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BREXIT TASK FORCE: SEPTEMBER 2017 UPDATE

Brexit Task Force

BREXIT TASK FORCE: SEPTEMBER 2017 UPDATE

Introduction

The quarterly report of the Brexit Task Force (BTF), provides updates on political, economic and financial market developments since the referendum, risks arising for firms supervised by the Bank, and issues arising for the Bank itself in particular pertaining to authorisations. Within this report, the BTF aims to provide updated information on these topics alongside more in-depth analysis of issues and policy questions arising from Brexit. The report is attached in the accompanying Appendix.

The Commission is requested to note the overview and update of the Brexit Task Force: September 2017 Report.

APPENDIX

BREXIT TASK FORCE: SEPTEMBER 2017 UPDATE

Contents

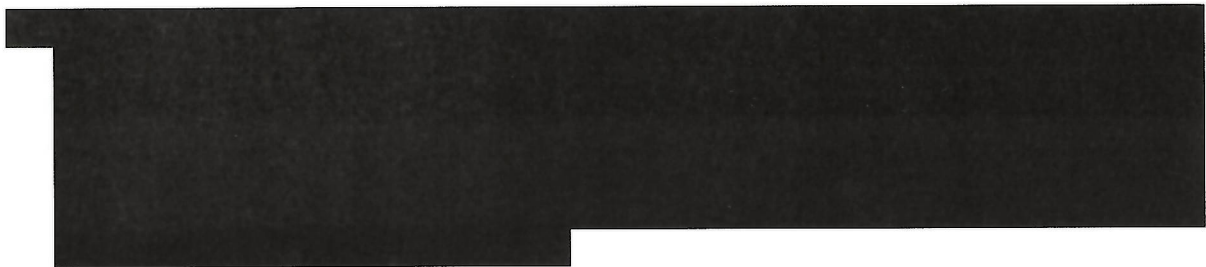
Executive Summary	4
1. Introduction	8
2. Political and Market Developments	9
2.1. Political developments	9
2.2. UK economic and property market developments	13
2.3. Financial market developments	17
3. Impact on Irish Economy	22
3.1. Macroeconomic impact	22
3.2. Property sector	24
4. Sectoral Developments	26
4.1. Banking	26
4.2. Insurance	27
4.3. AMS and SMS directorates	31
4.4. Market infrastructure	32
5. Authorisation Activity	34
5.1. Overview	34
5.2. Banking	34
5.3. Insurance	35
5.4. Asset Management Supervision	36
5.5. Consumer Protection – PIs / EMIs	36
6. Central Bank Engagement on Brexit Issues at a European Level	38
6.1. European Securities and Markets Authority (ESMA)	38
6.2. European Insurance and Occupational Pensions Authority (EIOPA)	38
6.3. European Banking Authority (EBA)	39
6.4. Single Resolution Board (SRB)	39
6.5. ECB	39
7. Special Topic 1: Impact of Sterling Depreciation on Irish Consumer Prices	42
7.1. Introduction	42
7.2. A model for exchange rate pass-through	44
7.3. The role of sterling in influencing Irish inflation	46
7.4. Conclusion	47
8. Special Topic 2: Review of individual banks' Brexit contingency letters to the PRA in July 2017	48
8.1. Executive summary	48
8.2. Introduction	48
8.3. Identified impact	49
9. Special Topic 3: Passporting and cross-border provision of services from third countries into the EU	52
9.1. Background/overview	52
9.2. CRD (2013/36)	53
9.3. MiFID II/MiFIR (2014/65 and 600/2014)	53
9.4. Solvency II (2009/138)	55
9.5. Other sectors and legislation	56
Annex 1	58
Annex 2	59
Annex 3	60
Glossary	62


Executive Summary

- Since the June 2017 Report, three rounds of Article 50 negotiations have taken place between the EU, led by its Chief Negotiator Michel Barnier, and the UK, led by the Secretary of State for Exiting the EU, David Davis. The negotiations have focussed on the (first phase) issues of citizens' rights, the financial settlement and other separation issues.
- Divergent views have emerged with respect to the extent of progress on the first two issues. Mr Barnier commented after the third meeting at end-August 2017 that they had not made "any decisive progress" on key phase one issues while Mr Davis's assessment was that there had been "some concrete progress" across a number of areas, representing a building block for discussions to come.
- One area of mutual agreement was on matters relating to Ireland. Both sides reported that there had been genuine progress on matters relating to the Common Travel Area (CTA) and Good Friday Agreement, with agreement to develop work further on cross-border cooperation and to develop shared principles on the CTA.
- The fourth round of negotiations has been postponed for one week until 25 September 2017. They will now take place after Prime Minister May's major Brexit speech, which is scheduled for 22 September 2017. The negotiation round ahead of the October 2017 European Council is anticipated to be the review point for "sufficient progress" on first phase issues, and whether discussions around the shape of the future relationship should commence.
- Regarding the outlook for the UK economy, the Bank of England's August Inflation Report laid out a broadly unchanged picture compared to the May 2017 Report. Economic growth is expected to remain sluggish over the near term as the effects of sterling depreciation continue to weigh on consumers' real incomes and consumption. The UK savings rate has fallen to 1.7 per cent, which is its lowest rate since the series began in 1963. Output growth has also slowed, most notably in the services sector, while the sterling depreciation and stronger global demand are expected to support UK exports.
- UK inflation increased to 2.9 per cent in August 2017, and is expected to rise further in the coming months and to remain above the 2 per cent inflation target over the forecast horizon until 2019. The Inflation Report notes that this overshoot reflects entirely the effects of the referendum-related falls in sterling.
- At its September 2017 meeting, the Monetary Policy Committee (MPC) voted seven to two against an immediate increase in interest rates. However, it also gave its strongest guidance in a decade that it is poised to increase interest rates soon. A majority of MPC members signalled that unless there is a sudden string of bad economic data "some withdrawal of monetary stimulus is likely to be appropriate over the coming months". Market expectations are now for rates to rise before the end of this year, compared to the expectation before the meeting of late 2018.
- The UK Commercial Real Estate (CRE) sector has held up reasonably well since the Brexit referendum. Survey data continues to show evidence of businesses looking to relocate away from the UK over the next two years, particularly from Scotland, Northern Ireland and London. Housing price inflation in the UK has continued to decline while activity has slowed – although this is related in part also to policy changes for the buy-to-let market.
- Sterling is broadly unchanged against the euro since the Task Force's previous report and currently trades at £0.88:€1. The currency was initially impacted by the election result on

8 June 2017 when the Conservatives lost the parliamentary majority, but has seen gains more recently following the September 2017 Bank of England (BoE) Monetary Policy Committee (MPC) meeting. Based on options data, markets have now placed a 71 per cent probability of a rate hike before year-end (up from 45 per cent before the MPC meeting).

- The weaker sterling exchange rate following the referendum has impacted on consumer price inflation in Ireland, reflecting the heavy concentration of UK goods in the Irish consumer basket. Annual Harmonised Index of Consumer Prices (HICP) inflation was +0.4 per cent in August 2017 having been negative in both June 2017 (-0.6 per cent) and July 2017 (-0.2 per cent). Research outlined in the Special Feature highlights the extent of exchange rate pass through from sterling to consumer prices in Ireland.
- In terms of exports and growth, the analysis undertaken by IEA points to little or no indication of any Brexit effects. Export growth has been strong including for the food sectors and also for total exports to the UK. However, indigenous sectors remain highly exposed to UK markets.
- Activity remains quite strong in the Irish CRE sector. The Dublin office vacancy rate (6.5 per cent) has been declining steadily since 2010 and is currently below the European average. However, the resumption of commercial property development in the past couple of years means that approximately five times the average annual Dublin office take-up is currently in the CRE development pipeline and due to come on-stream by 2020, according to CBRE. The addition of some or all of this stock ensures that Dublin compares favourably in comparison to other European cities in terms of availability of office space in the coming years.



- In terms of authorisations, the focus of the Banking Supervision Division remains on the  The level of new engagements with banks potentially seeking approval has levelled off in the period since the last Report.



- For the insurance sector, the main activity relates to queries and applications for authorisations and the updated information is provided in the report. EIOPA has published an opinion on supervisory convergence and has conducted a peer review of authorisation practices across six member states. The conclusion of the review was very positive about the approach of the Central Bank.



[REDACTED] A letter has recently been issued to all companies requesting that they submit details of the potential impact of Brexit on their business and what plans they have made to cover the consequences. [REDACTED]


- The Asset Management Supervision Directorate continues to have significant engagement with firms regarding Brexit and the authorisation process. To date [REDACTED] firms have submitted Key Facts Documents (KFD) [REDACTED] progressed to the formal application phase. [REDACTED] relate to MiFID investment firms, [REDACTED] A further [REDACTED] firms are deemed likely to initiate the KFD / authorisation process.
- Following two similar events in May 2017, the Bank also hosted a Brexit Roundtable on 19 July 2017 with consultants and legal experts.
- The European Securities and Markets Authority (ESMA) has published four opinions to national authorities which set out principles aimed at fostering consistency in authorisation, supervision and enforcement.
- In relation to market infrastructure post-Brexit, the Minister for Finance in July 2017 issued a statement encouraging applications for authorisation to establish a central securities depository (CSD) in Ireland. The Central Bank subsequently issued its own statement noting that of the Minister.

[REDACTED]

- An overview of total authorisations activity across all business areas up to 23 August 2017 is provided in Section 5 along with a commentary on some related developments. [REDACTED]

- There has been considerable focus on Brexit implications at a range of European fora at which the Bank participates. These include ESMA, EIOPA, the EBA, SRB, and ECB/SSM. An update of the latest discussions and the Bank's involvement is provided in section 6. [REDACTED]

- The first special feature examines *the impact of sterling depreciation on Irish consumer prices*. It highlights the extent to which exchange rate pass through can impact on consumer prices either through the prices of imported final goods or imported inputs feeding through domestic production of intermediate and final goods. The disproportionately large impact of sterling on Irish inflation compared to other countries explains why Irish inflation remained lower than all other euro area countries in 2016 and throughout 2017.

- 
- The PRA is currently undertaking detailed analysis of the responses received from banks, insurers and investment firms (401 in total 147 banks/investment firms and 254 insurance companies) in order to form a view on the level of preparedness of firms by autumn 2017.
 - The third special feature provides an updated assessment of the *passporting and cross-border provision of services from third countries into the EU*. The note distinguishes where relevant between access for third country branches and access other than via a branch. It looks separately at the provision of services in (i) CRD, (ii) MiFID II/ MiFIR, (iii) Solvency II and (iv) Other sectors and legislation (including EMIR, CSDR, PSD2, the E-money Directive, AIFMD and UCITS).

1. Introduction¹

Following the Brexit referendum, the Central Bank's Financial Stability Committee (FSC) requested that a Task Force on Brexit implications be established on a permanent basis to monitor and assess developments in this area. The Brexit Task Force (BTF) provides updated information regarding political, economic and financial market developments, risks arising for firms supervised by the central Bank and issues arising for the Central Bank itself, in particular with respect to authorisations. Furthermore, each report selects a number of issues or policy questions related to Brexit and provides an in-depth examination of these areas.

This fifth BTF Report follows the fifth meeting of the Task Force on 29 August 2017. The layout of the Report is as follows. Section two provides an update on political developments, the performance of the UK economy and property market and financial market movements over the past three months. Section three discusses the changes to the outlook for the Irish economy and property market in the context of Brexit. Section four provides an overview of latest developments in relation to banks, insurance and asset management firms, payments institutions and market infrastructures. In Section five, information relating to queries received by the Central Bank in relation to potential applications for authorisations is presented. Presented in section six is an overview of the work conducted by the various European Supervisory Authorities, the ECB and the SSM in relation to Brexit, including an overview of the participation of Central Bank staff in this work. Sections seven through nine provide in-depth analysis on a number of special topics. These are the impact of sterling depreciation on Irish consumer prices, a review of individual banks' Brexit contingency letters to the PRA in July 2017 and an examination of Passporting and cross-border provision of services from third countries into the EU.

¹ The following Divisions are represented on the Brexit Task Force: AMS, BSSD, CPD, Comms, FMD, FRG, FSD, IEA, IR, SMSD, INSA, MPD, ORD, Risk, SRD, PSSD, RES. The report has also benefited from discussions with the Department of Finance. The Chair (Mark Cassidy) and Secretariat (Ellen Ryan) are provided by FSD.

2. Political and Market Developments

2.1. Political developments²

2.1.1. UK level developments

On 29 March 2017, the UK invoked Article 50 (TFEU) via a notification letter delivered to President Tusk, thus formally setting the process of its withdrawal from the EU in motion. The UK position is set out in its notification letter and Government White Paper on Brexit (2 February 2017). Key aspects include: the UK is seeking a bold and ambitious Free Trade Agreement (FTA) with the freest possible trade in goods and services; in recognition of the EU's position of no 'cherry picking' and in light of its red lines of ending the jurisdiction of the ECJ and controlling immigration, it will no longer be a member of the Single Market; in order to have an independent trade policy it will exit the EU Custom's Union; the UK seeks agreement on a phased process of 'implementation' to allow for preparation of the new relationship.

The aftermath of the Conservative Party's failure to secure a majority in the general election (8 June 2017) has seen the Brexit political context become more challenging and more fluid. There appears to be more agreement on the necessity for time limited transitional arrangements to avoid a cliff edge though the nature of such a transition is unclear. Further clarity should emerge from PM May's Brexit speech, currently expected for 22 September 2017 and/or at the Conservative Party Conference in early October 2017. The Labour Party's position, as set out by Shadow Brexit Secretary Keir Starmer MP on 3 September 2017, outlines support for a transitional period in which the UK remains in the single market and customs union, and an ultimate Brexit outcome that might include remaining in the customs union and retention of the benefits of the single market.

At the launch of Article 50 negotiations (19 June 2017) by EU Chief Negotiator Michel Barnier and Secretary of State for Exiting the European Union David Davis, terms of reference for the conduct of negotiations were agreed. This included agreement on the EU's phased approach, which sets out that the initial focus will be on citizen's rights, the financial settlement, and other separation issues, a point which the UK had initially resisted. At the subsequent second negotiation round (week commencing 17 July 2017), while there was progress in some areas, a dominant theme in Barnier's post meeting remarks was the necessity for the UK to provide further clarity, in particular with regard to the financial settlement.

Ahead of the third negotiation round (week commencing 28 August 2017) the UK published a series of papers covering the following topics: *Customs arrangements; Northern Ireland and Ireland; Enforcement and Dispute mechanism; Cross-border and judicial co-operative framework; Confidentiality and access to documents; Goods on the market; Exchange and protection of personal data*

[REDACTED]

² Our thanks to the Department of Finance for providing the background information on the latest political developments.

At a national level, the UK published (13 July 2017) the EU Withdrawal Bill – (aka ‘Repeal Bill’), to repeal the EU Communities Act 1972 and Convert EU law into UK law. Together with the ‘Repeal Bill’, seven other pieces of legislation that will implement the UK’s withdrawal from the EU were referenced in the Queen’s speech to open parliament (21 June 2017). They are bills on customs; trade; immigration; fisheries; agriculture; nuclear safeguards; and international sanctions. The Withdrawal Bill has received criticism from other political parties in Westminster, as well as in a joint statement by the Welsh and Scottish First Ministers

The second reading of the EU Withdrawal Bill commenced in the House of Commons on Thursday 7 September 2017, with significant debate expected.

2.1.2. EU developments

Negotiating guidelines

In response to the UK formally invoking Article 50, at the ‘Special European Council’ (Article 50) on 29 April 2017, the Heads of States and Governments (HoSG) of the EU27 adopted guidelines which set out a number of principles for the EU approach to the negotiations. The guidelines are broadly constructive in tone and set out an ambition to establish a close partnership with the UK. The principles contained within largely reaffirm those set out in the EU27 Statement (June 2016) namely; that any future agreement will have to be based on a balance of rights and obligations; preserving the integrity of the Single market (the indivisibility of the four freedoms); Non-members cannot have the same rights and benefits; that negotiations are to be conducted as a single package; negotiations are to be undertaken at EU27 level; until exit, the UK remains a full member of the EU, subject to all rights and obligations. There is also a note of caution that the Union will prepare itself to be able to handle the situation if the negotiations were to fail.

In the first ‘exit’ phase, the focus will be on the arrangements for an orderly withdrawal: the items to be negotiated are; citizen’s rights, the financial settlement, and border issues in Ireland. In terms of the future relationship, the guidelines outline a number of preliminary principles, notably that any FTA should be balanced, ambitious and wide-ranging; that it must ensure a level playing field in terms of competition and state aid; and that it encompass safeguards against unfair competitive advantages. It is also specified that any future framework should ‘safeguard financial stability in the Union and respect its regulatory and supervisory regime’.

Negotiating directives

Negotiation directives adopted at the General Affairs Council (22 May 2017) build upon the European Council guidelines and set out the mandate for the European Commission to take forward negotiations with the UK. The first iteration of the negotiation directives is focused on the objectives of the first phase with the focus on the arrangements for an orderly withdrawal: the items to be negotiated are; citizen’s rights; the financial settlement; and border matters,

notably Northern Ireland. Additionally, with the view of avoiding a legal vacuum, the directives also contain a section on arrangements regarding goods placed on the market prior to the withdrawal date, as well as ongoing judicial procedures. The negotiating directives may be amended and supplemented as necessary throughout the negotiations, in particular to reflect the European Council guidelines as they evolve.

Negotiating process

The negotiations were formally launched on 19 June 2017 by the EU Chief Negotiator Michel Barnier and Secretary of State for Exiting the EU David Davis, with agreement upon terms of reference regarding the structure, process, and frequency of negotiation rounds. Negotiations are to take place once every 4 weeks in principle, with negotiators to meet inter-sessionally to prepare negotiations as required. The envisaged 4 week negotiation cycle is to follow a regular week of preparations by the EU side, a week of exchange of papers with the UK, a week of negotiations, and a week of feedback to Member States (See Annex 1).

Negotiation structure

Negotiation rounds are to consist of plenary sessions and negotiation group meetings, with plenary sessions to be co-chaired by the Principals and/or Coordinators. The following initial negotiation groups have been established: Citizen's rights; financial settlement; and other separation issues, including the European Atomic Energy Community (EURATOM), ongoing Judicial and Administrative Procedures, goods on the market at the time of exit, and privileges and immunities.

In relation to Ireland issues, a dialogue on Ireland/Northern Ireland has been initiated [REDACTED]

Article 50 working party

This ad hoc working party is responsible for preparing the technical aspects of the negotiations, assisting the Council in all matters relating to the UK's withdrawal, as well as for providing guidance to the Chief negotiator. [REDACTED]

Article 50 negotiations state of play

Following the July 2017 round of negotiations Chief Negotiator Barnier outlined that the purpose of the July 2017 round was for both sides to present their positions, with the view of identifying points of convergence and divergence. Items discussed included citizens' rights, the financial settlement, and 'other separation issues'. In relation to Irish specific issues, the focus was on the Common Travel Area (CTA) and Good Friday Agreement (GFA), with political understanding needed before any discussion of technical solutions. Although there was progress in some areas, the EU stressed that the UK needed to provide further clarity including in relation to the financial settlement and maintaining the CTA post Brexit.

In that regard the August round of negotiations, which commenced on the 28th, focused on the same issues as the previous round with the objective of achieving further clarification on the UK position. In the subsequent joint press conference Barnier was notably downbeat in his assessment of the negotiations. He commented that there had been "no decisive progress" on key Phase 1 issues, in particular with regard to the financial settlement. To that end he outlined that he was "quite far" from being able to advise EU leaders to open talks on the future

relationship. In contrast, Secretary of State for Exiting the EU Davis's assessment was more positive, outlining the view that there had been concrete progress across a number of areas, representing an important step and building block for discussions to come. One area of mutual agreement was on matters relating to Ireland. Both sides reported that there had been genuine progress on matters relating to the CTA and GFA, with agreement to further develop work on cross-border cooperation and to develop shared principles on the maintaining the CTA.

The negotiation round ahead of the October European Council is anticipated to be the review point for *sufficient progress*, with the European Council in 'Article 50 format' to decide whether sufficient progress has been made on the first phase issues, and whether discussions around the shape of the future relationship should commence. [REDACTED]

EU position papers

To date the taskforce has produced 14 position papers on 'Exit' issues. Ahead of the July 2017 round of negotiations, 9 papers were published covering the following: (i) Citizens' rights, (ii) the financial settlement, and the other separation issues (iii) Nuclear materials and safeguards (EURATOM), (iv) Issues relating to the functioning of the Union institutions, agencies and bodies, (v) Governance of the Article 50 agreement, (vi) Goods placed on the market before the withdrawal date, (vii) Judicial cooperation in civil and commercial matters, (viii) Ongoing judicial and administrative procedure, (ix) Ongoing police and judicial cooperation in criminal matters. [REDACTED]

More recently on 7 September 2017 the Taskforce published a further five papers on withdrawal issues, covering intellectual property rights, public procurement, data protection, and customs arrangements, as well as a guiding principles paper on Ireland and Northern Ireland.

2.1.3. Irish position

The Government's priorities for the negotiations on the UK's withdrawal from the EU are set out in the Government approach paper published on 2 May 2017. The Government remains clear on Ireland's headline priorities, which are: minimising impact on trade and the economy; protecting the Northern Ireland peace Process; maintaining the Common travel Area; and influencing the future of the European Union.

In relation to Irish specific elements of the Guidelines, there has been strong acknowledgement of our 'unique circumstances', including the importance of preserving the benefits and achievements of the GFA. Similarly, the Government welcomes the negotiating directives, which build upon the guidelines, including the issues unique to Ireland, specifically issues arising from Ireland's unique geographic situation, including the transit of goods to and from Ireland via the UK.

With regard to the future relationship, Ireland supports as close as possible an economic and trade relationship between the EU and the UK, based on a level playing field.

With regard to the recent UK position paper on Northern Ireland, Ireland has welcomed the emphasis on priority areas e.g. GFA, CTA, and avoiding a hard border. [REDACTED]

The Irish Government has also welcomed and supported the European Commission Taskforce’s paper on Guiding Principles for Ireland/Northern Ireland. The paper reflects the continuing close engagement between Ireland and the EU Taskforce and builds on the European Council Guidelines and subsequent negotiation mandate, in which Ireland’s concerns and priorities were strongly acknowledged.

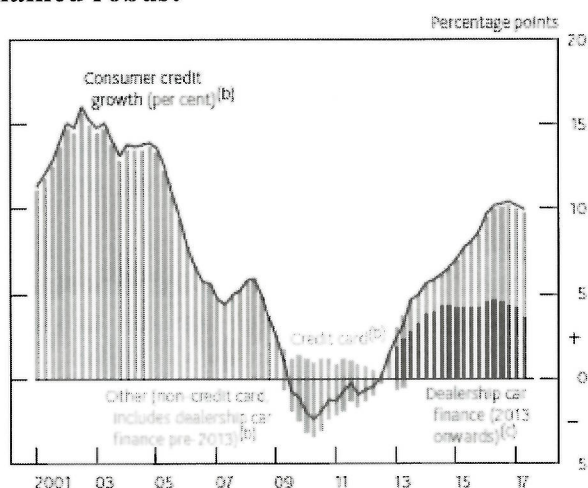
2.2. UK economic and property market developments

2.2.1. Macroeconomy

In its August 2017 Inflation Report the Bank of England laid out a broadly unchanged outlook for the UK economy. GDP growth is expected to remain sluggish over the near term as the effects of the sterling depreciation continue to weigh on households’ real incomes and, in turn, consumption. Output growth has also slowed over the first half of the year and this has been mainly accounted for by slower growth in the service sector. Manufacturing output also fell slightly in the second quarter but this is expected to improve as the sterling depreciation and strong global demand support UK exports.

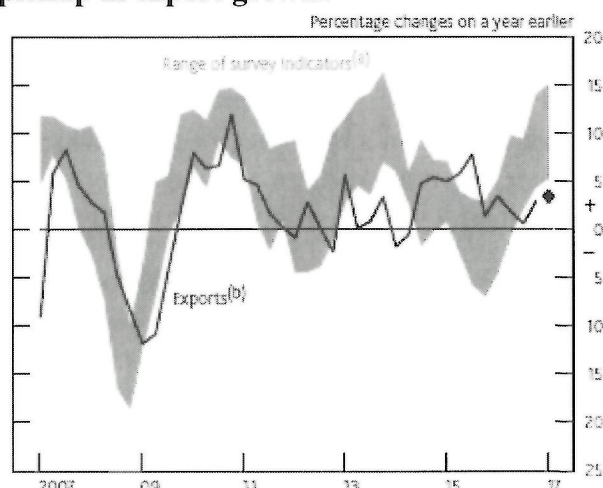
While household spending growth has slowed (0.4 per cent 2017Q1), it has not decreased to the same extent as real incomes (-1.3 per cent 2017Q1). This has resulted in the household saving ratio falling from 3.3 per cent to 1.7 per cent, its lowest level since the series began in 1963. The extent to which this trend continues will be determined in part by the availability of consumer credit to households. As noted in previous reports, consumer credit conditions have eased over recent years due to banks’ funding costs and competition between lenders. While four-quarter growth in consumer credit has slowed from mid-2016 levels, it remains high at around 10 per cent for 2017Q2. The Prudential Regulation Authority (PRA) has conducted a review of consumer credit lending which found that the resilience of lenders’ consumer credit portfolios had also been falling.³

Chart 2.2.1: Consumer credit growth has remained robust (a)



Sources: Bank of England and Bank calculations.
 (a) See www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/Changes_flows_growth_rates.aspx for a description of how growth rates are calculated using credit data.
 (b) Sterling net lending by UK monetary financial institutions (MFIs) and other lenders to UK individuals (excludes student loans). Non seasonally adjusted.
 (c) Identified dealership car finance lending by UK MFIs and other lenders.

Chart 2.2.2: Surveys continue to point to a pickup in export growth



Sources: Bank of England, BCC, CBI, EEF, IHS Markit, ONS and Bank calculations.
 (a) Swathe includes: BCC net percentage balance of manufacturing and services companies reporting that export orders and deliveries increased on the quarter or were expected to increase over the following quarter (data are non seasonally adjusted); CBI average of the net percentage balances of manufacturing companies reporting that export orders and deliveries increased on the quarter, and that their present export order books are above normal (the latter series is a quarterly average of monthly data); and Markit/CIPS net percentage balance of manufacturing companies reporting that export orders increased this month compared with the previous month (quarterly average of monthly data). Indicators are scaled to match the mean and variance of four-quarter export growth since 2000.

³ For more details, see the PRA statement on consumer credit; www.bankofengland.co.uk/pradocuments/publications/reports/prastatement0717.pdf.

To account for this the Financial Policy Committee (FPC) is bringing forward the assessment of stressed losses on consumer credit lending in the Bank's 2017 annual stress test, in order to inform the assessment at its next meeting of any additional resilience required in aggregate against this lending. The FPC increased the countercyclical capital buffer rate, levied on banks' total risk-weighted UK assets, from 0 per cent to 0.5 per cent. It is expected, absent a material change in the outlook, to raise the rate to 1 per cent at its November 2017 meeting. This CCyB rate will be automatically recognised by the Central Bank and as such will apply to UK exposures of Irish banks when it comes into effect in June 2018.

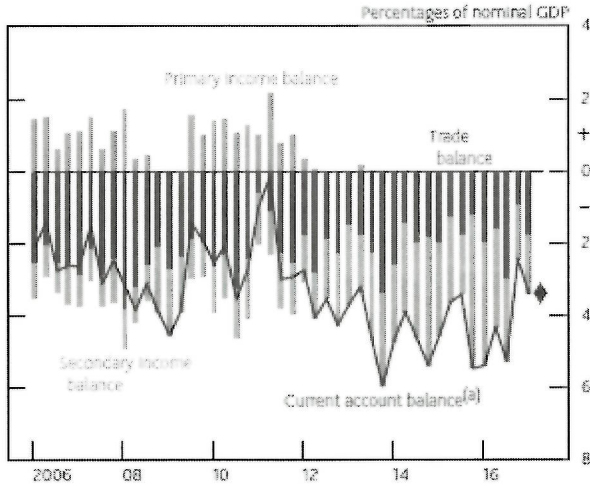
While sterling's depreciation has weighed on household real income growth, it will have supported margins for exporters. The Bank of England expects the rise in export volumes to support an increase in margins among firms with spare capacity and, as that capacity is eroded, to support increased investment. In terms of performance to date, UK export volumes fell in 2017 Q1 but this was largely driven by reversal in the exports of non-monetary gold following a sharp rise in 2016 Q4. Excluding the impact of non-monetary gold and other valuables, UK exports rose by 0.7 per cent in Q1, and by 3 per cent over the year to Q1, reflecting in part weak growth in services exports. Growth in UK imports has exceeded growth in exports since mid-2016 and the current account deficit widened to 3.4 per cent of GDP in Q1.

In light of these developments, GDP forecasts in the August Report are broadly unchanged from the May Report. Slight downward revisions were made to the 2017 and 2018 figures, representing the third decrease of the 2017 forecast since February this year. However forecasted figures for 2017 still remain substantially more optimistic than those in the first post-referendum Inflation Report.

CPI inflation rose to 2.6 per cent in June 2017 and remained broadly unchanged in July 2017, despite expectations of an increase to 2.7 per cent. The August 2017 figure released on 12 September 2017 showed an increase to 2.9 per cent. The Bank of England expectation, published before the release of the August 2017 figure, was for inflation to rise further in the coming months, to peak around 3 per cent in October 2017 and to remain above the MPC's target throughout the forecast period. However, as in previous Reports, the August 2017 Inflation report states that "this overshoot reflects entirely the effects of the referendum-related falls in sterling".

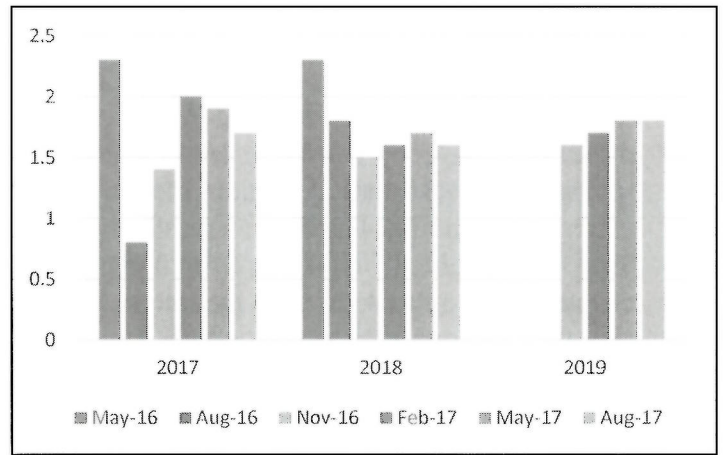
At its September 2017 meeting, the MPC voted seven to two against an immediate increase in interest rates. However, it also gave its strongest guidance in a decade that it is poised to increase interest rates soon. A majority of MPC members signalled that unless there is a sudden string of bad economic data "some withdrawal of monetary stimulus is likely to be appropriate over the coming months". Market expectations are now for rates to rise before the end of this year, compared to the expectation before the meeting of late 2018.

Chart 2.2.3: The current account deficit widened slightly in Q1



(a) The diamond shows Bank staff's projection for 2017 Q2.

Chart 2.2.4: Bank of England GDP forecasts



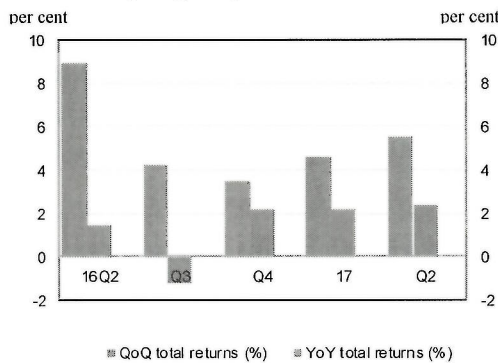
Source: Bank of England
Calendar-year growth in real GDP consistent with the modal projection for four-quarter growth in real GDP. The MPC's projections are based on its backcast for GDP.

2.2.2. Property market

UK commercial real estate (CRE)

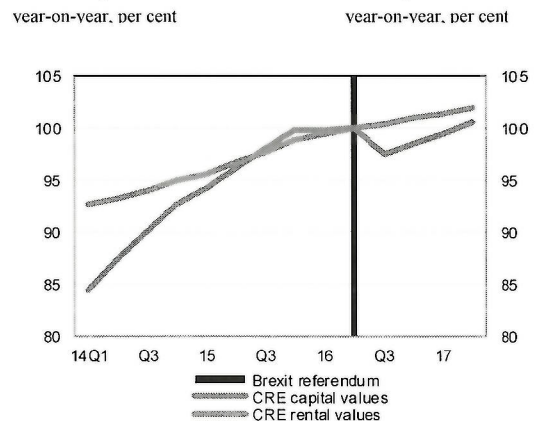
With a full year of commercial property data now available since the UK voted to leave the EU, in general it appears that UK CRE values are holding up relatively well. According to MSCI data, total returns on UK commercial property during the second quarter of 2017 (2.3 per cent) were higher than in the same quarter of last year (1.4 per cent) Chart 2.2.5. The annualised figure at 2017Q2 is lower than its 2016Q2 equivalent, due to an early Brexit-related correction; however, it has also been rising in recent quarters.

Chart 2.2.5: Total returns on UK commercial property



Source: MSCI/IPD and Central Bank of Ireland calculations

Chart 2.2.6: UK commercial property annual capital and rental value growth



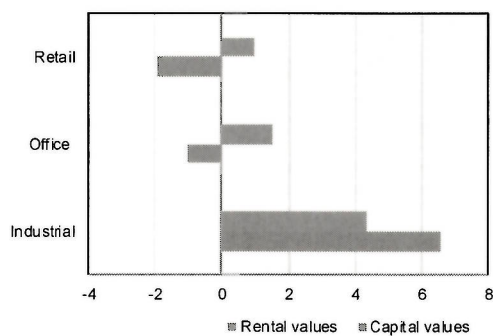
Source: MSCI/IPD and central Bank of Ireland calculations

An increase of 1.1 per cent in the second quarter of 2017 and by 0.6 per cent on an annual basis saw overall capital values⁴ return to just above their pre-referendum point, Chart 2.2.6. In addition, market rents have risen for the majority of market segments with occupier sentiment, as of yet, broadly unaffected by the uncertain political and economic landscape. Annual rents are 1.9 per cent higher than a year ago. Aggregate figures mask a sectoral divergence however, as important segments and regional markets remain below last year's levels. Industrial property is showing the largest capital and rental value increases over the past 12 months Chart 2.2.7, with London outperforming the rest of the UK across the main commercial property sectors Chart 2.2.8. Within the London market, retail/shops are performing strongly, recording capital and rental value increases, while the value of retail warehouses has decreased. London office capital values are broadly flat, city offices have fallen in value, while rents for offices in the West-end have risen.

Meanwhile, respondents to the Royal Institute of Chartered Surveyors (RICS) 2017Q2 UK Commercial Property Market Survey expect weaker tenant demand in the office and retail sectors in the near term, with a more solid outlook for industrial space. Though somewhat muted to this point, political uncertainty is cited as a key factor which is likely to weigh on occupier and investor decisions going forward. Focussing specifically on Brexit-related issues, 17 per cent of survey participants claim to have seen evidence of businesses looking to relocate away from the UK over the next two years (broadly less unchanged from 15 per cent last quarter) because of the vote. Interestingly, there was a more noticeable increase in the proportion of contributors expecting that relocations would occur, from 42 per cent in 2017Q1 to 48 per cent this time out. When broken down by region, Scotland, Northern Ireland and London continue to return more than 50 per cent of respondents taking this view.

Chart 2.2.7: UK CRE capital and rental value growth by sector

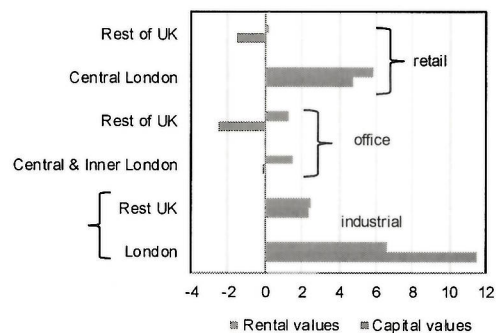
annual change, per cent



Source: MSCI/IPD and Central Bank of Ireland calculations

Chart 2.2.8: UK CRE capital and rental value growth by sector and location

annual change, per cent



Source: MSCI/IPD and central Bank of Ireland calculations

⁴ While valuations based capital values have recovered, transactional data also published by MSCI, has shown that the decline in capital values over 2016 was greater than that indicated by the valuations based indices. According to Goodbody, MSCI data for 2016 show a 7.5 per cent fall in UK commercial property capital growth on a transactional basis, versus a much smaller decline of 0.7 per cent for valuation based data. While data for 2017 Q2 are yet to be released, it is possible that a similar difference could emerge.

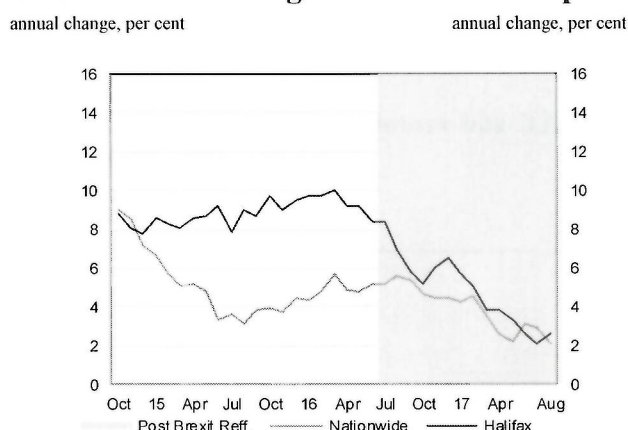
UK house prices

The pace of UK residential property price inflation continued to slow throughout the summer months Chart 2.2.9. House prices were 2.6 per cent higher year-on-year in August 2017 according to Halifax, down from 3.8 per cent at the end of 2017Q1 and from 6.9 per cent a year ago. Meanwhile, Nationwide data show an annual increase in residential house prices of 2.1 per cent in August 2017, below its 2017Q1 mark of 3.5 per cent and a drop from 5.6 per cent in August 2016.

Separately, a recent publication by the Bank of England⁵ observed that while new house building levels had been robust in the opening quarter of 2017, mortgage approvals (c. 65,000 per month) had been weaker than expected. According to the BoE, much of the weakness in UK housing market activity over the past year and a half can be attributed to a fall in the number of buy-to-let property transactions following a policy change in April 2016 whereby stamp duty charges were introduced for additional properties. The authors also noted the adverse impact on activity caused by uncertainty surrounding the EU referendum.

In terms of outlook, the July 2017 RICS UK Residential Market Survey results show that expectations of house price growth are stalling at a national level, as London and the South East pull down the UK average. Elsewhere, sales activity as measured by new buyer enquiries and sales agreed were reportedly weak, with little evidence from the expectations series of an immediate change in the subdued backdrop.

Chart 2.2.9: Annual growth in UK house prices



Source: MSCI/IPD and Central Bank of Ireland calculations

2.3. Financial market developments

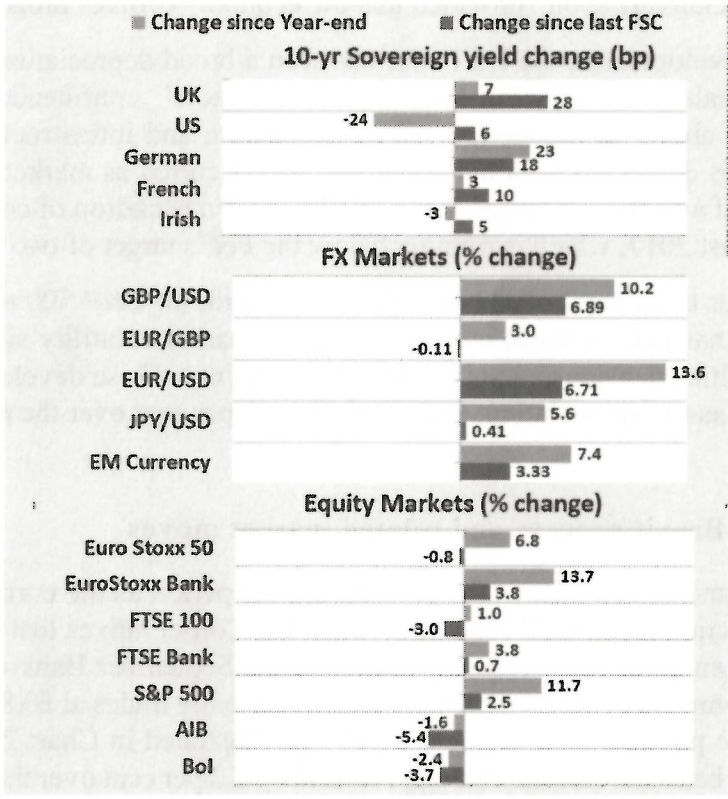
The following section provides an update on the main financial market developments, covering the period since the last update to the Financial Stability Committee (FSC) on 23 June 2017. Section 2.3.1 provides an update on primary market themes over this period, and section 2.3.2 discusses the ongoing market impact of the Brexit process.

2.3.1. Key market themes

⁵ See "Recent developments in the housing market", (p.17), Bank of England Inflation Report, August 2017

Since the last meeting of the FSC on 23 June 2017, there has been a period of continuing low volatility with intermittent periods of risk aversion that have been driven mainly by expectations concerning global central banks, geopolitical tensions and US political developments. Tensions with North Korea have caused US Treasury yields to rally and have contributed to dollar weakness, while the ongoing investigation by special counsel Robert Mueller into President Trump have also supported these trends. Market participants have speculated on the timing of a tapering announcement from the ECB concerning the asset purchase programmes (following a speech by President Draghi in Sintra in July 2017, which markets perceived as hawkish owing mainly to the reference to “reflationary pressures being at play”).⁶ In addition, the Federal Reserve (Fed) is expected to confirm in September 2017 that its balance sheet normalisation program (as outlined in June 2017) will commence. Chart 2.3.1 below illustrates the main market movements since 23 June 2017.

Chart 2.3.1: Main market moves (23 June – 15 September)



The key markets themes in more detail, as presented in Chart 2.3.1 included:

- The annual ECB central bank forum in Sintra led to a significant market reaction with euro area sovereign curves steepening as the spread between the German 10-year and 2-year yields increased by 25 basis points to 1.13 per cent over the period. In currency terms, the euro gained three per cent on a trade-weighted basis over the period. The euro also reached a high not observed since 2015 against the U.S. dollar, at \$1.20, representing an appreciation of more than six per cent over the period. However, expectations of Eurosystem monetary policy tightening were tempered somewhat following the July 2017 Governing Council meeting where President Draghi said discussions on any changes to the

⁶ See [link to President Draghi's speech](#).

monetary policy stance would take place in the autumn, and was generally perceived by markets to be less hawkish than his Sintra speech⁷.

- Euro area sovereign bond spreads (relative to Germany) were mixed over the period, but initially tightened from June 2017 to early August 2017 against a background of lower perceived political risk in the euro area. However, renewed political uncertainty ahead of the Italian elections (anticipated in early 2018), led to some widening of Italian spreads more recently. Overall, the Italian 10-year spread was broadly unchanged at 164bps. However, the Irish 10-year spread tightened by 13bps to 29bps over the period reflecting stronger Irish fundamentals and supported by Moody's upgrading the sovereign by one notch to A2 ('A' equivalent)⁸. Finally, the Portuguese 10-year spread tightened by 30 basis points over the period, supported by Standard and Poor's (S&P's) upgrade of the sovereign.
- The Fed raised the target range for the federal funds rate to 1 to 1.25 per cent at its meeting in June 2017.⁹ The Fed also stated in July 2017 that it plans to begin balance sheet normalisation "relatively soon" provided that the economy evolves broadly as expected.
- Despite these developments, the US dollar has seen a broad depreciation against its peers as tensions escalate with North Korea and investors' confidence in the Trump administration's ability to pursue tax reform legislation and infrastructure spending has diminished. This depreciation in the dollar has also occurred as markets have reassessed the probability of a further Fed rate hike in 2017 against a backdrop of core inflation of 1.7 per cent in August 2017, which is running below the Fed's target of two per cent.¹⁰
- US equity indices continued to gain over the period, with the S&P 500 up by 2.5 per cent. However, there has been a slight increase in equity market volatility since early August, amid the geopolitical tensions and US political uncertainty. These developments have also seen safe haven assets appreciating, with gold up by 5 per cent over the period.

2.3.2. Update on Brexit process and related market moves

Sterling is broadly unchanged against the euro during the period as the currency was initially impacted by the election result on 8 June 2017 when the Conservatives lost the parliamentary majority, but has seen gains more recently following the September Bank of England (BoE) Monetary Policy Committee (MPC) meeting. Sterling currently trades at £0.88 against the euro (unchanged over the period), or conversely €1.14 - as illustrated in Chart 2.3.2 below, while on a trade-weighted basis the currency has appreciated by 2.3 per cent over the period. Sterling has also appreciated by 6.4 per cent against the US dollar since the last meeting (trading at \$1.36 currently) owing to the aforementioned geopolitical and US political concerns (Chart 2.3.2 below).

At the August MPC meeting, with headline inflation falling to 2.6 per cent, the MPC decided to hold the Bank Rate at 0.25 per cent, with a 6-2 vote in favour of this decision. At the August

⁷ Market consensus is now that the ECB will make an announcement on tapering at the October 2017 Governing Council meeting, with such tapering anticipated to start from the beginning of 2018.

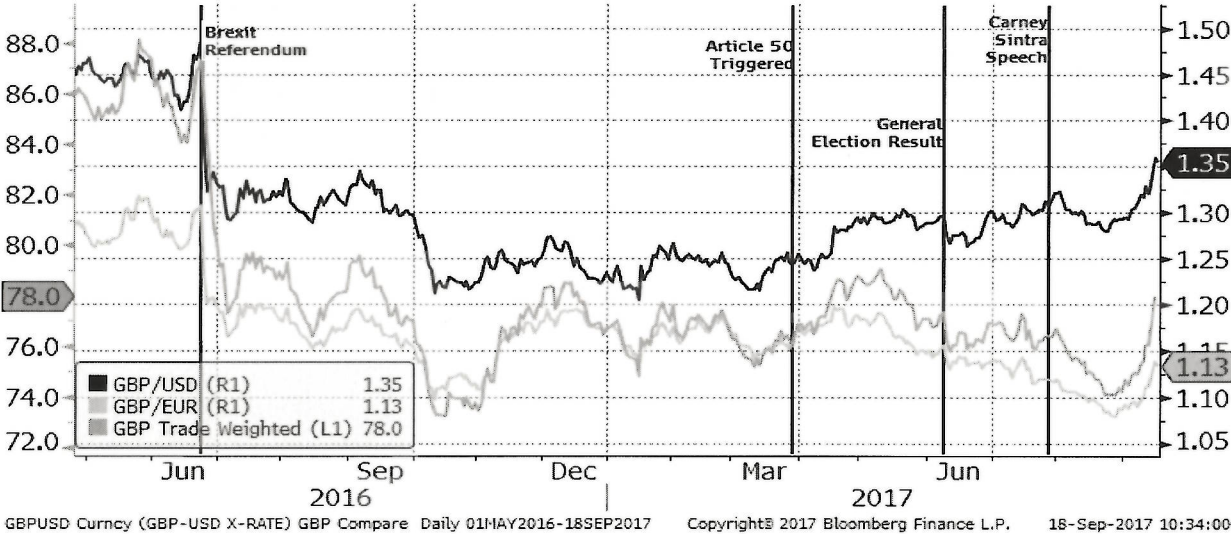
⁸ It should be noted that the 10 year spread compares the benchmark Irish May 2026 to the benchmark German August 2027 bond so is not an exact like-with-like comparison

⁹ This represented an increase in the target range of 0.25 per cent.

¹⁰ The market implied probability of a further Fed rate hike before year-end is currently 47 per cent, an increase from 43 per cent over the period.

2017 meeting, the BOE also revised down its forecast for economic growth and wages, while Governor Carney noted that the outcome of the negotiations would be the key factor driving the economy.¹¹ Although the MPC held rates steady at their September 2017 meeting following the release of headline and core UK August inflation recorded at 2.9 and 2.7 per cent respectively, analysts were surprised by the hawkish tone to the MPC’s communication on future policy. While interest rates were not raised at the meeting, the Committee noted, however, that the majority of members believe that “*some withdrawal of monetary stimulus is likely to be appropriate over the coming months*” to combat inflation. Based on options data markets have now placed a 71 per cent probability of a rate hike before year-end (up from 45 per cent before the MPC meeting).

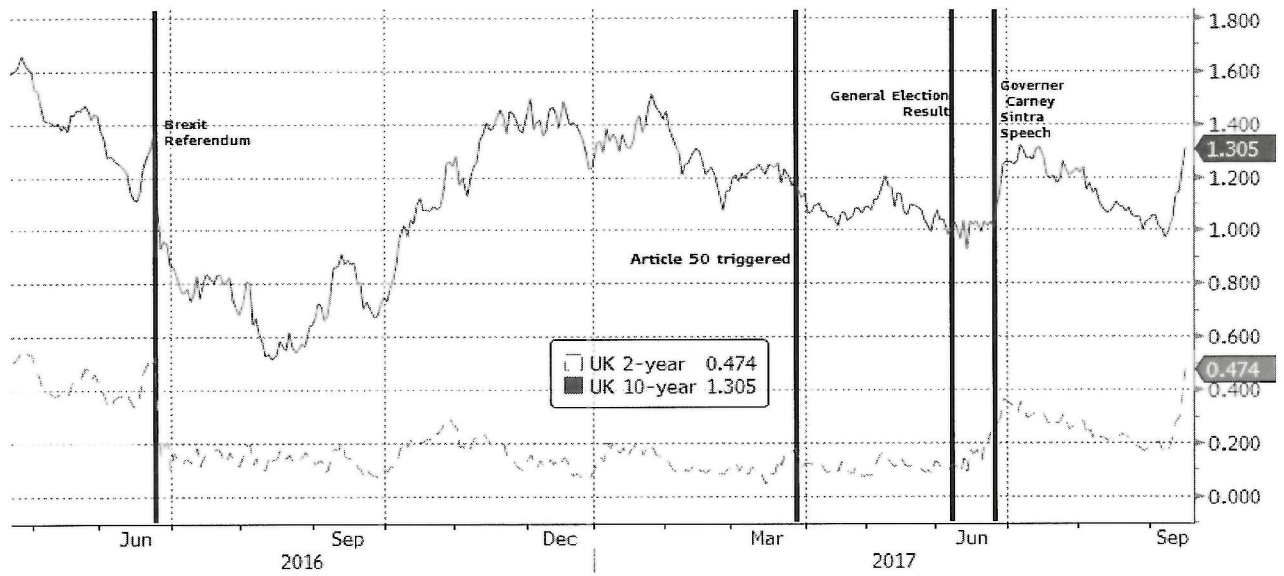
Chart 2.3.2: Selected sterling valuation



Gilt yields had risen sharply towards the end of June 2017 as markets reacted to the more hawkish than expected tone struck by Governor Mark Carney in Sintra. In his introductory remarks for a panel discussion at the ECB forum in Sintra, Governor Carney stated that “*some removal of monetary stimulus is likely to become necessary if the trade-off facing the MPC continues to lessen and the policy decision accordingly becomes more conventional*”. Shorter-dated yields increased over the period (with the 2-year yield up by 24 bps) owing to increased expectations regarding a rate hike by the BoE. Longer dated Gilt yields fell in August, in common with other safe haven bonds owing to heightened geopolitical concerns on the Korean Peninsula. However, following the higher August inflation readings and hawkish commentary from the MPC in September, the 10-year Gilt yields have begun to increase and currently trade at 1.31 per cent (compared to 1.03 per cent at the last FSC). Chart 2.3.3 below illustrates the trends in the 10 and 2-year Gilt yields.

¹¹ The 2017 GDP growth forecast has been revised down to 1.7 per cent from 1.9 per cent while the forecast for 2018 GDP growth was also lowered to 1.6 per cent from 1.7 per cent. Wage growth forecasts for 2018 have both been cut by 0.5 per cent to 3 per cent.

Chart 2.3.3: UK 2 - and 10-year yields



EJ933497 Corp (UKT 1 3/4 07/22/19) UK Yields Daily 01MAY2016-15SEP2017

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3. Impact on Irish Economy

3.1. Macroeconomic impact

The Bank's latest set of published forecasts are shown in the Table below (Quarterly Bulletin No. 3, July 2017). The projections took into account the full year National Accounts data for Ireland in 2016, published by the CSO in mid-July 2017. This confirmed that the economy grew solidly in 2016 despite Brexit related uncertainties, with output up over 5 per cent in volume terms. Buoyant consumption and investment spending helped to underpin the strong performance last year.

The CSO also published first estimates for adjusted Gross National Income (GNI*) and modified domestic demand (MDD).¹² These series, following the recommendations of the Economic and Statistics Review Group (ERSG), are designed to more accurately reflect real economic activity within Ireland. GNI* is estimated to have increased (in nominal terms) by 9.4 per cent last year to reach a level of €189.2bn, well below the level of GDP of €275.6bn.

The data in 2017 remain favourable. Numbers in employment rose by an exceptionally strong 3.5 per cent (or 68,600 persons) in the first three months of the year. On the National Accounts side, GDP increased in volume terms by 6.1 per cent in the first quarter of the year due in the main to robust domestic expenditures. More recent labour market data to July 2017 showed a further decline in unemployment to 6.4 per cent. Once again, these data given little or no indication of any pronounced Brexit effects on the real side of the economy.

Table 3.1.1: Growth outlook - Quarterly bulletin No.3 (July)

Real Activity, % Growth Rates	2016	2017f	2018f
Consumption	3.3	3.1	2.7
Government	5.3	2.0	1.5
Investment	61.2	9.0	8.5
Modified Domestic Demand	4.7	4.5	4.0
Exports	4.6	5.2	4.1
Imports	16.4	6.0	5.3
GDP	5.1	4.5	3.6
GNP	9.6	4.3	3.4
Labour Market			
Employment	2.9	3.0	2.0
Unemployment rate (%)	7.9	6.2	5.6
Labour force	1.2	1.2	1.3
External Trade			
BoP Current Account (% of GDP)	3.3	4.4	3.2
Prices and Costs			
HICP rate (%)	-0.2	0.3	1.0
Compensation per employee	2.1	3.0	3.2

¹² GNI* is GNI less the profits of re-domiciled companies and the depreciation of intellectual property (IP) and aircraft leasing companies. MDD is domestic demand less trade in aircraft by aircraft leasing companies and the imports of IP.

Over the short-term, domestic demand will provide the main impetus to growth. Modified domestic demand is projected to rise by close to 4.25 per cent annually in both 2017 and 2018. This is driven by the favourable outlook for consumer and investment spending supported by strong gains in employment and incomes. Net exports will contribute positively to growth this year with a slight negative contribution in 2018. Overall, growth of well over 4 per cent this year and just shy of 3.50 per cent in 2018 is expected.

Higher frequency data continue to be positive. On the consumer side, the ESRI/KBC Bank Consumer Sentiment Index has been stronger in comparison to the months following the Brexit referendum. The lack of immediate fallout from Brexit has led to a more positive view of the economy for consumers although the uncertainty surrounding future arrangements is still cited as a concern by respondents. Retail sales remain exceptional robust with core sales (i.e. excluding motor trades) up 6.5 per cent in the first 7 months of the year. In contrast, motor sales are much weaker this year - down 3.5 per cent. This likely reflects the incentive to import second hand vehicles from the UK as a result of the depreciation of sterling.

In the year to July 2017, the Government recorded an exchequer surplus of €3.4bn relative to €0.9bn in the same period in 2016. The sale of 28 per cent of the State's holding in AIB accounts for most of the €2.5bn improvement. Taxes remain slightly behind target (-0.8 per cent) although they are up 4.5 per cent year-on-year, with VAT receipts up 10.1 per cent. Spending to end-July 2017 was below target (0.9 per cent) but up 4.7 per cent year-on-year.

On the output side, headline Purchasing Managers Index (PMI) indicators for both manufacturing and services continue to show expansion. New exports orders have been strong through 2017. The monthly industrial production series has shown significant volatility in the first half of 2017, with the modern sector driving an overall fall in output of 3.4 per cent in comparison to H1 2016. This sector is heavily influenced by the activities of multinationals and the degree to which this series is correlated with wider economic activity is questionable. However, output from the traditional sector is not vulnerable to these distortions and this sector has shown steady growth of 1.1 per cent in H1.

Monthly merchandise trade for the first half of this year remain strong. Exports are up 7.3 per cent in value terms (year-on-year). Within this, exports from the food sector are up 14.3 per cent with beverages up 6.2 per cent. Disaggregated data from the Eurostat Comext database shows strong growth in exports to the UK in H1 with total exports increasing by 14.4 per cent in comparison to H1 2016. While some of this growth is due to weakness in the first half of 2016, comparing H1 2017 to the same period in 2015 also shows strong growth – up 10.9 per cent. Exports of *Food and Live Animals* were also strong, increasing by 8.9 per cent, in stark contrast to 2016 when the value of exports fell by 6.6 per cent.

The exposure of the indigenous sector to Brexit was highlighted in a recent report by IBEC.¹³ This sector remains heavily reliant on the UK – accounting for in excess of 40 per cent of output. Furthermore, indigenous exporters (who are more regionally spread) spend as much in the domestic economy and employ as many people as the multinationals. IBEC also note that close to 46,000 jobs in these sectors are linked to exports to the UK.

To date, the main channel through which Brexit has affected the Irish economy is via exchange rate movements and prices. In recent months, sterling has continued to depreciate – averaging

¹³ See: [https://www.ibec.ie/IBEC/Press/PressPublicationsdoelib3.nsf/vPages/Newsroom~resources-for-budget-2018-E400-million-more-than-estimated-24-07-2017/\\$file/Ibec+Budget+2018+Submission+Web.pdf](https://www.ibec.ie/IBEC/Press/PressPublicationsdoelib3.nsf/vPages/Newsroom~resources-for-budget-2018-E400-million-more-than-estimated-24-07-2017/$file/Ibec+Budget+2018+Submission+Web.pdf)

£0.88 over the summer months relative to £0.86 earlier in the year. This appears to be having a significant downward impact on consumer price inflation reflecting the heavy concentration of UK goods in the Irish consumer basket. Research within IEA (see Special Issues feature in this report) highlight the extent of exchange rate pass through from sterling to consumer prices in Ireland.¹⁴

3.2. Property sector

According to the latest Morgan Stanley Capital International/Investment Property Databank (MSCI/IPD) data for 2017Q2, rolling annual total returns for all commercial property were 10 per cent, down from 19.4 per cent in 2016Q2, but still high enough to ensure that Irish Commercial Real Estate (CRE) retains its position as one of the better performing international investment locations. Similarly, despite a notable moderation in recent quarters annual capital value growth (5.1 per cent) and rental value growth (5.7 per cent) remain relatively strong, albeit 45 and 24 per cent below their respective peak 2007/08 values.

The national CRE vacancy rate remains high, having increased slightly to 13.5 per cent in 2017H1. In general, higher vacancy rates are apparent in midland counties and those located on the western seaboard. In contrast, the take-up in the Dublin office market in 2017H1 was the highest on record. Approximately 150,000 square meters of space were leased in the first 6 months of the year, 68 per cent higher than during the same period of 2016. Irish firms have been responsible for the majority of transactions of late, suggesting that the majority of the take-up can be attributed to business growth and the improvement in the domestic economy rather than Brexit-related activity.

The Dublin office vacancy rate (6.5 per cent) has been declining steadily since 2010 and is currently below the European average. The resumption of commercial property development in the past couple of years has seen to it that approximately 5 times the average annual Dublin office take-up is currently in the CRE development pipeline and due to come on-stream by 2020, according to CBRE, Chart 3.2.1. The addition of some or all of this stock ensures that Dublin compares favourably with other European cities in terms of availability of office space, providing comfort to potential occupiers that the city is more than capable of providing sufficient high quality office accommodation if required.

The Irish commercial property market attracted around €800 million of investment in the first half of 2017, down from a figure of €2.8bn in the same period last year, due in part to a lower volume of “big ticket item” sales Chart 2. While down substantially on what was an exceptionally strong 2016, the level of 2017 investment to date is in line with its long-run average, e.g. the 15-year average H1 investment volume is c. €760mn. It is also interesting to note that approximately 75 per cent of H1 investment has come from domestic sources.

Meanwhile new CRE loans amounting to c. €3bn were written in the 4 quarters to 2017Q2, down slightly (-6.6 per cent) on the equivalent period ending in 2016Q2 and still a relatively small component of overall new lending (c. 12 per cent of 2017Q2 new lending).

Since the referendum, there has been much talk of the potential for a significant Brexit-related relocation of firms from the UK to Ireland and the potential impact on the Dublin property market, in particular. These issues, including an update on companies thought to be considering

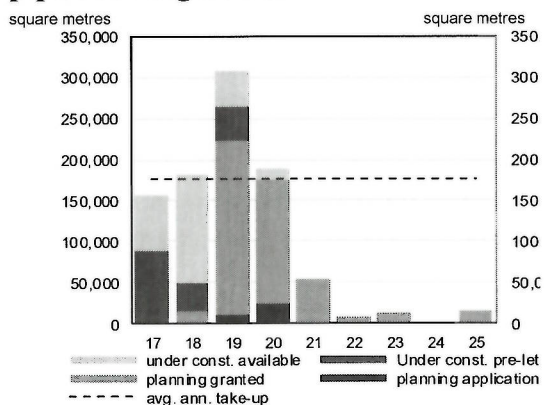
¹⁴ See “[Exchange Rate Pass-Through to Domestic Prices](#),” Reddan & Rice, Economic Letter Vol. 2017, No.8.

a relocation are examined in detail in the June 2017: Brexit Task Force Report (Special Topic 3); however, there have been a number of developments since, such as:

- The confirmation (in August) by Canadian bank Toronto Dominion bank that it would expand its Irish operations and would choose Dublin as its EU hub post-Brexit, with plans to establish a bond-trading unit in the Irish capital¹⁵.
- The news that Bank of America, whose chief executive had hinted previously that Dublin was the 'preferred location' for its main legal entities; appear to be considering Paris or Frankfurt more seriously for new EU bases. According to a report from Bloomberg, there are signs of a difference of opinion between the bank's executives, with some suggesting that the bank is considering multiple headquarters for various operations. Although the firm plans to move some investment bank executives to Dublin, according to Bloomberg the city is unlikely to be the trading hub.¹⁶
- Finally, it was interesting to note reports of plans by the finance minister to monitor the cap on bankers' salaries in the context of the UK's planned withdrawal from the EU and efforts to attract financial services firms and workers from London. According to the Irish Examiner¹⁷, those against the policy argue it deters highly skilled and experienced experts from selecting Ireland as an employment destination, in light of Brexit. Others have argued against its removal.

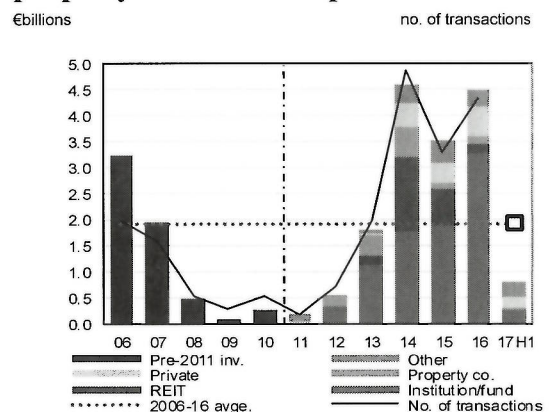
In terms of the Irish housing market, the main issues surrounding Brexit concerns supply and the ability of the market here to cope with a surge in demand for accommodation should there be a widespread relocation of UK based firms/workers here. Notwithstanding the strain on existing infrastructure, it is likely that this would put further upward pressure on house prices, at a time when there is a severe shortage of units for sale or rent.

Chart 3.2.1: Dublin office supply pipeline: August 2017



Source: CBRE and Central Bank of Ireland calculations

Chart 3.2.2: Irish commercial property investment expenditure



Source: CBRE and Central Bank of Ireland calculations

¹⁵ See "Toronto Dominion confirms it will expand its Irish operations", Irish Times, August 22nd 2017

¹⁶ See DKM "Brexit Watch" Issue 9, and "Paris or Frankfurt? BofA Executives Debate Trading Hub Location", Bloomberg

¹⁷ See "Pay cap and bonus ban may be axed to lure Brexit banks", Irish Examiner, September 1st 2017

4. Sectoral Developments

4.1. Banking

4.1.1. Engagement with banks

[REDACTED]

The level of new engagements between Banking Supervision and banks potentially seeking approval to conduct banking activities in Ireland has levelled off in the period. Banking Supervision has had [REDACTED]

[REDACTED] Separately, from the original list of [REDACTED] banks with which the Bank has engaged, [REDACTED] less significant international banks already established in Ireland, have made further contact in the last quarter to advise that they will provide greater details on their Brexit plans in early Q4.


[REDACTED]

[REDACTED]

[REDACTED]


[REDACTED]

[REDACTED]


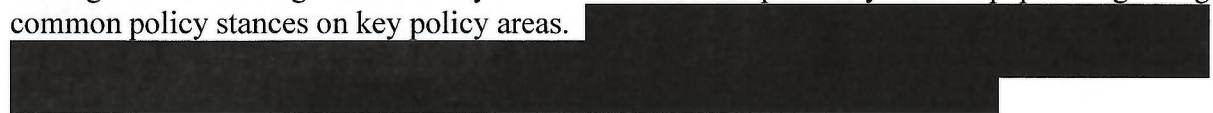


It is important to specify that the authorisation process and approval authority for third country branches currently remain with the National Competent Authority (NCA) (Central Bank of Ireland) as does the sole responsibility for ongoing supervision of these branches post authorisation. The licence approval authority for newly authorised banking entities (including subsidiaries of foreign owned banks establishing in Ireland) rests with the SSM following a recommendation from the NCA based on the authorisation process explained above. With regard to ongoing supervision for Significant Institutions, this is conducted via Joint Supervision Teams made up of NCA and ECB staff members, while Less Significant Institutions are supervised by NCA staff with oversight from the ECB.

4.1.2. Engagement with SSM and other stakeholders

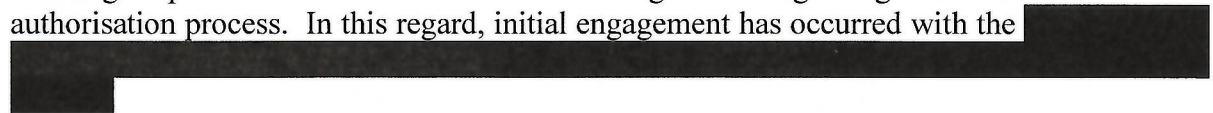


Banking Supervision continues to collaborate with colleagues in Banking Risks Policy to contribute to Supervisory Board papers regarding common policy stances on key policy areas.



Banking Supervision is also providing assistance, if requested, in areas such as Internal Models and Market Risk.

Banking Supervision also liaises with other regulators regarding the entities within the authorisation process. In this regard, initial engagement has occurred with the



4.2. Insurance

4.2.1. Authorisations

The main activity in the Insurance Directorate as a direct result of the Brexit vote has been in relation to the number of queries for possible new authorisations. These include

- firms moving books of business from the UK to Ireland to maintain access to the Irish or international markets;
- firms looking to set up new businesses where Brexit has been part of their decision-making as to where to locate them; and
- other applications that would have been received anyway.

Therefore, it is not possible to precisely allocate queries as being directly as a result of Brexit or otherwise so set out below is a summary (as at 29 August 2017) of the total authorisation activity within the Insurance directorate:

- [REDACTED] applications have been approved;
- [REDACTED] other applications have been received and are being actively reviewed;
- [REDACTED] entities have stated firm intentions to apply, with [REDACTED] applications expected imminently;
- [REDACTED] initial meetings and [REDACTED] initial contacts/phone calls have been held.

A key issue that is being raised by several firms is that of the ability to set up Third Country branches of UK firms in Ireland. These tend to be firms where Ireland is their only European exposure, and often it is a small part of their overall business. The key challenge will be approving a third country branch that can come into effect when the UK leaves the EU and becomes a third country. Policy are currently preparing a Guidance Note on this process, which will be key for future engagement with firms. It is expected to be presented to the October Policy Committee.

4.2.2. EIOPA peer review

There has been much speculation about possible supervisory arbitrage with member states competing to attract companies in the wake of Brexit. Whilst the new Solvency II regime applies to all member states of the EU there is scope for different interpretations for some of the rules. EIOPA has a key role in ensuring convergence of supervisory practices under Solvency II and earlier this year conducted a peer review of authorisation practices across six member states:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

4.2.3. EIOPA opinion on supervisory convergence

In July 2017 EIOPA published its “Opinion on supervisory convergence in light of the United Kingdom withdrawing from the European Union”. This was in part informed by the peer review it had carried out earlier in the year. Its general objective “is to foster convergence and consistency of authorisation processes across Member States”. It covered four areas: authorisations and approvals; governance and risk management; outsourcing; and on-going supervision. In summary some of the key points include:

- member states should have a sound authorisation process in place with adequate resources;
- there cannot be automatic recognition of an authorisation granted by another supervisory authority;
- there should be strong scrutiny of companies’ governance structure, human and technical resources, geographical distribution of activities and outsourcing;
- to allow for proper supervision there should be effective decision making and risk management by the company in the member state;
- the level of corporate structure should be proportionate to the nature, scale and complexity of the planned business;
- the level of reinsurance should not undermine the ability or responsibility of the company to manage its risks and suggests that no more than 90 per cent of business should be reinsured;
- whilst outsourcing is permitted and can be efficient the company retains responsibility for the outsourced activity;
- this requires the company to have sufficient expertise and resources to monitor and manage its risks and to control and influence the actions of the service provider; and
- that it is not acceptable for large companies or those with complex risk profiles to outsource a significant part of their key functions.

The Bank’s authorisation process and its approach to substance, reinsurance and outsourcing is already aligned to the contents of EIOPA’s opinion.

4.2.4. Update on the impact on and preparedness of entities

The majority of Irish regulated entities have little or no direct business with the UK. For these companies the impact of Brexit will be limited to the impact on financial markets in general and any economic slowdown in the markets to which they sell. However, a number of entities have significant business with the UK, and, [REDACTED]

In April 2017, the UK’s PRA published a letter asking all entities that write business into the UK from the EU to send it details of their plans for dealing with Brexit. These plans were due

to the PRA in July 2017. [REDACTED]

In the June 2017 edition of the Insurance Directorate's quarterly newsletter to Industry, one article focused on the potential risks of Brexit to companies currently regulated by the Bank and highlighted the need for contingency planning to cover all potential outcomes. A letter has recently been issued to all companies requesting that they submit details of the potential impact of Brexit on their business and what plans they have made to cover the consequences. [REDACTED]

4.3. Asset Management Supervision and Securities Markets Supervision directorates

The Asset Management Supervision (AMS) Directorate continues to have engagement with firms regarding Brexit and the authorisation process. AMS have received [redacted] queries and held [redacted] meetings to date ([redacted] meetings this quarter) with a further [redacted] meetings scheduled. Preparations to address increased authorisation and supervisory activities related to the UK's decision to leave the EU remain on course.

To-date [redacted] firms have submitted Key Facts Documents (KFDs) and [redacted] progressed to the formal application stage. [redacted] of these KFDs / applications relate to MiFID Investment firms, [redacted]

[redacted] There are a further [redacted] firms that have been deemed likely to initiate the KFD / authorisation process, the majority of which would be MiFID applications. [redacted] firms currently supervised by AMS have applied for extensions to their authorisations. A further [redacted] firms indicated that they will seek extensions or otherwise materially change the scale of their business models e.g. re-parenting branches from the UK entity to the Irish entity. In addition, Brexit remains a standing item for discussion with existing firms at all supervisory engagement meetings.

AMS have also contacted branches which passport into Ireland on a Freedom of Establishment basis to ascertain their plans to mitigate the potential impact of losing the ability to provide services on this basis post-Brexit. Some branches are more progressed in their thinking than others and it has been indicated that they should keep the Bank informed of their plans.

Over the last quarter, significant progress has been made in relation to the AMS review of existing authorisation processes and procedures. This review was undertaken with a view to improve efficiency and strengthen internal governance arrangements and is substantially complete.

The European Securities and Markets Authority (ESMA) published four opinions to National Competent Authorities (NCAs) which set out principles aimed at fostering consistency in authorisation, supervision and enforcement related to the relocation of entities, activities and functions from the UK. A general opinion was published at the end of May 2017 and three sector specific opinions in the areas of (i) investment firms, (ii) investment management and (iii) secondary markets were published in July 2017. The opinions are not overly prescriptive, they require NCAs to be fully satisfied that there is objective justification for a firm's decision to relocate to a particular EU27 Member State, and that this is not motivated by seeking to avoid stricter requirements in another location. AMS is supportive of the work of the European Supervisory Authorities to ensure convergence in how NCAs respond to Brexit.

ESMA established a Supervisory Coordination Network (SCN) to facilitate supervisory coordination in the EU27 in the context of Brexit and the Central Bank is represented at the network meetings. [redacted]

A representative of the Bank also gave a speech at an IDA conference in London on 26 July 2017, which was an update on industry preparedness for MiFID II and regulatory implications stemming from Brexit.

AMS have engaged with firms whose business models rely on the services of a UK based CSD provider with a particular focus on contingency planning. [REDACTED]

4.4. Market infrastructure

Ireland has no indigenous securities settlement system and therefore relies on the CREST system operated by Euroclear UK and Ireland (EUI) for the settlement of trades in Irish corporate securities on the Irish Stock Exchange (ISE). In the event of a ‘hard Brexit’, this arrangement would no longer be feasible and some alternative means of settlement is required [REDACTED]

[REDACTED] the Minister of Finance issued a statement on 27 July last encouraging applications for authorisation to establish a central securities depository (CSD) in Ireland. The Bank subsequently issued its own statement noting that of the Minister.

[REDACTED]

[REDACTED]

- [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

5. Authorisation Activity

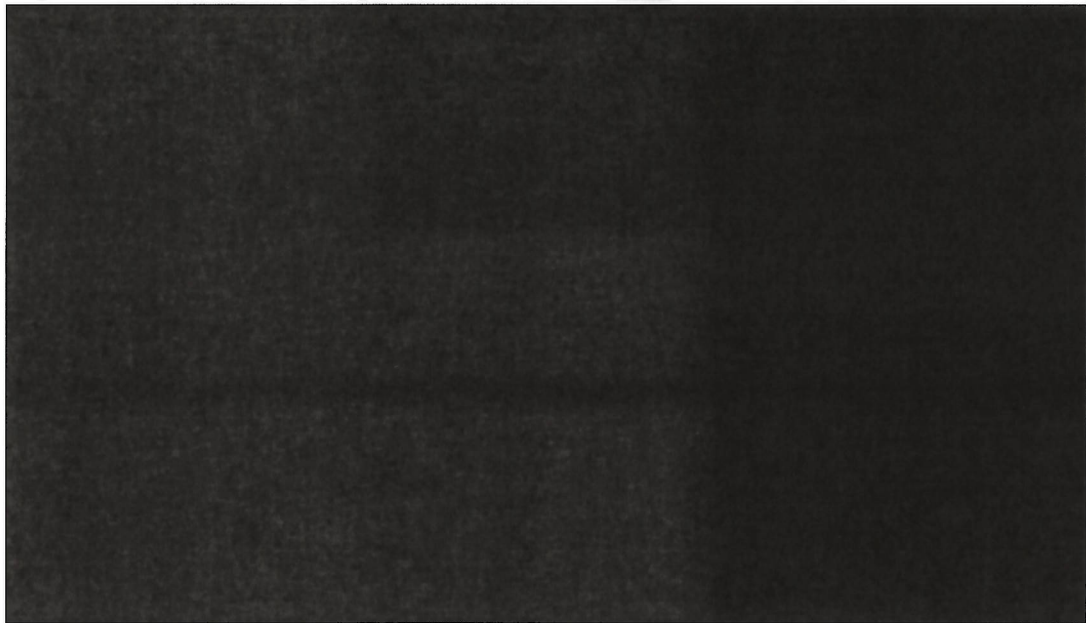
5.1. Overview

This chapter is a collation of information from Divisions on engagement with firms and other activity in the context of Brexit. This data is updated on a monthly basis by the Supervisory Risk Policy team within the Supervisory Risk Division and provides a high level overview of the Brexit related pipeline in each division as at 23 August 2017 and a commentary on some related developments¹⁸. Following two similar events in May 2017, the Bank also hosted a Brexit Roundtable on 19 July 2017 with consultants and legal experts.

Brexit related applications in progress as at 23rd August	■	Brexit related <u>authorisations</u> as at 23rd August	■
Brexit related applications in progress as at 18th July	■	Brexit related <u>authorisations</u> as at 18th July	■

5.2. Banking

Figure 5.2.1 : Banking enquiries breakdown ■



¹⁸ These figures have been provided by Divisions on a best efforts basis and provide an indication of the Brexit related activities/engagements in each division.

5.3. Insurance

Figure 5.3.1: Insurance enquiries breakdown [REDACTED]



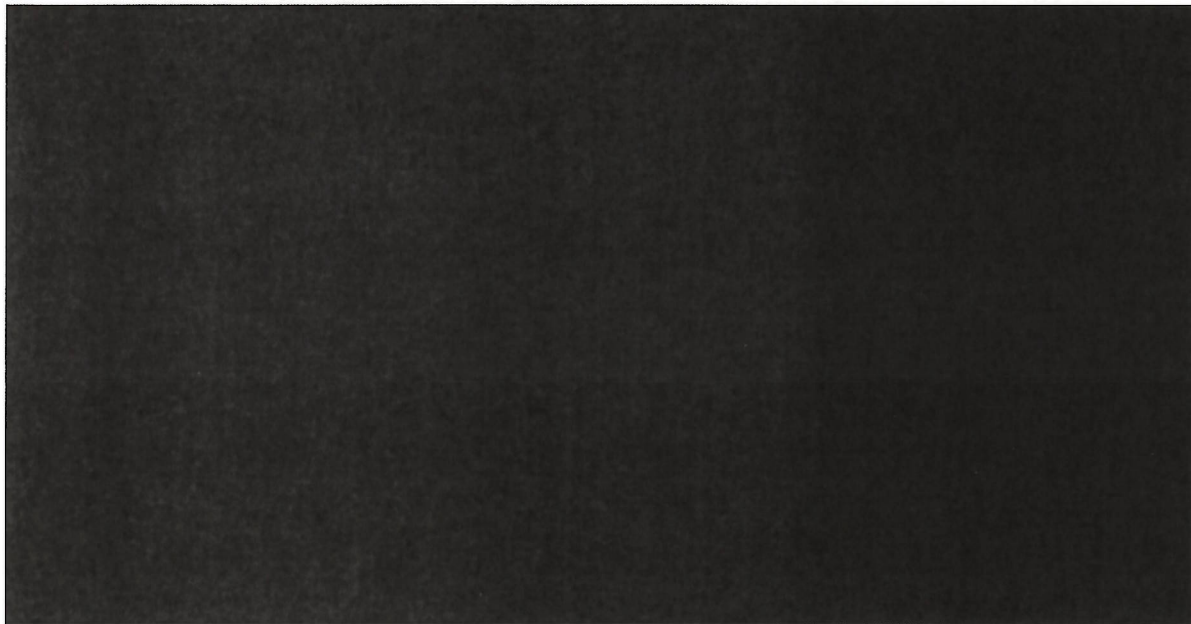
To date the Insurance Directorate has authorised [REDACTED] Brexit related applications and are currently processing another [REDACTED] Brexit related applications.

Insurance are currently collaborating with other areas of the bank on a number of topics, including:

[REDACTED]

5.4. Asset Management Supervision

Figure 5.4.1: Asset management enquiries breakdown [REDACTED]



- Since the July 2017 update, AMS has received new enquiries from [REDACTED] firms. Most enquiries continue to be mainly in respect of MiFID Investment firms with some of them very large sized internationally branded firms.
- AMS has received additional Key Facts Documents (KFDs) from [REDACTED] firms, [REDACTED]. Comments on the KFD were provided by the authorisation team to the firm on 4 August.

[REDACTED] AMS has received a Brexit related application from [REDACTED]

5.5. Consumer Protection – Payment Institutions / Electronic Money Institutions (PIs / EMIs)

- Consumer Protection Division (CPD) authorised a payment institution (PI) on 16 June 2017.

[REDACTED] CPD have received [REDACTED] and have been advised by [REDACTED]

- A legal adviser has advised CPD that an application is imminent from [REDACTED] and that [REDACTED] will be applying this month. It was also noted that they are talking to [REDACTED] that intend to apply in Q4 2017 or Q1 2018.

Figure 5.5.1: Consumer protection enquiries breakdown ■



6. Central Bank Engagement on Brexit Issues at a European Level

6.1. European Securities and Markets Authority (ESMA)

The ESMA Board of Supervisors has formed a Brexit Taskforce and the Central Bank has been an active participant in this group. Arising from this work, ESMA has published an opinion setting out general principles aimed at fostering consistency related to the relocation of entities, activities and functions from the United Kingdom. The opinion is addressed to national competent authorities (NCAs).

In July, ESMA published three further opinions setting out sector-specific principles in the areas of investment firms, investment management and secondary markets. The Central Bank's Standing Committee representatives contributed to these opinions, which are designed to be practical tools to support supervisory convergence. They also provide guidance to NCAs aimed at ensuring a consistent interpretation of the requirements relating to authorisation, supervision and enforcement in order to avoid the development of regulatory and supervisory arbitrage risks.

In addition, the ESMA Board of Supervisors has set up a Supervisory Coordination Network to discuss cases of authorisation requests and issues of supervision/enforcement arising from investment firms, asset managers and trading venues seeking to relocate from the UK. The Director of Asset Management Supervision, Michael Hodson, represents the Central Bank on the Network.

6.2. European Insurance and Occupational Pensions Authority (EIOPA)

Following discussion at the Board of Supervisors in July 2017, EIOPA published an *Opinion on supervisory convergence in light of the United Kingdom withdrawing from the EU*.^[1] https://eiopa.europa.eu/Publications/Opinions/EIOPA-BOS-17-141%20Opinion_Supervisory_Convergence.pdf. The key themes covered in the opinion are:

- Authorisations and approvals
- Governance and risk management
- Outsourcing
- On-going supervision

The Central Bank provided input to the drafting of this opinion, focussing in particular on the areas of importance to the Bank such as substance, levels of reinsurance and the approach to internal model approvals.

In light of the proposed UK exit from the EU and the increased number of applications for authorization, EIOPA conducted a peer review of authorisation processes across a number of member states.

The peer review assesses national supervisory practices to get greater clarity on the

^[1]https://eiopa.europa.eu/Publications/Opinions/EIOPA-BOS-17-141%20Opinion_Supervisory_Convergence.pdf

different supervisory practices with the aim of achieving greater transparency and higher degree of supervisory convergence. The Central Bank's approach to authorisations is deemed very comprehensive by EIOPA and is used as a benchmark to compare other member states' authorisation processes.

6.3. European Banking Authority (EBA)

[REDACTED]

Similar to the other European Supervisory Authorities' opinions on Brexit, the EBA opinion aims to foster convergence and consistency of authorisation and supervision processes across Member States by setting out guidance on the application of the existing legal framework.

The draft EBA opinion addresses a number of areas identified as being of particular relevance at this stage of institutions' planning, including: the provisions and practices applicable by competent authorities in the authorisations process; equivalence for the provision of investment services; internal model approvals; internal governance and risk management (in particular re outsourcing and risk transfers using back-to-back or intragroup operations); and resolution and deposit guarantee scheme issues. Gerry Cross, Director of Policy and Risk, is the Central Bank's member of the EBA's high level steering group on Brexit that was involved in formulating the focus and priorities of the EBA's Brexit related work.

6.4. Single Resolution Board (SRB)

[REDACTED]

[REDACTED]

6.5. ECB

6.5.1. International Relations Committee (IRC)

[REDACTED]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

6.5.2. Single Supervisory Mechanism (SSM)

[Redacted]

The ECB published an article on authorisations in the context of Brexit in the SSM-Newsletter in August 2017, together with an interview with the Vice-Chair of the Supervisory Board.

[Redacted]



7. Special Topic 1: Impact of Sterling Depreciation on Irish Consumer Prices¹⁹

7.1. Introduction

Inflation in Ireland has been weak in recent years, even as rising energy prices and increasing demand have led to higher consumer prices in the broader euro area (EA). This divergence was particularly notable in 2016, as HICP inflation *decreased* by 0.2 per cent in Ireland, and this pattern has continued in 2017. Exchange rate pass-through has contributed to this decrease with weakness in sterling since the Brexit referendum playing an important role.

Understanding pass-through from exchange rate fluctuations to domestic inflation is important given current volatility in the global macroeconomic and political environment. Developments since the Brexit vote have had substantial effects on sterling, which lost over 17 per cent of its value against the euro from the day before the referendum to end-August (see Figure 7.1.1). These effects are likely to persist as the UK engages in deeper negotiations that are perceived as having direct consequences on the economies of both the UK and the European Union.

Exchange rate pass-through has a number of important effects on the real economy. In 2016 for example, the weakness in the value of sterling contributed to lower consumer price inflation in Ireland. In turn, it is estimated that this stimulated personal consumption expenditure through an increase in the real disposable incomes of Irish consumers.²⁰

Fig. 7.1.1: Euro sterling exchange rate



Fluctuations in exchange rates affect consumers through two distinct price channels, (i) the prices of imported final goods sold directly to domestic consumers, and (ii) the prices of imported inputs feeding through domestic production of intermediate and final goods. The importance of this latter, more indirect channel is likely to depend in part on the intensity of competition in domestic markets - while an exchange rate appreciation lowers the price of imported inputs, a firm with limited competitive pressure may avail of greater profit margins rather than reduce prices in an effort to maintain market share. In addition to these direct and indirect channels, a weak (strong) currency may temporarily operate via these price dynamics

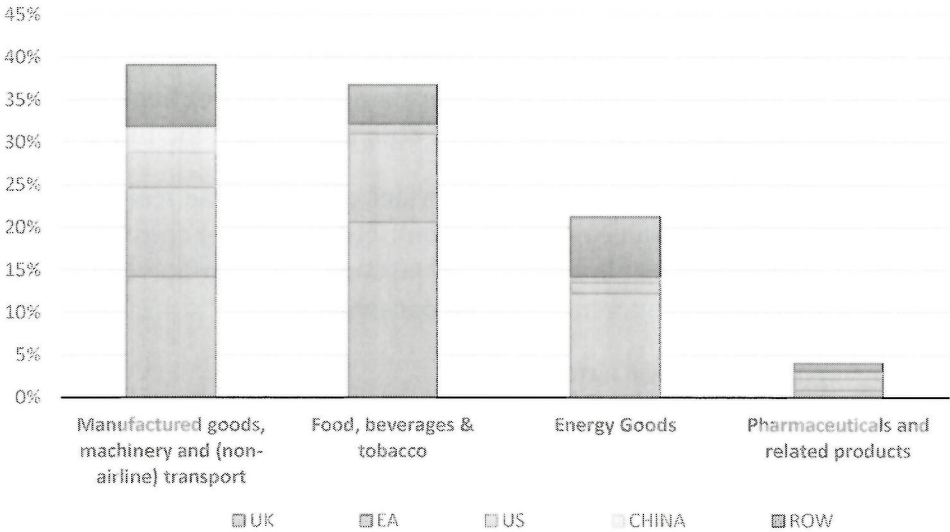
¹⁹ Prepared by Paul Reddan and Johnathan Rice (both IEA). This piece uses research from a recent economic letter, "Exchange Rate Pass-Through to Domestic Prices," Reddan & Rice, Vol 2017, No.8.

²⁰ See Irish Central Bank Quarterly Bulletin 2017 Q2, Box C.

to stimulate (dampen) domestic exports. Where imported goods do not trickle down through domestic production chains, or are sold by Irish retailers, pass-through to wholesale and consumer prices may be negligible.

In Figure 7.1.2, we show Ireland's share of imports by trade partner expressed as a share of total HICP goods weights. These weights indicate the importance of each category in determining total Irish consumer goods price inflation (left axis). The figure provides a rudimentary measure of the relative importance of Irish imports by location to Irish consumer goods inflation.

Fig. 7.1.2: Irish non-energy goods imports by HICP weighting



The UK dominates extra-EA goods imports in the categories contributing most to Irish consumer goods inflation²¹. Half of *manufacturing goods, machinery and transport* and 78 per cent of *Food, Beverages and Tobacco* imported from outside the EA come from the UK, and these imports are far more likely to feed through to the Irish consumer than *Pharmaceuticals and related products*. A consideration of the goods bundle of Irish imports from the US is informative. For instance, a significant portion (approximately 29 per cent) of imports from the US are in pharmaceuticals and related products and, rather than being sold to Irish consumers, a large majority of these imports are later exported from Ireland (in the past two years, pharmaceuticals and chemical goods have made up approximately 50 per cent of total Irish goods exports). In addition, Ireland imports a large quantity of aircraft and aircraft related equipment from the US. Over the past five years, aircraft and related products made up over 40 per cent of total goods imports from the US. These products are not sold to Irish consumers and so make a negligible contribution to domestic consumer goods inflation.

²¹ A large portion of the *energy goods* category are likely to be priced in US dollars, regardless of trade partner. However, these goods are not included in our analysis.

7.2. A model for exchange rate pass-through

We construct a VAR-X model to consider pass-through to Irish consumer prices from foreign exchange rates.²² Variables are seasonally adjusted where necessary and enter the VAR in logged first differences²³. The data are monthly and the sample period ranges from 2000 to 2016. Lag order selection based on the Akaike Information Criterion (AIC) informed the choice of four lags for the VAR. We use the Nominal Effective Exchange Rate (NEER) provided by the Bank for International Settlements. The NEER is an index of weighted average bilateral exchange rates based on import and double export weights. We use the Harmonised Index of Consumer Prices for our indicator of consumer prices. Our measure excludes energy goods and unprocessed foods.

As a small open economy and member of the euro area, Ireland is a price taker and monetary policy is set by the ECB based on euro area conditions. To account for this, our model includes an *exogenous* vector X_t , such that these *exogenous global* variables may affect, yet are not affected by, domestic variables in the model. We include the NEER as exogenous since Ireland is a relatively minor contributor to euro currency movements. The VAR is described by equation 1 below:

$$AY_t = \sum_{i=1}^4 A_i^* Y_{t-i} + \sum_{j=0}^4 B_j^* X_{t-j} + \varepsilon_t \quad (1)$$

where X_t is a 5x1 vector including a constant and our exogenous variables:

$$X_t = \begin{pmatrix} \text{constant} \\ \Delta \ln \text{ oil prices}_t \\ \Delta \ln \text{ industrial input prices}_t \\ \Delta \text{ Euribor}_t \\ \Delta \text{ NEER}_t \end{pmatrix} \quad (2)$$

and Y_t is a 4x1 vector of endogenous variables, as follows:

$$Y_t = \begin{pmatrix} \Delta \ln \text{ retail sales}_t \\ \Delta \ln \text{ import prices}_t \\ \Delta \text{ wholesale prices}_t \\ \Delta \ln \text{ HICP}_t \end{pmatrix} \quad (3)$$

²² The VAR-X model is similar to a normal VAR model except it allows for a block of exogenous variables to be included. This is important for a small open economy such as Ireland, which has little to no influence on variables such as oil prices or the euribor.

²³ The exception to this is the interest rate which is not logged, yet following unit roots tests is treated as an I(1) variable, and is therefore first differenced.

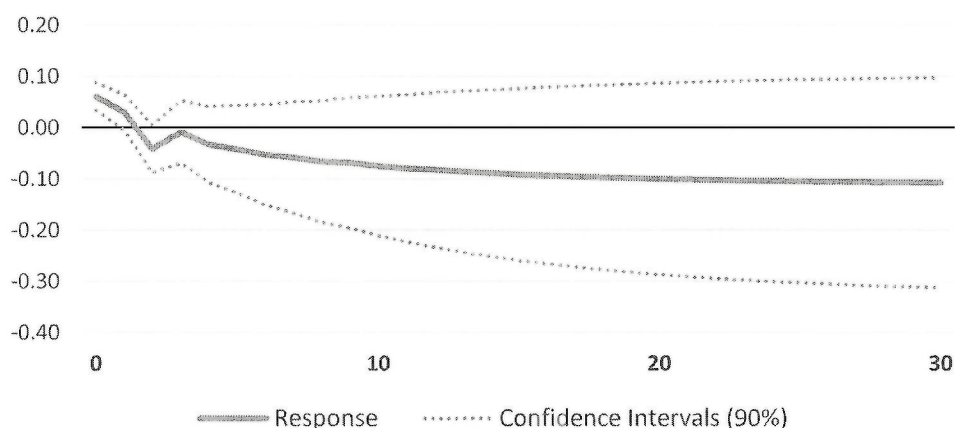
In the VAR system in equation 1, A is a 4x4 matrix of coefficients representing the instantaneous relations between the endogenous variables. The A 's and B 's are 4x4 and 4x5 coefficient matrices, respectively. ε is an error vector.

To analyse the effects of a change in an exogenous variable on the endogenous variables, we calculate *dynamic multipliers*. Dynamic multipliers can be obtained from the *final form*, which is shown in equation 4 (with lag operator notation).²⁴

$$Y_t = D(L)X_t + A(L)^{-1}\mu_t \quad (4)$$

Figure 7.2.1 presents dynamic multiplier analysis from a one unit positive shock (or appreciation) to the NEER at period t . Cumulative responses are shown with 90 per cent confidence intervals. Pass-through to HICP reaches 10 per cent in the long-term yet comes with a lag, with cumulative pass-through only becoming negative in month $t+2$.

Fig. 7.2.1: Response to a NEER appreciation

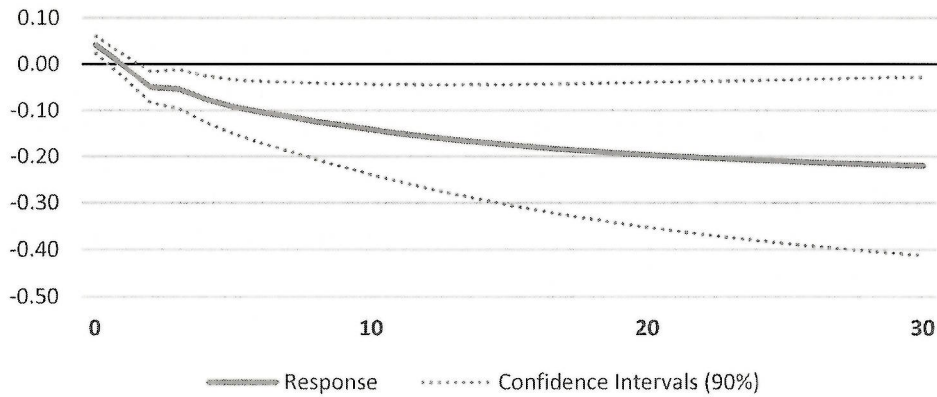


We now consider whether sterling movements are of greater importance to consumer prices in Ireland by simulating an appreciation in the EURGBP exchange rate in the VAR. This requires some minor alterations to the model. We now include the EURGBP exchange rate instead of the NEER but we also include an (exogenous) measure of the NEER that excludes sterling, to control for other currency movements.

Figure 7.2.2 shows the response of HICP to a positive shock (appreciation) in the EURGBP exchange rate. Pass-through to HICP comes with a lag, similar to that observed following the NEER appreciation. However, pass-through is stronger and more rapid in comparison to pass-through from the NEER shock. Pass-through is over 15 per cent after 12 months, settling at approximately 21 per cent in the long term, double that implied by a shock to the NEER. This result demonstrates that sterling is more important for consumer goods in Ireland than the currencies of Ireland's other trading partners. Furthermore, the finding that pass-through to consumer goods prices from a positive shock to the exchange rate is negative, is statistically significant at the 10 per cent level in both the short and long-term.

²⁴ See Lutkepohl (2005) for detail on how to derive this representation.

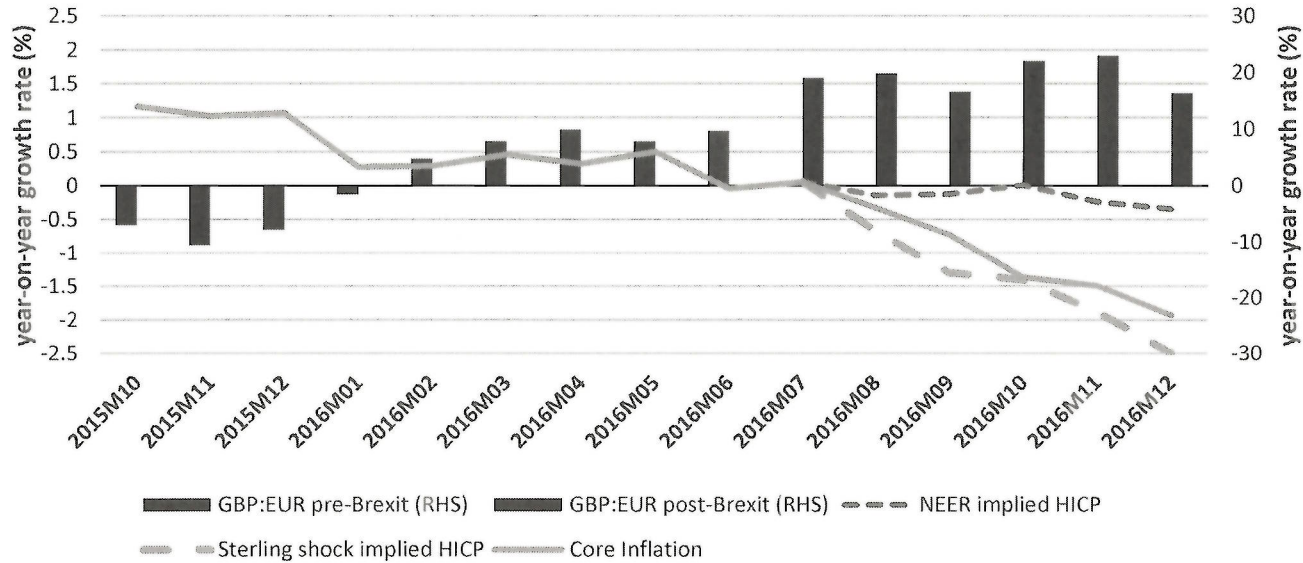
Fig. 7.2.2: Response to appreciation in EURGBP rate



7.3. The role of sterling in influencing Irish inflation

Since 2011, weakness in sterling led monthly averages in the EURGBP exchange rate to exceed €1:£0.87 twice - in 2013, due to low growth in the UK and increased optimism in the euro area, and in 2016 following the Brexit vote. Each of these episodes correspond to sharper declines in Irish consumer price inflation than predicted by movements in the NEER. Turning to recent dynamics, Figure 7.3.1 plots year-on-year growth in the EURGBP exchange rate (right axis) against the VAR implied HICP with both the NEER shock and sterling shock separately, and Irish core inflation (left axis). The rapid appreciation in the euro against sterling from June/July 2016 coincides with a rapid decrease in the price level of goods. Using the NEER as a measure of the exchange rate position appears to substantially understate the exposure of Irish inflation to EURGBP exchange rate movements.

Fig. 7.3.1: Sterling contribution to inflation dynamics



7.4. Conclusion

Sterling appears to have a disproportionately large impact on Irish consumer goods price inflation when compared to other currencies. This finding may be attributed to Irish goods imports consisting largely of manufactured goods and food related products from the UK, while a large portion of US imports are later exported by Irish-based firms and therefore are not purchased by Irish consumers. This finding aids our understanding of the significant impact that sterling weakness has had on recent Irish consumer goods inflation. It also explains why Irish inflation remained lower than all other euro area countries in 2016 and throughout 2017. Since the Brexit vote, the fall in the value of sterling (by over 17 per cent) has resulted in a sharp and rapid pass-through creating substantial downward price pressures in Ireland.

8. Special Topic 2: Review of individual banks' Brexit contingency letters to the PRA in July 2017 ²⁵

8.1. Executive summary

[REDACTED]

- While it is acknowledged that the impacts of Brexit are in some cases outside the control of individual banks; strong and continuous engagement around contingency planning as the negotiations unfold will help to mitigate some of the potential risks.

[REDACTED]

[REDACTED]

[REDACTED]

- The PRA is currently undertaking detailed analysis of the responses received from banks, insurers and investment firms (401 in total 147 banks/investment firms and 254 insurance companies)²⁶ in order to form a view on the level of preparedness of firms by autumn 2017.

8.2. Introduction

As noted in the June 2017 update, on 7 April 2017, the PRA wrote²⁷ to banks, insurers and designated investment firms setting out the PRA's expectations with respect to Brexit as well as to request confirmation, assurances and a summary surrounding contingency planning activity.

[REDACTED]

[REDACTED]

[REDACTED]

²⁵ Prepared by `Ray O'Connell and Joe McCullough (BSSD).

²⁶ <https://www.nickymorgan.org/sites/www.nickymorgan.org/files/2017-08/Woods%20to%20Morgan%20Letter.pdf>

²⁷ <http://www.bankofengland.co.uk/pradocuments/about/letter070417.pdf>

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

8.3.2. Access to financial markets infrastructure

Given that much of the interbank market in Europe is dominated by UK based financial markets institutions, Brexit is likely to have a significant impact on Financial Market Infrastructure (FMI) in the worst-case scenario, which can be expected to have an impact on the Irish banks?

[Redacted]

activities. In the event that there is no passporting or equivalence, a significant amount of activity currently conducted with UK based financial institutions would be impacted as central counterparty-clearing (CCP) memberships will need to be transferred to EU regulated CCP's in order to maintain the range of services that can be provided to banks, in particular with regard to clearing and hedging.

In the case of derivatives clearing, under the European Markets Infrastructure Regulations (EMIR), EU banks must clear eligible Over the Counter (OTC) derivatives with an EU CCP, either directly or indirectly via a clearing broker. In the worst-case scenario, UK CCPs will no longer be EMIR authorised from 29 March 2019 and UK clearing brokers would become non-MiFID firms, which could no longer rely on an EU passport.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

8.3.4. Business/operating model

[REDACTED]

[REDACTED]

[REDACTED]

9. Special Topic 3: Passporting and cross-border provision of services from third countries into the EU²⁹

9.1. Background/overview

This analysis outlines the salient passporting/cross-border provision of services provisions in the main EU sectoral financial services legislations with respect to entities authorised/established in non-European Economic Area (EEA) (i.e. ‘third country’) jurisdictions. We distinguish between instances where EU legislation facilitates market access via a branch (i.e. branching in directly from the third country) and direct/cross-border access not requiring a branch, as well as any limitations in terms of EU geographical scope in each instance. For the purposes of this article, branch and direct/cross-border access are referred to collectively as ‘third country regimes’ (TCRs). It should be noted that TCRs in some legislation may contain additional limitations to those outlined below and that Member States may be permitted to opt out of allowing third country firms access to their markets, or certain segments of it, in certain circumstances. Further detail is available in Annex 3.

The concept of ‘passporting’ financial services within the EU has different meanings and significance depending on the sector and legislation concerned. In some sectors, it is a source of substantial cross-border business, whereas in others, whether due to limits on passporting in the governing legislation or to industry specificities, passporting is markedly less prevalent.

There is no ‘overarching’ definition of passporting in EU legislation. Nonetheless, a 1997 European Commission ‘Interpretative Communication’ issued under a previous EU Capital Requirements Directive is somewhat instructive in terms of how the European Commission has historically perceived passporting/cross-border service provision.

Most EU legislative frameworks, explicitly and/or implicitly, require a third country’s regulatory and/or supervisory regime to be deemed equivalent to the relevant EU regime in order for firms based in that third country to access the EU market. Where the equivalence requirement is explicit, it can be withdrawn with 30 days’ notice if the third country regime diverges from the EU regime. However, the EU has not withdrawn any equivalence determinations to date.

While not the focus of the below analysis, it should also be noted that certain legislation (for example MiFID explicitly) may facilitate de facto cross-border provision of services into the EU from a third country on the ‘exclusive initiative’ of a client/customer, known as ‘reverse solicitation’. The operation of the reverse solicitation concept will tend to be subject to local interpretation across Member States, but is generally understood to include:

- a) the client requesting services on their own initiative;
- b) restrictions or prohibitions on third country firms soliciting, or advertising to, such clients;
- c) that the services actually being offered fall within the scope of the client’s initial request.

The above appears to have been confirmed more recently in a European Commission Report on ‘Accelerating Capital Markets Union’, where it was indicated that the concept of reverse

²⁹ Prepared by John Biggins and David Hastings (FRG) and with input from Daniel Lawlor, Evin O’Reilly, Cameron Carr, Manus O’Donnell, Linda Kenna (MPD), Deirdre Mullally, Olivia Rouse, Ewelina Belina (PPG) and Deirdre Norris (CPPA).

solicitation under the Alternative Investment Fund Managers (AIFM) and Undertakings for Collective Investment in Transferable Securities (UCITS) Directives had been subject to some consideration by a Commission Expert Group. That Expert Group deemed reverse solicitation to be a request by a professional client regarding units or shares of a specifically designated existing fund without a prior direct or indirect offer or placement (i.e. solicitation) from the management company or on its behalf. The contact is thus to be established only on the investor's initiative and may not constitute a reaction to previous offers or placements.

9.2. Capital Regulations Directives (CRD) (2013/36)

9.2.1. Third country branches

While CRD does not contain a harmonised EU regime for the authorisation and oversight of third country (credit institution) branches, it does implicitly recognise (per Article 47) the possibility that such branches may be established under national laws and sets a regulatory 'floor' in terms of the provisions which may be applied to such branches. This floor specifies that Member States must not apply more favourable treatments to third country branches relative to what is applicable (i.e. under CRD) to EU branches of credit institutions authorised in the EU.

Furthermore, Recital 23 of CRD (which must be read together with Article 47) stipulates that third country branches should not be permitted to passport/engage in cross-border service provision.

CRD also reserves a right for 'the Union' to apply harmonised requirements to all EU-established branches of any particular third country credit institution on foot of cooperation agreements which may be concluded between the Union and a third country. It is understood that no such cooperation agreements currently exist but this possibility may come into sharper focus with Brexit.

In 2013 the Government established a legislative basis in Irish national law³⁰ for the authorisation of third country branches of credit institutions and the Central Bank issued a Policy Statement in this area in 2016.

9.3. MiFID II/MiFIR (2014/65 and 600/2014)

9.3.1. Third country branches

MiFID II contains a Member State discretion (Articles 39-41 MiFID II) facilitating the authorisation and oversight of third country branches of firms³¹ wishing to provide MiFID investment services, or to perform MiFID investment activities, with respect to retail and professional ('opt-up') clients located *in that Member State*, i.e. this does not confer a right to passport such services in the broader EU. The Department of Finance exercised this discretion in the national transposition of MiFID II.³²

Nonetheless, where a third country branch has been authorised under MiFID II and the third country in which the firm is established has also been designated as equivalent by the European Commission in accordance with Article 47 MiFIR, it is permissible for that third country branch to provide the services/activities covered under its authorisation to eligible

³⁰ Section 9A of the Central Bank Act 1971.

³¹ Credit institutions or investment firms.

³² Part 6 of the *European Union (Markets in Financial Instruments) Regulations* (S.I. 375 of 2017).

counterparties and professional clients (*per se*) in other EU Member States without the establishment of new branches in those Member States.

Where such branches are authorised, MiFID II precludes Member States from imposing any additional regulatory requirements beyond those specified in MiFID II in respect of the matters covered in MiFID II and also prohibits Member States from treating branches of third-country firms more favourably than branches of EU-established/authorised MiFID firms.

9.3.2. Access other than via a branch

A third-country firm may provide investment services or perform investment activities with or without any ancillary services to eligible counterparties and to professional clients (*per se*) located anywhere in the EU, without needing to establish a branch, where that firm has successfully secured registration with ESMA.³³ Member States are prohibited from imposing any additional requirements on ESMA-registered third country firms in respect of matters covered by MiFID II and MiFIR and must not treat such third country firms more favourably than EU firms engaging in cross-border service/activity provision.

In order to successfully register with ESMA it will be necessary for the third country in which the firm is established/authorised to have been designated as equivalent by the European Commission.³⁴

In the absence of a European Commission equivalence decision, or where such a decision is no longer in effect, Member States may, in accordance with national regimes, allow third country firms to provide investment services or perform investment activities, together with ancillary services, to eligible counterparties and professional clients (*per se*) located *in that Member State*, i.e. this does not confer a right to passport such services in the broader EU.³⁵ Third country firms may also continue to rely upon such national regimes for up to three years following Commission equivalence decisions affecting their jurisdiction.³⁶

The Department of Finance has exercised this discretion³⁷ in lieu of European Commission equivalence decisions under MiFIR. Therefore, firms established in certain third countries³⁸ will continue to be permitted to provide MiFID services/activities to Irish eligible counterparties and professional clients (*per se*) for the foreseeable future. It is anticipated that this could be a particularly relevant gateway in the event that, immediately post-Brexit, the UK is not designated as an equivalent third country. The Central Bank is also conferred with a power³⁹ to issue a direction to a third country firm to cease providing investment services or performing investment activities in the State where ESMA has withdrawn that third country firm's registration.

³³ Article 46 MiFIR.

³⁴ Article 47 MiFIR.

³⁵ Article 46(4) MiFIR.

³⁶ Article 54(1) MiFIR.

³⁷ Regulation 5(4)-(7) of S.I. 375 of 2017.

³⁸ I.e. third countries meeting certain AML/CFT and international regulatory cooperation standards.

³⁹ Regulation 5(6) of S.I. 375 of 2017.

9.4. Solvency II (2009/138)

9.4.1. Third country branches

National competent authorities (NCAs) may grant authorisation to branches of life and non-life undertakings⁴⁰ as outlined in Chapter IX of the Solvency II Directive, where certain authorisation principles and conditions are met. Undertakings may seek authorisation in more than one jurisdiction.⁴¹

Undertakings with authorised branches in more than one Member State may apply to the relevant NCAs for certain ‘advantages’, namely (i) that their Solvency Capital Requirement be calculated in relation to their entire EU business; (ii) that their ‘absolute floor’ deposit be lodged in only one Member State; and (iii) that their Minimum Capital Requirement be localised in any one of the Member States in which they pursue their activities.⁴²

However, Solvency II third country branches are subject to several limitations. Notably, under Article 162, third country branches can undertake business only in the Member State where they have been authorised; there is no provision for ‘cross-border provision of services’ to other Member States. They are also prohibited from pursuing life and non-life activities in the same Member State from the same branch,⁴³ unless they had previously undertaken both activities and the Member State concerned determines that they may continue to do so and each activity is separately managed in accordance with Article 74.

Solvency II does not contain any explicit prohibition on ‘reverse solicitation’ as described above. However, an undertaking wishing to provide services to a client in a Member State other than the Member State of establishment on the basis of Freedom of Services would be required to inform the customer’s home NCA. It is understood that provision of insurance services in this manner rarely occurs, as for a broad range of insurance products, there are requirements for insurers to contribute to national guarantee funds, appoint local claims representatives and other requirements which would not easily facilitate reverse solicitation.

9.4.2. Access other than via a branch (for reinsurance only)

Cross-border provision of reinsurance services by a non-EEA undertaking (without establishing a branch) is possible both for equivalent and non-equivalent jurisdictions. In the case where the European Commission has determined that the undertaking’s home jurisdiction has an equivalent solvency regime in place for the purpose of reinsurance contracts,⁴⁴ the contracts will be deemed to be equivalent under Article 172 and shall be treated in the same way as those with EEA undertakings.⁴⁵ For non-equivalent jurisdictions the Member State may require the imposition of collateral requirements.⁴⁶

Member States should not retain or introduce requirements on such reinsurers to pledge assets to cover unearned premiums and outstanding claims provisions. In addition, Member States

⁴⁰ Reinsurance branches may be established without seeking authorisation

⁴¹ Article 162 of Directive 2009/138 EC on the taking up and pursuit of Insurance and Reinsurance (Solvency II).

⁴² Article 167 Solvency II Directive.

⁴³ Article 169(1) Solvency II Directive.

⁴⁴ Article 172 Solvency II Directive.

⁴⁵ Article 172 (3) Solvency II Directive.

⁴⁶ Article 173 of the Solvency II Directive.

should not apply provisions that would result in a more favourable treatment for third country reinsurers than that granted to reinsurers with their head office in the Member State.⁴⁷

9.5. Other sectors and legislation

9.5.1. EMIR (2012/648)

A third country CCP can provide clearing services in the EU, without the need to establish a branch, provided (i) its home jurisdiction has been deemed equivalent by the European Commission; (ii) ESMA has a co-operation agreement with its home supervisory authority; and (iii) ESMA recognises the CCP concerned.

There is considerable uncertainty over the use of UK CCPs in the context of Brexit. In principle, under EMIR Article 25, only a CCP established in a third country can apply for third country recognition; there are no provisions for ‘pre-authorisation’ of UK CCPs prior to Brexit. Industry groups have warned that, post-Brexit, institutions would be subject to increased hedging costs, split liquidity pools and less favourable risk weightings on their exposures cleared by UK CCPs, resulting in higher capital requirements under the CRR.⁴⁸

On 13 June 2017 the Commission published a proposal to amend EMIR’s supervisory arrangements applicable to both third country and EU CCPs. Among other measures, for Tier 2 “systemically important CCPs” the proposal would give the Commission the power to adopt an implementing act declaring that the CCP may only provide services in the EU if established and authorised in the EU.

9.5.2. CSDR (2014/909)

Third country CSDs can provide ‘core services’ (i.e. notary services and central maintenance services) in the EU and/or establish branches, provided (i) their home jurisdiction has been designated as equivalent by the European Commission; (ii) ESMA has a co-operation agreement with its home supervisory authority; (iii) the third-country CSD is subject to effective authorisation, supervision and oversight; (iv) the third-country CSD takes the necessary measures to allow its users to comply with the relevant national law of the Member State in which the third-country CSD intends to provide services; and (v) ESMA recognises the CSD concerned.

9.5.3. PSD2 (2015/2366)

PSD2 does not contain a TCR. Firms wishing to offer PSD2 services in the EU would need to secure authorisation as a Payment Institution in an EU jurisdiction.

9.5.4. E-Money Directive (2009/110)

The E-Money Directive does not contain a TCR. Entities wishing to offer E-Money services would need to secure authorisation as an E-Money Institution in an EU jurisdiction.

⁴⁷ Article 173-174 Solvency II Directive.

⁴⁸ AFME, ‘[Implementing Brexit](#)’, April 2017.

9.5.5. AIFMD (2011/61)

The AIFMD provides for a TCR which grants EU passporting rights to non-EU AIFMs and non-EU AIFs. However, although ESMA has delivered advices to the European Commission, these provisions have not been ‘switched on’ by the European Commission to date. The determination as to whether the EU management/marketing passport should be extended to non-EU AIFMs/non-EU AIFs lies with the European Commission, the European Parliament and the EU Council based on advice from ESMA according to specified criteria.⁴⁹ The considerations by the EU institutions around the extension of the AIFMD passport to third countries have likely been impacted by the Brexit vote given that over 80 per cent of EU authorised AIFMs are based in the UK.

The extension of the AIFMD passport would permit non-EU AIFMs from jurisdictions assessed positively by ESMA to seek authorisation in a Member State of Reference (MSoR).⁵⁰ This then provides the non-EU AIFM with the ability to market and manage both EU and non-EU AIFs freely across the EU by virtue of a passport notification. In effect, once a non-EU AIFM is authorised in an MSoR, it is treated as an EU AIFM and will have all of the same rights and obligations. Passporting is facilitated by transmission of the relevant notification by the NCA of the MSoR to the NCA of the host Member State.

Currently, non-EU AIFMs and AIFs must comply with each EU Member State’s national regime when they market to professional investors in that country, known as the National Private Placement Regime (NPPR). Ireland’s NPPR permits non-EU AIFMs and non-EU AIFs to provide activities to professional investors in Ireland pursuant to the AIFM Regulations⁵¹ – specifically Regulation 37⁵² and Regulation 43.⁵³ It is worthwhile noting this a Member State discretion and therefore some Member States do not have an NPPR in place.

9.5.6. UCITS (2009/65)

The UCITS Directive does not contain a TCR.

⁴⁹ Article 67 AIFMD.

⁵⁰ Article 37 AIFMD.

⁵¹ S.I. 257 of 2013 – European Union (Alternative Investment Fund Managers) Regulations 2013.

⁵² Conditions for the marketing in the State without a passport of non-EU AIFs managed by an Irish AIFM or an AIFM from another Member State.

⁵³ Conditions for the marketing in the State without a passport of AIFs managed by a non-EU AIFM.

Annex 1

Figure 1: Negotiation sequencing

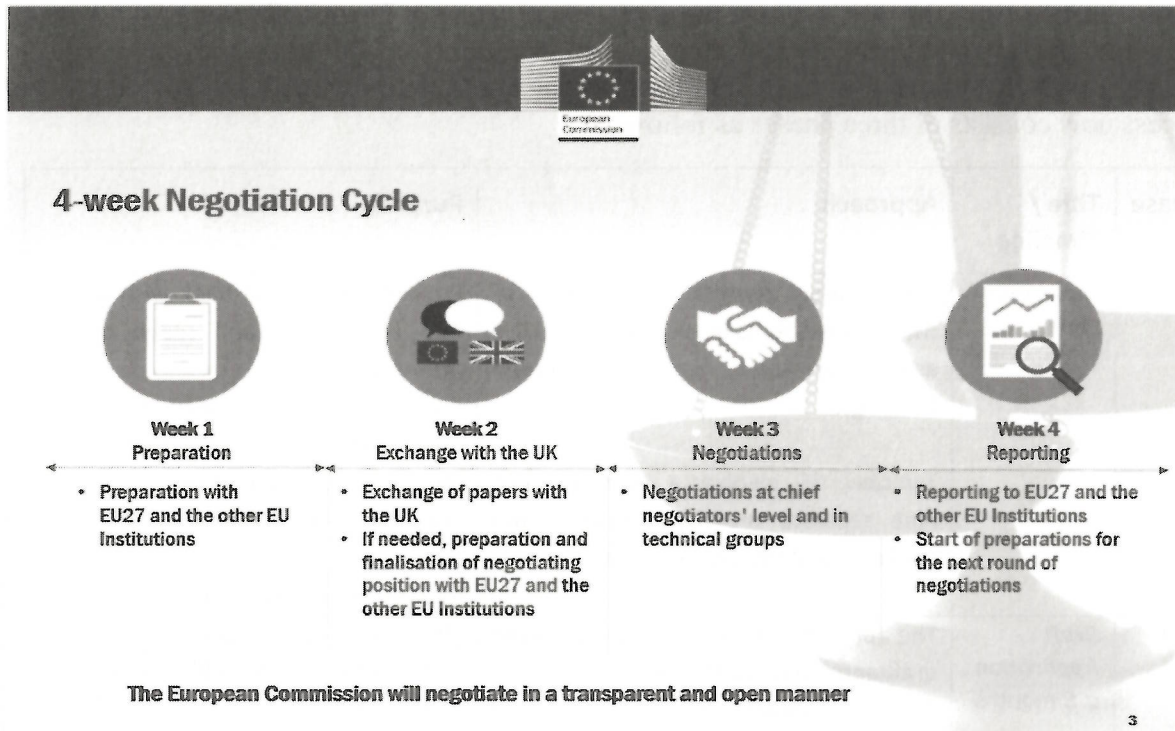
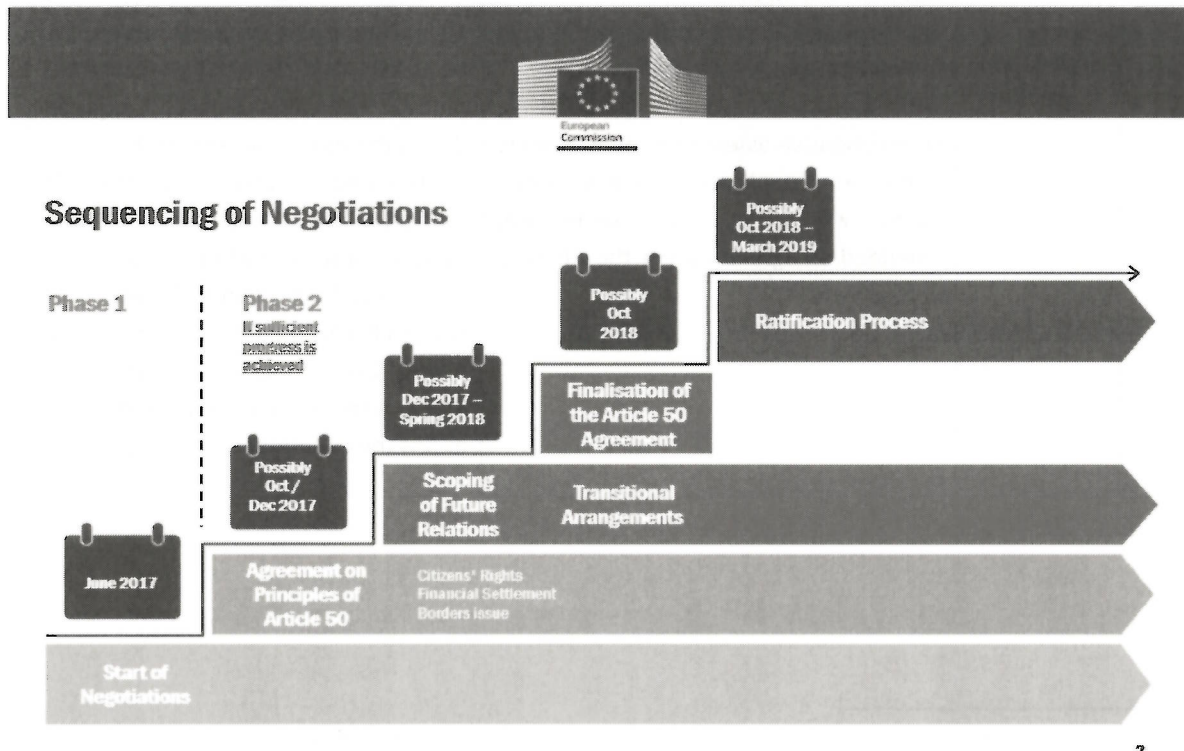


Figure 2: 4 week negotiation cycle



Annex 2

Arising from the expectation of increased authorisation activity due to Brexit, and based on lessons learned from the 2015 authorisation of a Third Country Branch, Banking Supervision revised its authorisation process earlier this year. This process applies to applications for a banking licence and notifications of significant expansion from existing licence holders. The process now consists of three phases as follows:

Phase	Title / Timeline	Approach	Purpose
1	<i>Exploratory Phase</i> c. 3 months	<p>The applicant presents an overview of the main elements of the proposal to the assessment team, under pre-agreed headings.</p> <p>Typically, this involves a series of up to nine separate meetings between the applicant and the assessment team.</p>	<p>Provide the Central Bank with insight into the nature and scope of the proposal.</p> <p>Provide the credit institution with a good awareness of the Central Bank requirements and approach.</p> <p>Consider any areas of potential concern.</p> <p>Identify any potential 'red flag'⁵⁴ issues.</p>
2	<i>Draft Application</i> c. 6 months	<p>The applicant submits a fully completed draft application to the CBI.</p> <p>The assessment team conducts a comprehensive assessment of all aspects of the draft application following the assessment criteria set out in the CBI Authorisation Manual.</p>	<p>The assessment team determines whether or not the applicant has fully addressed all the elements required for authorisation/approval of expansion given the nature, scale and complexity of the proposed business.</p>
3	<i>Formal Application</i> c. 3 months	<p>The applicant submits a fully completed formal application to the CBI.</p> <p>The assessment team conducts a comprehensive assessment of all aspects of the formal application to ensure that it aligns with the draft application, amended as agreed during the Phase 2 engagement.</p>	<p>The main purpose of this assessment is to ensure that the formal application reflects all amendments required during the Phase 2 assessment.</p> <p>At the end of this phase, the CBI Authorisations Committee makes a decision as to authorisation where the entity is a Third Country Branch. For entities licenced under section 9 of the Central Bank Act 1971, the Committee makes a recommendation to the SSM, as it is the competent authority.</p>

⁵⁴ 'Red flag' issues are defined as '*Proposed structures, governance arrangements, inherent risks or products that are outside the CBI/SSMs risk appetite and where the applicant has confirmed it is not willing to amend to meet our requirements*'. For example, an inadequate second line structure and presence in the local entity or outsourcing key risk decision-making activities to other group entities / third parties.

By way of organisational structure and governance, Banking Supervision has established:

- An authorisations programme management structure to project manage the process and to oversee all authorisation applications providing qualitative input and ensuring consistency of approach. The programme management team also engages with all key internal and external stakeholders;
- Core assessment teams to assess all material applications. These teams comprise experienced Banking Supervision staff and external hires and they are supported by subject matter experts – mainly from Banking Supervision Inspections Division; and
- A cross-directorate steering committee to provide advice and direction to the programme and core assessment teams. Membership of the committee is drawn from Banking Supervision, Markets Supervision and Risk and Policy Directorate. In addition, subject matter experts from other areas of the Bank including Financial Stability, Resolution and Legal are invited to attend to provide input, as required

Annex 3

Legislation	Third Country Regime for branch access	Third Country Regime for cross-border provision of services via a branch (aside from 'reverse solicitation')	Access from a third country other than via a branch (aside from 'reverse solicitation')
CRD IV/CRR	Access for 'banking business' in the territory in which the branch has been authorised, subject to national authorisation regimes (if any)	None	None
Solvency II	Subject to discretion of NCAs to authorise (life and non-life) provided certain defined conditions are fulfilled.	None - can undertake business only in the Member State where they have been authorised	May be permitted for reinsurance only,
MIFID II	Provision of MIFID investment services, or to perform MIFID investment activities, with respect to retail and certain professional clients in the territory in which the branch has been authorised	Where a branch has been authorised in accordance with Article 39 MIFID II, that branch will only be entitled to engage in EU-wide cross-border service provision for eligible counterparties and certain professional clients for the MIFID activities/services it is authorised to undertake; subject to the existence of a positive European Commission equivalence designation for the relevant third country	EU access for the provision of MIFID investment services/activities to eligible counterparties and certain professional clients, once the relevant third country has been designated as equivalent by the European Commission. Member States may also facilitate access to eligible counterparties and certain professional clients in their territories only, in lieu of European Commission third country equivalence designations referred to above
EMIR	None – no branch required	None – no branch required	Access for third country CCPs from equivalent jurisdictions
CSDR	Yes, subject to certain (including equivalence) conditions	Yes, subject to certain (including equivalence) conditions	Yes, though for notary and central maintenance services this is subject to certain (including equivalence) conditions
PSD2	None	None	None
E-Money Directive	None	None	None
Legislation	Third Country Regime for branch access	Third Country Regime for cross-border provision of services via a branch (aside from 'reverse solicitation')	Access from a third country other than via a branch (aside from 'reverse solicitation')

AIFMD	<p>Yes, provided the European Commission extends the AIFMD passport to AIFMDs/ AIFs domiciled in equivalent third countries. If the AIFMD passport is extended, non-EU AIFMDs /AIFs from jurisdictions assessed positively by ESMA will be able to seek authorisation in an EU Member State of Reference (MSoR). Upon authorisation by the NCA in the MSoR, the non-EU AIFMD may then establish branches in other EU jurisdictions</p>	<p>Yes, provided the European Commission extends the AIFMD passport to AIFMDs /AIFs domiciled in equivalent third countries. If the AIFMD passport is extended, non-EU AIFMDs /AIFs from jurisdictions assessed positively by ESMA will be able to seek authorisation in an EU MSoR. Once a non-EU AIFMD is authorised in an MSoR, it can avail of the AIF management and marketing passports provided for under AIFMD</p>	<p>In the absence of an AIFMD passport extension, non-EU AIFMDs /AIFs access professional investors in relevant Member States through the National Private Placement Regime. This is a Member State discretion and is not available in all EU Member States</p>
UCITS	None	None	None

Glossary

AIFM Alternative Investment Fund Manager

AIFMD Alternative Investment Fund Manager Directive

The Alternative Investment Fund Managers Directive 2011/61/EU is EU legislation on the financial regulation of hedge funds, private equity, real estate funds, and other "Alternative Investment Fund Managers" (AIFMs) in the European Union. It came into force on 21 July 2011.

AMS Asset Management Supervision

BTF Brexit Task Force

BSID Banking Supervision Inspections Division

BSSD Banking Supervision: Supervision Division

CBI Central Bank of Ireland

CCP Central Clearing Counterparty

CPD Consumer Protection Division

CRE Commercial Real Estate

CRD Capital Regulations Directives

The Capital Requirements Directives for the financial services industry have introduced a supervisory framework in the European Union which reflects the Basel II and Basel III rules on capital measurement and capital standards.

CSD Central Security Depositories

CSDR Central Securities Depository Regulation

The Central Securities Depository Regulation is intended to harmonise the legal aspects of securities settlement and the rules for CSDs at an EU-wide level. The CSDR was published in the Official Journal of the EU (OJ) on 28 August 2014 and its provisions generally came into effect on 17 September 2014.

EA Euro area

EBA European Banking Authority

EC European Commission

ECB European Central Bank

EEA European Economic Association

The European Economic Area (EEA) is the area in which the Agreement on the EEA provides for the free movement of persons, goods, services and capital within the European Single Market, including the freedom to choose residence in any country within this area. Membership includes 28 EU member states, as well as three of the four member states of the EFTA (Iceland, Liechtenstein and Norway).

EIOPA European Insurance and Occupational Pensions Authority

EMI Electronic Money Institutions

EMIR European Market Infrastructure Regulation

The European Market Infrastructure Regulation (EMIR) is a body of European legislation for the regulation of over-the-counter derivatives. The regulations include requirements for reporting of derivative contracts and implementation of risk management standards. It established common rules for central counterparties and trade repositories. The objective of the legislation is to reduce systemic counterparty and operational risk, and help prevent future financial system collapses.

ESA European Supervisory Authority

ESMA European Securities and Markets Authority

ESRI Economic and Social Research Institute

EUI Euroclear UK and Ireland

EURATOM European Atomic Energy Community

FDI Foreign Direct Investment

FMD Financial Markets Division

FOE Freedom of Establishment

It is possible for an insurance undertaking authorised in one EU/EEA state to conduct business in another EU/EEA state. This business can be conducted in two ways – if the undertaking establishes a Branch operation and conducts business on a ‘freedom of establishment’ basis or if the undertaking writes business from the Home state to the Host state on a ‘freedom of services’ basis.

FOS Freedom of Services

It is possible for an insurance undertaking authorised in one EU/EEA state to conduct business in another EU/EEA state. This business can be conducted in two ways – if the undertaking establishes a Branch operation and conducts business on a ‘freedom of establishment’ basis or if the undertaking writes business from the Home state to the Host state on a ‘freedom of services’ basis.

FRG Financial Risks and Governance Policy

FSC Financial Stability Committee

The Financial Stability Committee of the Central Bank, which is an advisory group to the Governor on all financial stability issues. The FSC is chaired by the Governor.

FSD Financial Stability Division

FTA Free Trade Agreement

GAC General Affairs Council

The General Affairs Council is a configuration of the Council of the European Union and meets once a month. Meetings bring together the Foreign Ministers of the Member States. Ministers responsible for European Affairs also participate depending on the items on agenda. The General Affairs Council deals with dossiers that affect more than one of the EU's policies, such as negotiations on EU enlargement, preparation of the EU's multi-annual budgetary perspective or institutional and administrative issues.

GFA Good Friday Agreement

GDP Gross Domestic Product

HICP Harmonised Index of Consumer Prices

HoSG Heads of States and Governments

IEA Irish Economic Analysis

INSA Insurance Analytics

IR International Relations

IPD Investment Property Databank

IPU Intermediate Parent Undertaking

IRC International Relations Committee

The International Relations Committee of the ECB. The IRC is responsible for forming policy views and advising the ECB Governing Council or General Council on external issues to the EU (including the IMF). It meets in 28 NCB format.

ISE Irish Stock Exchange

JST Joint Supervisory Teams

KFD Key Facts Document

MiFID Markets in Financial Instruments Directive

The markets in financial instruments directive (MiFID) aims to increase the transparency across the European Union's financial markets and standardise the regulatory disclosures required for particular markets. MiFID implemented new measures, such as pre- and post-trade transparency requirements, and set out the conduct standards for financial firms. The directive has been in force across the European Union (EU) since 2008. MiFID has a defined scope that primarily focuses on over the counter (OTC) transactions.

- MiFIR** Markets in Financial Instruments Regulation
- MPC** Monetary Policy Committee
- MPD** Markets Policy Division
- MSCI** Morgan Stanley Capital International
- MSoR** Member State of Reference
- NCA** National Competent Authority
- NEER** Nominal Effective Exchange Rate

The NEER is an index of weighted average bilateral exchange rates based on import and double export weights

- NIESR** National Institute of Economic and Social Research
- NPPR** National Private Placement Regime

Currently, non-EU AIFMs and AIFs must comply with each EU Member State's national regime when they market to professional investors in that country, known as the National Private Placement Regime

- ORD** Organisational Risk Division



- PI** Payment Institution
- PMI** Purchasing Managers Index
- PRA** Prudential Regulatory Authority

The Prudential Regulation Authority is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms in the UK.

PSD Payment Services Directive

The Payment Services Directive (PSD, 2007/64/EC) is an EU Directive, administered by the European Commission (Directorate General Internal Market) to regulate payment services and payment service providers throughout the European Union (EU) and European Economic Area (EEA). The Directive's purpose was to increase pan-European competition and participation in the payments industry also from non-banks, and to provide for a level playing field by harmonizing consumer protection and the rights and obligations for payment providers and users.

PSSD Payment and Securities Settlement Division

OTC Over The Counter

RES Resolution Division

RICS Royal Institute of Chartered Surveyors

SCN Supervisory Coordination Network

SI Significant Institutions

SMSD Securities Markets Supervision Division

SRB Single Resolution Board

SRD Supervisory Risk Division

SSM Single Supervisory Mechanism

TCR Third Country Regimes

For the purposes of chapter 9, branch and direct/cross-border access to third countries are referred to collectively as 'third country regimes' (TCRs).

UCITS Undertakings for Collective Investment in Transferable Securities

UCITS are open-ended investment funds and may be established as unit trusts, common contractual funds, variable or fixed capital companies or Irish Collective Asset-management Vehicles (ICAVs).

WTO World Trade Organisation