



Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

2010

Code of Practice on Lending to Related Parties



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1 Overview

In order to guard against abuses in lending to related parties and to address possible conflicts of interest, the Central Bank hereby requires that such lending be on an arm's length basis and subject to appropriate management oversight and limits.

2 Legal Basis and Application of this Code

This Code is imposed pursuant to Section 117 of the Central Bank Act 1989 on banks incorporated in the State licensed under Section 9 of the Central Bank Act 1971 and on building societies authorised under the Building Societies Act 1989. It also applies to designated credit institutions registered under the Asset Covered Securities Act 2001. Separately from this document, the reporting requirements described in Part 7 of the Code will be imposed from time to time pursuant to Section 117(3) (a) of the Central Bank Act 1971.

This Code does not apply to credit institutions incorporated in other EEA member states who conduct their business in the State on a branch or services basis pursuant to EU law and Directive 2006/48/EC relating to the taking up and pursuit of the business of credit institutions (recast) ("Directive 2006/48/EC").

References in this Code to provisions of statute (whether under the laws of the State or EU) are references to those provisions as amended, substituted or replaced from time to time.

A contravention of the Code may be liable to the Central Bank using any of its regulatory powers, including but not limited to one or both of the following:

- The imposition of an administrative sanction under Part IIIC of the Central Bank Act, 1942;
- The prosecution of an offence.

3. Commencement

This Code comes into force on 1 January 2011.

4. Scope of Loans Covered by this Code

This Code applies to all loans to related parties, whether granted:

- in the State or outside the State; or
- subject to the transitional provision below, prior or subsequent to the entry into force of this Code.

Transitional Provision:

The Code will, from 1 January 2011, apply to all lending, including loans outstanding and lending commitments entered into prior to that date. This shall not, however, be taken to mean that any act or omission of a credit institution prior to 1 January 2011 shall constitute a contravention of the Code. In the event that a loan outstanding or lending commitment entered into prior to 1 January 2011 is not consistent with this Code (including without limitation by virtue of the credit institution thereby exceeding a limit in requirement 6(i)), a credit institution shall take all steps possible to modify the loan or lending commitment so that it is, as soon as possible after 1 January 2011, consistent with this Code.

5. Definitions:

Board: means the board of directors of the credit institution.

Business Day: Any day except Saturday, Sunday, bank holidays and public holidays in Ireland.

Connected Persons and Clients:

- (a) a spouse, domestic partner or child (whether natural or adopted) of a person;
- (b) two or more natural or legal persons who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has control over the other or others; or
- (c) two or more natural or legal persons between whom there is no relationship of control as set out in point (b) but who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, the other or all of the others would be likely to encounter repayment difficulties.

Credit Institution: A bank licensed under Section 9 of the Central Bank Act 1971 or a building society authorised under the Building Societies Act 1989, including a credit institution registered as a designated credit institution under the Asset Covered Securities Act 2001.

Exposure: Exposure has the meaning as set out in Directive 2006/48/EC.

Lending: The provision of a loan.

Loan: Loan includes loan, quasi-loan or credit transaction which results in an exposure or potential exposure, including guarantees.

Own Funds: Own funds has the meaning as set out in Directive 2006/48/EC.

Related Party: A director, senior manager or significant shareholder of the credit institution or an entity in which the credit institution has a significant shareholding, as well as a connected person of any of the aforementioned persons.

Senior Management: Members of management of the institution or person who report directly to the board of directors or the chief executive (howsoever described) of the credit institution.

Senior Manager: A person who is a member of senior management.

Significant Shareholder: A person who holds, either themselves or in aggregate with their connected persons, a significant shareholding. Governments are excluded from this definition.

Significant Shareholding: 10% or more of the shares or voting rights in the credit institution or business.

6. Requirements of the Code

Credit institutions shall observe the following code of practice in granting or otherwise dealing with loans to related parties:

- a) a credit institution shall not grant a loan to a related party on more favourable terms (including without limitation terms as to credit assessment, duration, interest rates, amortisation schedules, collateral requirements) than a loan by the credit institution to non-related parties. An exemption is permitted for beneficial terms that are part of a remuneration package available to staff of the credit institution generally (e.g. staff loans at favourable rates) provided that such terms have been approved by the Board;
- b) a loan to a related party, or any variation of the terms of a loan to a related party, shall be subject to individual prior approval by the Board or a subcommittee of the Board established specifically to deal with related party lending where that subcommittee reports directly to the Board. Board members with conflicts of interest shall be excluded from the approval process;
- c) actions in respect of the management of a loan to a related party (including but not limited to permitting interest roll-up, granting a grace period for payment, loan write-off in whole or in part, provisioning against a loan, decisions to take or not to take enforcement action) shall be subject to individual prior approval in writing by the Board or a subcommittee of the Board established specifically to deal with related party lending where that subcommittee reports directly to the Board;
- d) Where loans to a related party will exceed one million Euro the prior approval of the Central Bank is required;

- e) policies and processes shall be in place, and adhered to, in order to prevent:
 - (i) members of staff of the credit institution benefiting from lending to a related party (otherwise than the receipt of standard remuneration also available in lending to non-related parties); and
 - (ii) persons related to the borrower from being part of the process of granting and managing a loan to such borrower;
- f) policies and processes shall be in place, and adhered to, in order to identify individual loans to a related party as well as the total amount of such loans and to monitor and report on such loans through an independent credit review process;
- g) related party lending shall be subject to a written process, approved in advance by the Board, of ongoing monitoring by senior management;
- h) there shall be in place an obligation on senior management to report to the Board, on at least a quarterly basis, for timely action by the Board, any deviation from a policy, process or limit required by this Code. Furthermore, the institution shall, within 5 business days, report any such deviation to the Central Bank, advising of the background and the proposed remedial action;
- i) a credit institution shall not lend to a related party where to do so would result in the exposures of the credit institution exceeding one or more of the following limits:

Exposure Category	Limit
I. Exposures to any one of the credit institution's directors or senior management, and persons connected to them, including any exposures to any business in which the director or senior manager has a significant shareholding.	0.5% of own funds
II. The aggregate of exposures under I., above.	5.0% of own funds
III. Exposure to any one of its significant shareholders, other than credit institutions, including exposures to businesses in which the significant shareholder has a significant shareholding.*	5% of own funds
IV. The aggregate of exposures under III., above.*	15% of own funds
V. Exposures to a client or group of connected clients, other than a credit institution, in which the credit institution has a significant shareholding.	5% of own funds
VI. The aggregate of exposures under V., above.	15% of own funds

*Exemption from III and IV: A credit institution may apply to the Central Bank in writing for an exemption from the limit in III. and IV. Such an exemption would only be potentially available to the extent that an exemption is available in respect of intra-group lending to a parent undertaking, to other subsidiaries of that parent undertaking or to its own subsidiaries, in so far as those undertakings are covered by the supervision on a consolidated basis to which the credit institution itself is subject.

- (i) a credit institution shall not:
 - (i) engage in a practice,
 - (ii) enter into an arrangement,
 - (iii) execute a document, or
 - (iv) structure or restructure a loan,

in order (whether or not as the sole or primary purpose) to avoid its obligations under this Code.

7. Reporting to the Central Bank

- a) Related party exposures shall be reported to the Central Bank on a periodic basis and in a format specified from time to time by the Central Bank pursuant to Section 117(3)(a) of the Central Bank Act 1989. This is without prejudice to the rights and powers of the Central Bank to otherwise request specific information at any point in time or to conduct inspections of a credit institution's compliance with the Code.
- b) Where a credit institution considers that there may have been an error in its conduct by reference to the requirements of this Code (including without limitation reporting requirements imposed in respect of this Code) the credit institution shall within 5 business days inform the Central Bank in writing of its proposals for correcting any such error as may have occurred. If any such information is provided to the Central Bank orally in the first instance, it shall be provided to the Central Bank in writing on the next business day.

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