



## Settlement Agreement between the Central Bank of Ireland (the “Central Bank”)

and

Michael P. Walsh

**Michael P. Walsh, a person concerned in the management of Irish Nationwide Building Society (“INBS”) has admitted participation as a non-executive director in certain prescribed contraventions of financial services law and has agreed to a period of disqualification of three years and a fine of €20,000.**

### Summary

Mr Michael P. Walsh, former non-executive Chairman of INBS, has entered into a settlement agreement with the Central Bank. As part of this settlement, Mr Walsh has admitted participation as a non-executive director in certain prescribed contraventions of financial services law by INBS during the period from 1 August 2004 to 30 September 2008 (the “**Review Period**”). These prescribed contraventions relate to INBS’s management of commercial loans and credit risk.

Mr Walsh held the position of a non-executive Chairman of the Board of INBS from 14 May 2001 until 17 February 2009. He was also a member of INBS’s Audit Committee from 2001 until 30 June 2008.

Mr Walsh was not, during the Review Period, directly engaged in the day to day management of INBS.

In consequence of his admissions, Mr Walsh has agreed to his disqualification from being concerned in the management of a regulated financial service provider (“**RFSP**”) for a period of three years, to a fine of €20,000 and a reprimand.

The settlement with Mr Walsh concludes the Central Bank’s Inquiry as against him under Part IIIC of the Central Bank Act, 1942 (as amended) (the “**Act**”).

The Central Bank makes no comment on any other cases. In particular, the Central Bank emphasises that the settlement relates to Mr Walsh alone and has no effect on the ongoing cases relating to Mr Fingleton, Mr Purcell, Mr McMenamin and Mr McCollum, which are before the Inquiry.

### Admissions

The admissions by Mr Walsh concern his ultimate responsibility as non-executive Chairman of INBS, for certain breaches of financial services law admitted by INBS relating to its management of commercial loans and credit risk, namely:

- Regulation 16(1) of the EC (Licensing and Supervision of Credit Institutions) Regulations 1992 (SI 395/1992) (as amended);
- Section 76(1) of the Building Societies Act, 1989 (as amended); and
- Part 1 of the Credit Institutions Regulatory Document titled “*Impairment Provisions for Credit Exposures*”, dated 26 October 2005, which was imposed as a condition on INBS’s authorisation under Section 17 of the 1989 Act (by way of a notice dated 6 July 2006).

Specifically, these breaches relate to:

- (i) The Credit Committee’s failure to function in accordance with INBS’s internal policies;
- (ii) INBS’s failure to provide certain reports relevant to commercial lending and credit risk management to INBS’s Board of Directors in accordance with INBS’s internal policies; and
- (iii) INBS’s failure to establish a credit risk policy for profit share agreements.

Mr Walsh was in a position to ensure that the Board received timely and relevant information from management and that the Board was addressing all relevant issues. Mr Walsh took a variety of steps to address these issues which were flagged by various internal and external reports during the Review Period but accepts responsibility as non-executive Chairman for the fact that these issues were not fully addressed.

### **Penalty Decision Factors**

The sanctions imposed on Mr Walsh as part of this settlement reflect the seriousness with which the Central Bank regards these issues. In deciding on the appropriate sanctions to impose, the Central Bank has taken the following into account:

- Mr Walsh’s participation, as a non-executive Chairman of INBS, in INBS’s failure to properly manage its commercial lending and credit risk management in accordance with INBS’s internal policies;
- The period of time during which Mr Walsh participated in the prescribed contraventions;
- The degree to which his participation departs from the standards expected by the Central Bank of non-executive directors in ensuring the implementation of, and compliance with, management systems and internal controls; and
- The need for an effective deterrent impact on other RFSPs and persons concerned in the management of RFSPs, including in particular non-executive directors.

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## Notes to Editors

1. Since 2006, 116 cases have settled under the Central Bank's Administrative Sanctions Procedure.
2. This outcome follows the Central Bank's investigation into INBS's commercial lending and credit risk management processes and certain persons who were concerned in its management during the Review Period, namely Michael P. Fingleton, Gary McCollum, Thomas McMenamin, John S. Purcell and Michael P. Walsh (the "**Persons Concerned**"). The investigation was referred to Inquiry in 2015, the first such referral under the Act. The case against INBS settled in July 2015.
3. The Inquiry continued in relation to the Persons Concerned and public hearings commenced in December 2017.
4. Part IIIC of the Act provides the Central Bank with the power to administer sanctions in respect of the commission of prescribed contravention(s) by RFSPs and the participation in the commission of the prescribed contravention(s) by persons concerned in their management.
5. Where a concern arises that a prescribed contravention has been or is being committed, the Enforcement Investigations Division of the Central Bank may investigate. Following an investigation, an Inquiry may be held where there are reasonable grounds to suspect that a prescribed contravention has been or is being committed. The purpose of the Inquiry is to determine if the RFSP has committed the prescribed contraventions and, where relevant, determine if any persons concerned in the management of the RFSP have participated in the commission of the prescribed contravention. If the Inquiry makes any such finding, it may then determine and impose appropriate sanctions.
6. The Administrative Sanctions Procedure (pursuant to Part IIIC of the Act) provides that, any time before the conclusion of an Inquiry, the matter may be resolved by entering into a settlement agreement with the RFSP or person concerned in the management of the RFSP.
7. Regulation 16(1) of the 1992 Regulations required every credit institution to manage its business in accordance with sound administrative and accounting principles and to put in place and maintain internal control and reporting arrangements and procedures to ensure that the business was so managed. The 1992 Regulations were revoked by Regulation 161 of the European Union (Capital Requirements) Regulations 2014 (S.I No. 158/2014) with effect from 31 March 2014. However, Regulation 162 of these Regulations specifically provides that the revocation does not affect any enforcement action brought by the Central Bank.
8. Section 76(1)(b) of the 1989 Act requires every building society to establish and maintain systems of control of its business and records and systems of inspection and report thereon.

9. Part 1 of the 2005 Regulatory Document sets out specific obligations for credit institutions and their board of directors / senior management in the context of credit risk policies and procedures. These obligations were imposed on 10 July 2006, pursuant to Section 17 of the 1989 Act, as a condition on INBS's authorisation.