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Central Bank of Ireland

Eurosystem

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Settlement Agreement between the Central Bank of Ireland and Scotiabank (Ireland) Limited

The Central Bank of Ireland (“the Central Bank”) has entered into a Settlement Agreement with effect from the 2nd June 2011 with Scotiabank (Ireland) Limited (“the firm”), a regulated financial service provider in relation to breaches of regulation 16 of the European Communities (Licensing and Supervision of Credit Institutions) Regulations 1992 and section 10 of the Central Bank Act 1971.

Five breaches were identified. These breaches related to:

- 1) The firm failing to provide accurate information in liquidity reporting returns from the 28th September 2007 to 27th June 2008 and from the 4th December 2009 to 5th March 2010 as a result of which there was a failure to comply with liquidity ratios in 14 returns during the first period.
- 2) The firm failing to have adequate controls and checks to verify the liquidity return process.

The Central Bank reprimanded the firm and required it to pay a monetary penalty of €600,000.

In 2008 the firm notified the Central Bank that the calculations of the quantitative liquidity ratios performed by the firm were incorrect. Allowable discounted liquid assets were overstated by US\$300 million due to the inadvertent inclusion of certain Investment Grade Securities in the calculation; the calculation of cash flows did not include all interest inflows

and outflows for Interest Rate Swaps on the basis of contractual terms; and, the calculation of cash flows did not include all cash inflows and outflows relating to certain other derivative and related transactions. Access to appropriate levels of funding was available to the firm.

In April 2010 the firm notified the Central Bank that an automated programme error had been discovered in 12 of the firm's Weekly Liquidity Returns between December 2009 and March 2010. These errors related to the calculation of the cashflows reported with respect to two reverse repo transactions, and resulted in an understatement of cash outflows of approximately US\$106 million.

The Central Bank has taken into account:

- the breaches were not deliberate;
- that the firm reported these failures to the Central Bank;
- the extensive remedial steps taken by the firm to rectify the contraventions; and
- the cooperation of the firm during the investigation and in settling at an early stage in the administrative sanctions procedure.

The Central Bank confirms that the matter is now closed.

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Full compliance with applicable liquidity requirements and accurate reporting to the Central Bank are essential components of an effective system of Banking Regulation. The existence of adequate systems and controls and the provision of timely and accurate information to the Central Bank are priority areas identified in the Enforcement Directorate's Strategy Document 2011 – 2012. The failure of firms to comply with obligations in terms of liquidity reporting and processes directly impacts on the ability of the Central Bank to ascertain with certainty the regulatory position of regulated financial service providers, and thereby fulfil its statutory objective under section 6A(2) of the Central Bank Act 1942.

Firms are reminded to monitor and test their internal control systems on a regular basis and should take great care to ensure that any changes to systems are properly and fully tested so

that regulatory requirements are adhered to and all regulatory reports provided to the Central Bank are accurate.