Macroprudential Measures Committee
Account of meeting no. 1 of 2017 held on 7 February

In attendance: Governor Philip Lane (Chair); Sharon Donnery (Deputy Governor Central Banking); Cyril Roux (Deputy Governor Financial Regulation); Gabriel Fagan (Chief Economist); Ed Sibley (Director of Credit Institutions Supervision); and Mark Cassidy (Head of Financial Stability Division and Secretary to the Committee).

Also present: Maurice McGuire (incoming Director of Financial Stability and Resolution); Yvonne McCarthy (Head of Function, Financial Stability Division); Martin O'Brien (Macroprudential Manager, Financial Stability Division); and Breda Cassidy (Advisor, Financial Stability Division).

1. The draft agenda was adopted. It was noted that the account of the previous meeting had been approved via written procedure prior to its publication.

2. **Proposed analytical work programme**

   The proposed analytical work programme on macroprudential issues to support the work of Macroprudential Measures Committee (MMC) was introduced. The objective of the work, led by the Financial Stability Division (FSD), was noted to provide high-quality analytical evidence regarding systemic risk analysis and macroprudential policy implementation in line with meeting domestic and international (ECB/ESRB) requirements. The Committee was advised that while the work programme relates to FSD-led initiatives, it does not capture the full scope of the FSD analytical work programme in 2017, which extends beyond the MMC mandate. It was further advised that, in order for the work programme to progress successfully, collaboration will be sought from a number of other functions across the Bank. The indicative timing of the deliverables in the work programme was noted to be driven in part by international commitments, whether that be meeting timelines for notification and interaction with the ECB and ESRB, or feeding into the Bank's overall compliance with specific ESRB and FSAP Recommendations.

   The work programme was discussed under three broad themes: cyclical; structural; and real estate related issues. The alignment of work with the stages of the macroprudential policy cycle, the intermediate objectives of macroprudential policy and the specific instruments available to, or potentially required by, the Bank to mitigate identified systemic risk, was outlined.

In the discussion of work on cyclical issues, the need to understand credit dynamics in the context of broader macro-financial conditions, drawing on for example, developments in the funding of the banking system and the current account of the Balance of Payments, was noted. Having access to the most relevant macroeconomic aggregates from a domestic economy point of view to conduct credit gap analysis was also noted. The Committee was advised that planned work on appropriately identifying credit gap indicators will go beyond the current usage of the Hodrick-Prescott filter and use more advanced modelling techniques to allow for a broader economic interpretation, as well as make use of planned improvements in National Accounts data for this purpose as they become available. Further work on financial cycle identification through dynamic factor models to complement existing composite indicators of systemic stress was noted. Evaluation of these and more standard indicators in cross-country early warning models was encouraged for incorporation into material to support the Committee's discussions.

The Committee was advised that the programme will also consider the interaction between the countercyclical capital buffer (CCyB) and other instruments such as the Bank's macroprudential mortgage market measures. It was recommended that a note be drafted from a policy perspective on the interactions between the two instruments, in particular drawing on international experience of where the two were in operation.

With regard to the proposed structural workstream, the Committee was advised that it is scheduled to have a full discussion on the other systemically important institutions (O-SII) buffer identification and rate setting in Q3. It was noted that the ECB has adopted a new methodology for assessing O-SII buffers set by national authorities with the aim of reducing cross-country heterogeneity. Concerning financial stability implications of Brexit, it was highlighted that the structure of the Irish banking system could change and the need to monitor the systemic importance of institutions on a cross-border basis may also evolve as a result. It was also highlighted that one instrument that may be used to mitigate any systemic risks that could potentially materialise due to Brexit was a Systemic Risk Buffer (SRB). It was underlined that the SRB has not yet been transposed into Irish legislation. Regarding proposed work on interconnectedness, the Committee was advised that newly available granular data from the bank and non-bank sectors will be further utilised for network/contagion analysis with a view to informing O-SII buffer calibration. It was recommended that a descriptive analysis be conducted initially and forwarded to the Committee for its consideration in the broader context of O-SII buffer setting later in the year.

Concerning proposed work on real estate related issues, the assessment of borrower impacts and a proposed study of announcement effects were outlined. A potential household survey was also discussed, to gain further insights on household expectations and access to credit. Following an exchange of views, it was considered that this may not be an appropriate time to conduct such a survey given the confluence of factors affecting household expectations and credit demand. It was recommended that preparatory work on a debt-service-to-income ratio could be considered conceptually, prior to delivery of the Central Credit Register, including by drawing on international work. In light of proposals from the credit union sector, it was noted that FSD has been in contact with the Registrar of Credit Unions with regard to the application of the Macroprudential Mortgage Market Regulations. In respect of the Macroprudential Mortgage Market Regulations, the challenges towards achieving a consistently applied definition of income were discussed. It was noted that this was also evident from discussion at a recent international conference on macroprudential issues. It was recommended that feedback on international developments, arising from staff engagement at ESCB/ESRB working groups and conferences attended, should be forwarded to the Committee for its consideration.

3. **Recommendations**

The meeting concluded with the following recommendations:

- A note to be drafted, from a policy perspective, on the potential interactions between the CCyB and the Bank’s macroprudential mortgage market measures;
- A descriptive analysis of newly available granular data to be forwarded to the Committee to inform O-SII buffer rate setting;
- Preparatory work on a debt-service-to-income ratio to be considered conceptually by drawing on international work; and
- Feedback on international developments, arising from staff engagement at ESCB/ESRB working groups and conferences attended, to be forwarded to the Committee.