 – Supervisory Reporting</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank can prescribe requirements for the format, content, and frequency of submission of required information, and can require institutions to engage external experts for a variety of tasks where deemed necessary. The Central Bank may also require specific reports, including reports prepared and verified by independent experts, on any matters required in the performance of its duties. The Central Bank requires all credit unions to file quarterly Prudential Returns and Year End Returns, including audited accounts. Credit unions may be required to submit additional reports based on their risk profile and impact categorization.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>
<p><b>20 – Accounting and Disclosure</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- Accounting standards and practices are under constant review by the professional and standards bodies and the Central Bank works closely with those bodies. It also issues additional guidance, such as that provided in separate annual circulars to credit unions and to their external auditors. The Central Bank has also engaged directly with auditors in presentations to provide updates on changes to the regulatory framework for credit unions. In general, accounting standards are high and firmly enforced. If necessary, the Central Bank has the power to remove the auditor of a credit union and to veto the appointment or re-appointment of an auditor or the filling of a casual vacancy of an auditor.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank has undertaken important supervisory work in establishing the true state of credit union loan books and provides related guidance to credit unions and audit firms. We recommend that the Central Bank maintains and, if possible, increases its focus on providing guidance and education to the sector in these areas.</li> </ul>

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<p><b>21 – Corrective and Remedial Powers of the Supervisory Authority</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank has a wide range of enforcement tools available to facilitate timely action when, in its judgment, a credit union is not complying with laws, regulations or required actions. These include remedial actions to ensure that corrective action is undertaken in a timely manner, through the use of Risk Mitigation Programs (RMPs) and the issue of regulatory directions, and sanctions for regulatory breaches. Under certain conditions, the resolution regime prescribed by the 2011 Act allows the Central Bank to seek an appropriate order from the High Court. These powers have been used, for example, to appoint a special manager, to direct a transfer and to liquidate a credit union.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>
<p><b>22 – Governance</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- A statutory governance framework was introduced for credit unions on 11 October 2013. Additional governance requirements were introduced on 3 March 2014, completing the introduction of comprehensive and detailed governance. The 1997 Act now provides that a credit union should have governance arrangements that ensure there is effective oversight of its activities which take into consideration the nature, scale and complexity of the business being conducted. Requirements also include establishing clearly defined roles and responsibilities; performance management, succession planning and remuneration policies; a strategic plan; a risk management system; an internal audit function; an annual compliance statement; and a BOC. In addition, the Central Bank has introduced F&amp;P Standards for designated functions, which was introduced on 1 August 2013 for credit unions with total assets greater than €10m, and all credit unions on 1 August 2015, to be fully implemented for all credit unions in 2016.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- Given the extent of recent regulatory changes, the Central Bank should consider expanding its on-site engagements with credit unions to foster greater awareness and understanding of key requirements, formulate expectations and help ensure that material weaknesses can be appropriately addressed within a suitable timeframe.</li> <li>- Central Bank may also wish to work with the credit union sector in developing sample tools and/or best practices to supplement their risk management and governance guidance.</li> </ul>
<p><b>23 – Major Acquisitions</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank ensures that any transfer of engagements would not expose the credit union or members' funds to undue risks or hinder effective supervision in the future. This includes an assessment of areas of potential risk. The transfer of engagement process generally applies to all credit unions regardless of size. Using the existing structure, the time period for transfers of engagements varies, typically ranging from 6 to 9 months from initiation to completion.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- During the current restructuring phase of the Irish credit union sector, the Central Bank may wish to consider modifying the assessment process and criteria where appropriate as in the case of transfer of engagements between larger and smaller credit unions where the assets of the transferor credit union(s) are significantly lower than the assets of the transferee credit union and where there are no material outstanding risk issues of the transferee.</li> <li>- It may be helpful to retain the structure of the Credit Union Restructuring Board (ReBo) Merger Handbook, suitably modified and published as a Central Bank document, after the Minister for Finance dissolves ReBo.</li> </ul>
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	<p>relatively new and has been implemented with a number of other changes to the governance framework for credit unions over a relatively short period of time. These changes include the introduction of a risk management officer, compliance officer, and internal audit function. It will likely take some time for risk management practices to fully mature given the requirements outlined, especially for smaller credit unions.</p> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>
<p><b>7 – Credit Risk</b></p> <p><b>Largely Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank has undertaken a range of measures in relation to credit risk in credit unions. These include 1) a program of loan book reviews in 2011; 2) the introduction of lending restrictions where supervisory concerns exist in relation to weakness in governance, credit practices, and systems and controls for lending, and credit control; and 3) a program of targeted asset reviews in a number of credit unions with increased risk profiles to determine any shortfall in their capital base. The Central Bank has also regularly updated its guidance surrounding credit risk management. The current level of arrears may be an indicator of continuing weaknesses in credit underwriting practices. The Central Bank proposes to update relevant sections of the Credit Union Handbook in advance of the new sections of the 1997 Act and regulations which are planned to come into effect at the end of 2015.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank should consider focusing its attention on the lending area of credit risk, which has real potential to cause material damages to credit unions and impact longer term viability. Under PRISM, the frequency and extent of on-site supervision activities for credit risk may not allow for sufficient oversight of this key risk area. The RCU has indicated that it is to develop a longer term engagement model for credit unions in 2015 to apply thereafter. Given the inherent risks and continuing high levels of loan arrears as a percentage of total loans, we welcome RCU's intention to refine the longer term engagement model in the future. We recommend this should always include a full on-site review of credit risk for all credit unions, including Low Impact credit unions, and a minimum appropriate level of sampling and testing of actual lending and investment practices.</li> <li>- The Central Bank has recently commenced a review of lending restrictions in the credit union sector. It may also wish to consider further refining the approach for lending restrictions to see if these could be applied more rigorously to higher risk credit unions.</li> <li>- It may be helpful when updating relevant sections of the Credit Union Handbook to fully consolidate all current lending and investment guidance into separate reference documents that are more functional and cohesive.</li> </ul>
<p><b>8 – Problem Assets, Provisions and Reserves</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank has focused considerable attention on this area since the financial crisis. This effort prompted the issuance of guidance, such as the Guidance Note on Credit and Credit Control for Credit Unions (October 2007), references in the annual circulars to credit unions and credit union auditors that highlight the importance of ensuring the adequacy of bad debt provisions, and a program of targeted asset reviews. The post-crisis legislation has provided the Central Bank with a robust framework of powers and certain provisioning requirements have already been introduced.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>
<p><b>9 – Large Exposures</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The current regulatory framework includes lending limits on the maximum exposure a credit union can have to a member. The Central Bank has provided guidance on credit union investments which sets out limits on exposures to specified classes of investments and single investment limits and on policy requirements addressing lending and investment limits, connected persons, large exposures and concentration risk, including individual limits and aggregate limits on commercial lending. Supervisors use the analysis of credit union Prudential Returns as a key tool in monitoring concentration risk. Proposed regulatory changes include strengthening these requirements and adjusting limits based on regulatory capital.</li> </ul>



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	<p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>
<p><b>10 – Conflicts of Interest and Related Party Exposures</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank has given particularly close attention to this area because of specific characteristics of the Irish credit union sector. The Central Bank has recognized that the 1997 Act provisions require some enhancement but has sought to balance changes with the sector's characteristics. At the same time, the Central Bank has sought to enhance the governance requirements in this area and to introduce more transparency than accounting regulations alone provide. Additionally, it is proposed that in the future, the Prudential Return shall include loans to all related parties rather than to officers alone, as at present.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>
<p><b>11 – Interest Rate Risk and Market Risk</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The contemporary economic environment and the range of credit union business models currently employed in Ireland do not give rise to circumstances in which significant interest rate risk generally arises. The statutory and regulatory framework prescribes an approach which minimizes the potential for the creation of interest rate risk and maximizes the likelihood of its early identification by supervisors. Where interest rate risk may exist in credit unions, supervisors have appropriate, effective tools for identifying it, both by analysis of prescribed annual returns and by on-site inspections and examinations.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>
<p><b>12 – Liquidity and Funding Risk</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank has prescribed credit union liquidity requirements, including the requirement to maintain a liquidity ratio of at least 20% at all times, with additional liquidity requirements where credit unions have lending over 5 years in excess of 20% of their loan book. The Report of the CCU concluded that at that time, "liquidity shortfall is not a pressing matter for most credit unions, and indeed the problem for many now appears to be one of excessive liquidity holdings" and indicated there is no compelling need for a central credit union liquidity mechanism then. This situation still pertains.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>
<p><b>13 – Internal Controls</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- All credit unions are required to have governance arrangements that ensure effective oversight of its activities, taking account of the nature, scale and complexity of the business being conducted. Credit unions are also required to have oversight, policies, procedures, practices, systems, controls, skills, expertise and reporting arrangements in place to ensure compliance with governance requirements. Internal controls are assessed on an on-going basis where such concerns may arise through review of the external auditor's year end management letter; issues raised in internal/external reports; and timeliness and accuracy of returns. The Central Bank has issued extensive guidance on internal controls in the Operational Risk section of the Credit Union Handbook.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>
<p><b>14 – Abuse of Financial Services</b></p> <p><b>Largely Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Anti-Money Laundering Division has specific expertise and is responsible for the supervision of Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) compliance by credit and financial institutions. The Central Bank has adopted a risk based approach to AML/CFT conducting inspections and deploying Risk Evaluation Questionnaires (REQs). The completion of an REQ is a key requirement for evaluating AML/CFT risk probabilities and assessing the nature and extent of further action. Supervisors determine whether credit unions have established and implemented policies and procedures to achieve compliance with their obligations under the CJA 2010. Risk assessment guidance has been developed to assist supervisors in evaluating the</li> </ul>



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	<p>appropriateness of policies and procedures and practices, and compliance to AML/CFT requirements. All credit unions are required to answer questions relating to implementation of AML/CFT requirements on the Annual Return.</p> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- At the present time there are only a limited number of planned AML/CFT inspections for 2015. The level of planned engagement does not seem sufficient given the issues noted in the Central Bank's "Dear CEO" letter published in October 2012. The Central Bank may wish to consider implementing a minimum level of on-site review of key aspects of a credit union's practices.</li> <li>- The Central Bank may wish to consider requiring all credit unions to submit a more detailed annual questionnaire in order to maintain on-going awareness of AML/CFT requirements.</li> </ul>
<p><b>15 – Operational Risk</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- Credit unions are required to identify the operational risks that they are exposed to, or likely to be exposed to, and provide for the management and mitigation of those risks in their risk management system. Requirements exist in specific areas of operational risk. In relation to information systems, credit unions are required to develop, prepare, implement and maintain secure and reliable information systems to enable the board of directors and those involved in the management of the credit union to control, direct and manage its affairs. The Central Bank has provided comprehensive guidance on key aspects of operational risk. It is evident, that IT issues are a significant and a continuing risk area in the credit union sector. Responses to recent surveys suggest that limited progress is being made to resolve identified issues in a timely manner.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank may wish to concentrate its further review of IT risks on those credit unions with more complex products and services, or that seek to expand existing services, and where material higher risk issues exist in this space.</li> </ul>
<p><b>16 – Internal Audit</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- Recent changes to the 1997 Act introduced the requirement and established the independence, duties, responsibilities, and reporting requirements for an internal audit function. The Central Bank issued guidance in this area. Credit unions have been required to submit an annual compliance statement which provides information on credit union compliance with certain requirements, including internal audit requirements. Central Bank supervisors review the quality of the internal audit function as part of the ongoing supervision process. During on-site engagements Central Bank supervisors meet with internal auditors.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>
<p><b>17 – Supervisory Access</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank may compel various documents and explanations from a credit union, its officers, members, agents, liquidators, and any other persons that may be "reasonably required." The Central Bank has powers to request documentation from and to interview an individual as part of the Central Bank's consideration of the individual's F&amp;P to serve as a designated credit union official.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>
<p><b>18 – Supervisory Approach, Techniques and Resources</b></p> <p><b>Largely Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank's regulatory framework is comprehensive and provides a systematic, risk-based, and well-defined regulatory approach under PRISM. Although somewhat modified for the credit union sector, PRISM is heavily reliant on data and information, especially for developing a report following a Full Risk Assessment (FRA) for discussion and challenge by the Risk Governance Panel (RGP).</li> <li>- The current level of resources allocated to the RCU supervisory engagement model is only about 60% of the PRISM suggested supervisory resources. In 2015, a Temporary Supervisory Engagement Model was introduced instead of the regular PRISM engagement model. This temporary engagement model includes on-site engagement with Low Impact credit unions.</li> <li>- Some refinements introduced with implementation of the 2015 Temporary Supervisory</li> </ul>

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	<p>Engagement Model have somewhat mitigated the effect of this resource deficit. Under this approach, all credit unions will be considered for a modified engagement although no FRAs or related RGPs will be undertaken, for a temporary period.</p> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- Although modified for the credit union sector, PRISM is heavily reliant on off-site risk assessment, analysis and review. The Central Bank may wish to consider embedding some or all of the 2015 refinements into the longer-term supervisory engagement model on an on-going basis.</li> <li>- Refinements to PRISM introduced with implementation of the 2015 Temporary Supervisory Engagement Model have somewhat mitigated the effect of the resource shortfall.</li> <li>- Where possible, RMPs should concentrate on material risk issues that need to be addressed as a matter of urgency while recording other outstanding weaknesses that will need to be addressed over time. Other less critical deficiencies could be individually listed for credit unions to acknowledge, develop and approve appropriate action plans and timelines.</li> <li>- In order to assist credit unions in their understanding of the process, the Central Bank may wish to consider publishing an overview of its approach for on-site engagements including key considerations that supervisors use.</li> </ul>
<p><b>19 – Supervisory Reporting</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank can prescribe requirements for the format, content, and frequency of submission of required information, and can require institutions to engage external experts for a variety of tasks where deemed necessary. The Central Bank may also require specific reports, including reports prepared and verified by independent experts, on any matters required in the performance of its duties. The Central Bank requires all credit unions to file quarterly Prudential Returns and Year End Returns, including audited accounts. Credit unions may be required to submit additional reports based on their risk profile and impact categorization.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> </ul>
<p><b>20 – Accounting and Disclosure</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- Accounting standards and practices are under constant review by the professional and standards bodies and the Central Bank works closely with those bodies. It also issues additional guidance, such as that provided in separate annual circulars to credit unions and to their external auditors. The Central Bank has also engaged directly with auditors in presentations to provide updates on changes to the regulatory framework for credit unions. In general, accounting standards are high and firmly enforced. If necessary, the Central Bank has the power to remove the auditor of a credit union and to veto the appointment or re-appointment of an auditor or the filling of a casual vacancy of an auditor.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank has undertaken important supervisory work in establishing the true state of credit union loan books and provides related guidance to credit unions and audit firms. We recommend that the Central Bank maintains and, if possible, increases its focus on providing guidance and education to the sector in these areas.</li> </ul>
<p><b>21 – Corrective and Remedial Powers of the Supervisory Authority</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank has a wide range of enforcement tools available to facilitate timely action when, in its judgment, a credit union is not complying with laws, regulations or required actions. These include remedial actions to ensure that corrective action is undertaken in a timely manner, through the use of Risk Mitigation Programs (RMPs) and the issue of regulatory directions, and sanctions for regulatory breaches. Under certain conditions, the resolution regime prescribed by the 2011 Act allows the Central Bank to seek an appropriate order from the High Court. These powers have been used, for example, to appoint a special manager, to direct a transfer and to liquidate a credit union.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- No recommended actions.</li> <li>-</li> </ul>

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<p><b>22 – Governance</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- A statutory governance framework was introduced for credit unions on 11 October 2013. Additional governance requirements were introduced on 3 March 2014, completing the introduction of comprehensive and detailed governance. The 1997 Act now provides that a credit union should have governance arrangements that ensure there is effective oversight of its activities which take into consideration the nature, scale and complexity of the business being conducted. Requirements also include establishing clearly defined roles and responsibilities; performance management, succession planning and remuneration policies; a strategic plan; a risk management system; an internal audit function; an annual compliance statement; and a BOC. In addition, the Central Bank has introduced F&amp;P Standards for designated functions, which was introduced on 1 August 2013 for credit unions with total assets greater than €10m, and all credit unions on 1 August 2015, to be fully implemented for all credit unions in 2016.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- Given the extent of recent regulatory changes, the Central Bank should consider expanding its on-site engagements with credit unions to foster greater awareness and understanding of key requirements, formulate expectations and help ensure that material weaknesses can be appropriately addressed within a suitable timeframe.</li> <li>- Central Bank may also wish to work with the credit union sector in developing sample tools and/or best practices to supplement their risk management and governance guidance.</li> </ul>
<p><b>23 – Major Acquisitions</b></p> <p><b>Compliant</b></p>	<p><b>Observations:</b></p> <ul style="list-style-type: none"> <li>- The Central Bank ensures that any transfer of engagements would not expose the credit union or members' funds to undue risks or hinder effective supervision in the future. This includes an assessment of areas of potential risk. The transfer of engagement process generally applies to all credit unions regardless of size. Using the existing structure, the time period for transfers of engagements varies, typically ranging from 6 to 9 months from initiation to completion.</li> </ul> <p><b>Recommendations:</b></p> <ul style="list-style-type: none"> <li>- During the current restructuring phase of the Irish credit union sector, the Central Bank may wish to consider modifying the assessment process and criteria where appropriate as in the case of transfer of engagements between larger and smaller credit unions where the assets of the transferor credit union(s) are significantly lower than the assets of the transferee credit union and where there are no material outstanding risk issues of the transferee.</li> <li>- It may be helpful to retain the structure of the Credit Union Restructuring Board (ReBo) Merger Handbook, suitably modified and published as a Central Bank document, after the Minister for Finance dissolves ReBo.</li> </ul>



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