

Head Office, 40 Mespil Road, Dublin 4  
Tel +353 (0)1 661 5933  
Fax +353 (0)76 623 4787  
www.bankofireland.ie

Policy Unit  
International Credit Institutions  
Financial Regulator  
PO Box 9138  
College Green  
Dublin 2

16<sup>th</sup> July 2010

Dear Sir

**Re: Consultation Paper CP43 Code on Related Party Lending**

The Bank of Ireland Group (the Group) welcomes this opportunity to comment on the matters raised by the Financial Regulator in this consultation paper. The Group takes the matter of lending to related parties very seriously and ensures that there are robust controls in place so that such lending is done in a clear and transparent manner and in compliance with current and legal regulatory requirements

**Specific comments on each section of the Code – as set out in Appendix 1 of the Consultation Paper**

**Section 1** – No comment.

**Section 2**

In order to promote a level playing field across the financial services industry the Group suggests that the Code should also apply to non deposit taking lenders and credit unions.

The Group would welcome clarification on whether subsidiaries of credit institutions which are not authorised or licensed by the Financial Regulator are covered by this Code.

**Section 3** – No comment.

**Section 4** - No comment.

## **Section 5**

*Connected Persons and Clients* – The Group would welcome a standard definition of connected persons and clients across all relevant legislation, codes etc that the Group has to comply with e.g. Deposit Guarantee Scheme, Market Abuse Directive, IAS 24.

Similarly a definition of “control” is required as it is unclear as to what would determine whether someone has “control” over another person.

Also what conditions dictate that two people are "so interconnected that, if one of them were to experience financial problems, the other or all of the others, would be likely to encounter repayment difficulties"? and how is it proposed that these conditions would be determined by a financial institution?

Standard definitions would ensure that there is a consistency in reporting by the Group (and across the industry) on such matters.

*Related Party* – The definition of related party includes “significant shareholder”. The Group recommends that for those financial institutions where there is a State shareholding that this is specifically excluded in the definition of related parties.

The Group would also like clarification on the area of intra group lending in this regard. The Group believes that the Code should not apply to lending to 100% owned subsidiaries which are currently regulated by the Financial Regulator or other Group entities which are regulated on a consolidated basis.

*Senior Management* - The Group would again welcome a standard definition of Senior Management to ensure consistency across various external reporting requirements. In this regard the Group believes that Senior Management should only apply to the Chief Executive Officer and his or her direct reports.

*Significant Shareholding* – In the Code this is defined at 10% or more of the shares or voting rights; this is inconsistent with the definition of beneficial owner in the Deposit Guarantee Scheme regulations where it is 20%. A consistent definition would be welcome.

## **Section 6**

- a) No comment.
- b) The Group understands that the purpose of the Code is to identify significant exposures to related parties. In this regard the Group suggests that a de minimis amount be adopted in the application Code. To be completely effective the Group would need to maintain a list of all related parties – even those to whom the Group had no outstanding loans. The accounts of all these individuals would need to be appropriately “tagged” in some manner to alert staff members not to provide loans to these individuals unless prior approval was received. In this regard prior Board approval of every loan or variation of the terms of a loan to every person defined in section 5 is impractical as is Board involvement in the day to day management of loans.
- c) See comments above regarding Board involvement.
- d) No comment

- e) The Group would welcome a clear definition of an “independent credit review process”.
- f) No comment.
- g) No comment.
- h) There does need to be an exemption for lending to Group companies and for lending to the Irish Government.
- i) No comment.

#### **Section 7**

While quarterly reporting is mentioned in the preamble to the Code, the Group would like to see certainty on this matter included in the Code itself.

There are currently similar returns submitted to the Financial Regulator on lending e.g. COREP and Large Exposures returns, the Group would appreciate more definitive clarification on how these would interact with the Related Party Lending return.

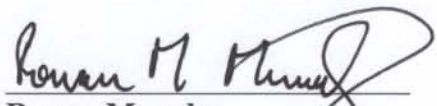
#### **Appendix 2**

While the Group believes the information for inclusion in the “periodic lending report” seems reasonable consideration should be given to whether some of the information requested will be of relevance e.g. if a loan is drawn down 10 years ago.

#### **General**

As requested by the Financial Regulator on the 20<sup>th</sup> of May last, the Group currently maintains a register of loans to directors and their connected persons which must be updated quarterly and available for inspection. The Group suggests that the reporting requirements of the Code be aligned to this and further suggests that a de minimis amount of €1m apply to all loans to related parties.

Yours faithfully

  
**Ronan Murphy**  
**Chief Governance Risk Officer**