Macroprudential Measures Committee

Account of meeting no. 4 of 2019 held on 10 June

Members in attendance: Acting Governor Sharon Donnery (Chair); Deputy Governor Ed Sibley (Prudential Regulation); Vasileios Madouros (Director of Financial Stability); Mary Elizabeth McMunn (Director of Credit Institutions Supervision) and Mark Cassidy (Director of Economics and Statistics); Robert Kelly (Head of Macro-Financial Division).

The Macroprudential Measures Committee (the Committee) of the Central Bank of Ireland (the Bank) held its fourth regular meeting of 2019 on 10 June.

The Committee was presented with the 2019 identification assessment of Other Systemically Important Institutions (O-SIIs) in Ireland. The objective of the O-SII buffer is to reduce the probability, and potential impact, of a systemically important financial institution’s failure on the domestic and/or European economy. The Central Bank is designated as the national authority responsible for O-SII identification and associated buffer rate settings in Ireland. As a member of the Single Supervisory Mechanism (SSM), O-SII buffer decisions for banks are made in conjunction with the European Central Bank (ECB) and are without prejudice to any powers of the ECB under the SSM Regulations in this regard. The O-SII buffer was introduced in 2015 with the introduction of buffer rates to be phased-in between 2019 and 2021. The list of O-SIIs and the buffer rates must be reviewed on at least an annual basis.

In compliance with EBA guidelines, the Central Bank identifies O-SIIs using indicators relating to size, importance for the economy of the EU or Member State, significance of cross-border activities and interconnectedness of the institution or group with the financial system. The Committee discussed the systemic importance of the Irish banks with reference to the updated EBA scores for all institutions. The Committee discussed the changes to the Irish banking sector over the past year and how this affected the identification of O-SIIs. The Committee agreed that the standard threshold of 350 basis points in the EBA guidelines should continue to apply.

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1 The following staff were also in attendance at the meeting: Miriam Dunne, Darren Greaney, Niamh Hallissey, Michael Hodson, Allan Kearns, Caroline Mehigan, Fergal McCann, Giorgia De Nora, Eoin O’Brien, Martin O’Brien, Eoin O’Reilly, Suzanne Power.

2 Statutory Instrument 158 of 2014 gave effect to this mandate.

3 EBA guidelines on the criteria to determine the conditions of application of Article 131(3) of EU Directive 2013/36/EU in relation to the assessment of O-SIIs (EBA/GL/2014/10).
The Committee also discussed the annual review of identification of O-SIs for investment firms. The EBA guidelines are less specific regarding the O-SII assessment of investment firms and the assessment considered a bespoke set of indicators appropriate for the Irish investment firm population. This framework followed the same approach as previous years. The assessment also took into account the recently agreed text for the new prudential regime for investment firms.

The Committee were updated regarding the next steps in the annual review process leading to the public announcement, which is planned for November as in previous years. The Committee agreed that a full review of the identification process take place ahead of the 2020 review, to take into account the changing economic and legislative environment, including the continuing impact of Brexit upon institutions’ balance sheets.

The Committee then discussed an overview of recent developments in macroprudential policy at a European level, with a focus on items of relevance at the ECB and European Systemic Risk Board (ESRB) committees. The Committee were provided with an overview of topics of interest on the agenda of these committees along with a summary of macroprudential measures taken by other countries in 2019. The Committee welcomed the update, provided feedback on the content of the note, and agreed to discuss a further update in the second half of 2019.

The Committee discussed a note assessing the cross-border spillovers of the 1 per cent CCyB rate on Irish exposures. The potential for negative cross-border spillovers from national macroprudential measures led the ESRB to introduce a voluntary framework for assessing spillovers and reducing them through reciprocity, with which the Central Bank complies. The regular assessments of the cross-border effects of the mortgage measures and the O-SII buffer in Ireland have been considered since then as part of the regular annual reviews of those instruments.

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4 Investment firms Regulation and Investment firms Directive
The note outlined the transmission channel by which a positive CCyB rate could affect other jurisdictions, noting that mandatory reciprocity for the CCyB reduces the potential for cross-border spillovers. An initial assessment of the main transmission channel was presented to the Committee and found that there was no material evidence that the CCyB rate on Irish exposures created significant cross-border spillovers at this point in time. However, the analysis of cross-border spillovers would continue to be developed and the assessment would be revisited on a regular basis.

The Committee finally discussed an overview of new lending under the macroprudential mortgage measures, which was published on the Central Bank’s website 7 June 2019. The Committee were provided with an overview of the data and an update on the approach to reporting and publishing these data.