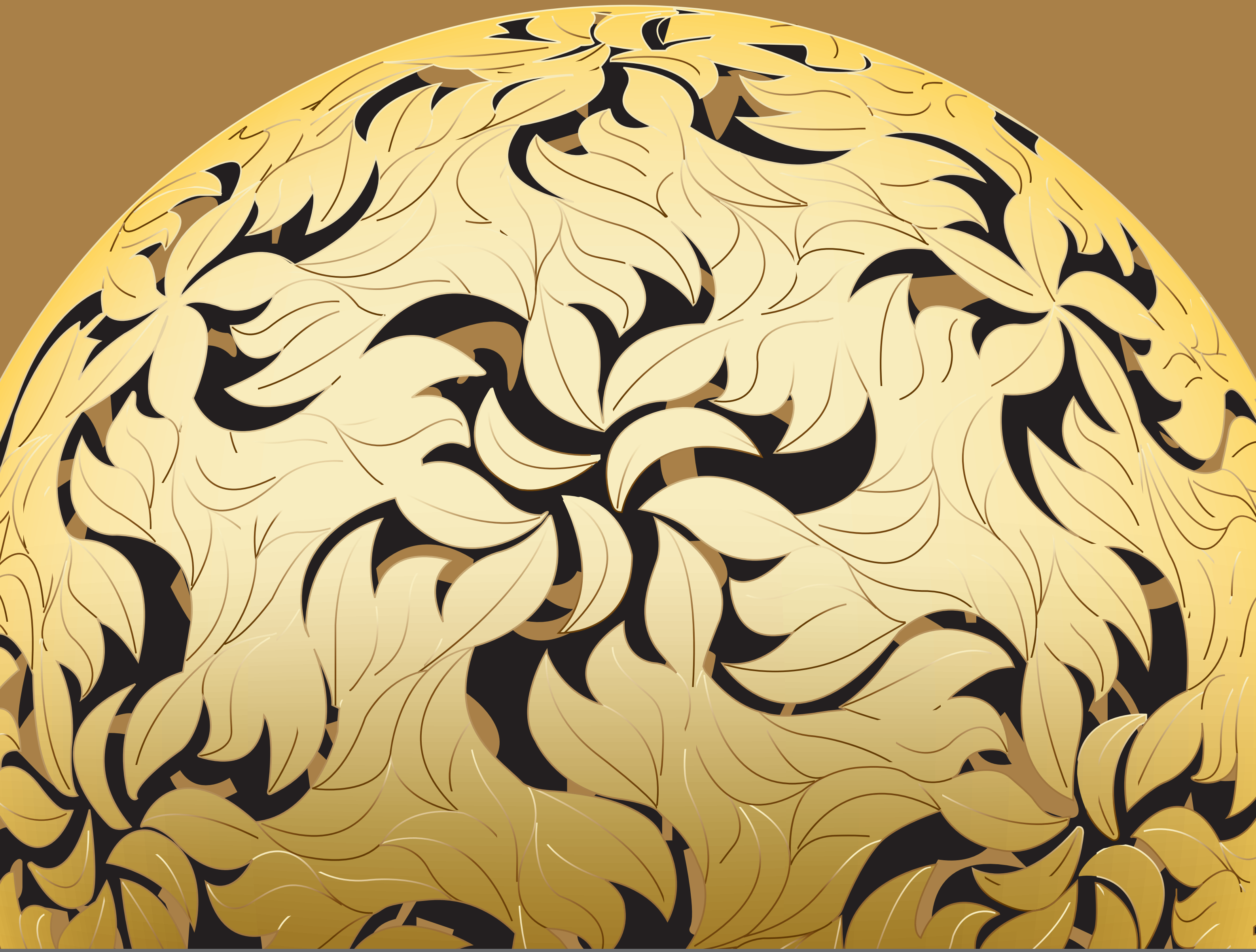
Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem



Annual Performance Statement

Financial Regulation 2015 - 2016

Central Bank of Ireland

27 April 2016

Dear Minister,

In accordance with Section 32L of the Central Bank Act 1942 (as amended), the Central Bank of Ireland (the Bank) is required to prepare an Annual Performance Statement on its financial regulatory activities undertaken during 2015 and planned for 2016. This document must be presented to you within four months after the end of each financial year.

We have the honour to enclose herewith the Annual Performance Statement for 2015 - 2016.

Yours faithfully,

Philip R. Lane
Governor

Cyril Roux
Deputy Governor (Financial Regulation)

Contents

Philip R. Lane
Governor

Foreword by the Governor

The Bank's focus for the past few years has been on repairing the legacy left by the financial crisis. Since my appointment as Governor in November 2015, I am struck by the diverse range of activities for which we are responsible, including within the areas responsible for regulation and supervision of financial service providers in Ireland.

Looking forward to 2016, some of the key elements of our regulatory focus will include:

- Working to ensure the best interests of consumers are protected by delivering on the key priorities as set out in our Consumer Protection Outlook Report.
- Enhancing our engagement with boards of the larger retail firms to push for a more consumer-focused culture within firms.
- Continuing to make a material contribution to the design and implementation of unified supervision for the larger banks in the euro area under the Single Supervisory Mechanism (SSM) which has been in place for just over a year.
- Developing resolution plans for in-scope credit institutions, which document the actions to be taken in the event of failure.
- Putting into operation the Solvency II framework for insurance undertakings, which came into effect on 1 January 2016.
- Continuing to monitor and deepen our understanding of the risks that may arise to the Irish and wider financial system from non-bank financial entities, including investment funds, money market funds and financial vehicle corporations.
- Carrying out a review of the PRISM framework as our supervisory approach continues to evolve and develop. As part of this we will be examining our risk appetite to see that it is clearly stated and well understood.
- Introducing changes suggested by peer reviews (for example in our approach to lower impact firms) and further integrating emerging risks, including cyber risk.

The regulatory agenda for 2016 is comprehensive and our work will continue to be undertaken through assertive, risk-based supervision underpinned by the credible threat of enforcement in the delivery of our mandate of 'Safeguarding Stability, Protecting Consumers'.

Interview with Cyril Roux, Deputy Governor – Financial Regulation

What are the financial regulation highlights of 2015?

The biggest highlight is, as always in financial regulation, the unsung one of no disorderly default of a high impact Irish provider. That being said, 2015 has seen varying fortunes for regulated financial firms in Ireland. While banks' underlying profitability is low, and that of domestic non-life insurers is negative, both sectors have improved the resilience of their balance sheets through capital increases and restructures, among other measures overseen by the Central Bank.

The Bank has continued to oversee the multi-year restructuring in the credit union sector, through both voluntary transfers and expedited transfers which were required by the Bank, to protect members' savings.

We have also brought about in 2015 the most extensive redress scheme in Irish financial services for clients of Permanent TSB in relation to tracker mortgage options and rates.

Many large-scale bodies of work have come to a conclusion or achieved important milestones in 2015.

The Bank has brought, as an institution, and through the testimony of a number of its officials and staff, very substantial material to the Joint Committee of Inquiry into the Banking Crisis. In so doing, the Bank has sought to satisfy fully the democratic oversight of its regulatory function exercised over it by the Oireachtas.

The financial regulation area of the Bank has also been a strong contributor to the analysis, policy design, implementation and monitoring of the macro-prudential measures adopted by the Bank in 2015 for the first time: the well publicised proportional mortgage caps, and at the end of 2015 the determination of the counter cyclical buffer, and the other buffers applying to our largest banks. In doing so, we have used as our compass the mandate of the Bank to protect consumers and preserve financial stability.

A multi-year investigation into INBS, which has been by far the most complex and wide ranging enforcement case ever undertaken by the Bank, has reached in 2015 two important milestones: a settlement with the firm, and the launch of an inquiry into a number of interested persons. Subsequent judicial measures will mark 2016 and possibly beyond.

What were the biggest challenges to the Bank in delivering its mandate in 2015?

One of the most significant challenges relates to the fact that the Bank has a very broad mandate and operates within an extensive system of interlocking European financial regulation authorities. For example, the functioning of the SSM is based on the co-operation between the 19 national competent authorities, including the Central Bank of Ireland, and the ECB, while the supervision of most insurance companies established in Ireland is conducted within European supervisory colleges where some decision-making is shared with the group supervisor and EIOPA as per Solvency II.

The Irish financial services sector has an international scale which requires a wide range of regulatory and supervisory work to be undertaken. This requires us to be able to recruit and retain staff with sufficient skill, expertise and length of experience. Unfortunately, high turnover in certain divisions of the Bank hamper our ability to fulfill our mandate, despite the dedication and commitment to the public interest of our staff. The Bank competes for talent and resources with the broader market for professional expertise in finance and regulation.

What new supervisory responsibilities have been added to the Central Bank's remit in 2015?

In accordance with the powers granted to it recently[1] the Bank now supervises credit servicing firms. The Bank has consulted on and issued final Authorisation and Supervision standards for credit servicing firms. The Irish Collective Asset-Management Vehicles Act, 2015 was signed into law on 4 March 2015 and the Bank authorised the first ICAV on 30 March 2015. The ICAV Act provides an additional legal structure for Irish authorised investment funds, both UCITS and AIFs.

The Bank authorised the first branch of a non-EU bank on 18 December 2015. On 5 November 2015, the first e-money institution was authorised. We also authorised the largest health insurer in Ireland during the year.

For all these new firms or kinds of firms added to the remit of the Bank, we have designed supervisory engagement models and have deployed ongoing supervisory resources.

Why has the Bank introduced changes to the way that it carries out inspections in the institutions it is responsible for regulating?

As part of its preparation for the implementation of the SSM, one of the decisions taken by the Bank was to establish separate, dedicated supervision, analysis and on-site inspection divisions. As a result the Bank has put in place resources to conduct intrusive inspections evaluating credit, operational, and other risks of banks, adhering to the SSM Supervisory Manual. This work is proving extremely beneficial although challenging for both our teams and the institutions themselves.

The Bank has now created a dedicated inspection unit in the Insurance Directorate, building on the work done in banking supervision.

A lot of thematic reviews and inspections were undertaken in 2015, what are the benefits of this type of work?

Thematic reviews and inspections form an important part of the work of the Bank. Based on our risk assessment and review of environmental risk factors, we are able to target specific areas that require further examination. Thematic work allows us to benchmark our findings across institutions. During 2015 a range of thematic work

1 Part V of the Central Bank Act, 1997 which was amended by the Consumer Protection (Regulation of Credit Servicing) Act, 2015.

was completed in the insurance, markets and consumer protection directorates, the outcomes of which have been communicated to the industry.

At the start of 2015 the Bank introduced the new mortgage lending limits, what has been the impact of these from a regulatory perspective?

It is important that the lessons of the crisis are not forgotten. Risky lending has brought both banks and swathes of Irish borrowers into protracted financial difficulties. The Bank introduced the mortgage lending limits at the start of 2015, the purpose of which was to protect borrowers by reducing the likelihood of them going into arrears and negative equity, to improve the resilience of the banking sector to the property market, and to reduce the risk of bank credit and house price spirals developing. Given the pipeline of approvals, the rules only started to take effect from mid-2015 and the Bank will conduct a review of them in the second half of 2016. Data is being collected in relation to the application and effect of these rules. When this data is analysed the Bank will decide to affirm or to vary their calibration.

What is the role of the Bank following the implementation of the Bank Recovery and Resolution Directive (BRRD)?

The Bank became the National Resolution Authority (NRA) for BRRD on 15 July 2015. The BRRD provides a toolkit for resolving banks, such as the bailing in of unsecured liabilities instead of the bailing out of the banks by taxpayers. As the NRA, the Bank is already working with the banks to develop resolution plans in line with the BRRD requirements, while the banking supervision teams oversee the design of recovery plans. Since January this year the resolution decisions for Eurozone banks will be made by the Single Resolution Board (SRB) at which the bank is represented.

Chapter 1: Overview of Financial Regulation in the Central Bank

1.1 Legal Framework and Statutory Objectives

The Central Bank of Ireland (the Bank) was established by the Central Bank Act, 1942 (the Act). The functions of the Bank are set out in the Act with the primary objective of the Bank being that of price stability. The other statutory objectives of the Bank which relate to the regulation of the financial services sector include:

- Stability of the financial system;
- Proper and effective regulation of financial institutions and markets, while ensuring that the best interests of consumers of financial services are protected; and
- Resolution of financial difficulties in credit institutions.

1.2 The Central Bank Commission

The Act provides that the activities and affairs of the Bank (other than the functions of the European System of Central Banks (ESCB) are managed and controlled by the Central Bank Commission. The Central Bank Commission has the following statutory functions:

- Management and control of the affairs and activities of the Bank;
- Ensuring that the Bank's financial regulation and central banking functions are coordinated and integrated; and
- Ensuring that the statutory powers and functions conferred on the Bank are properly exercised and discharged.

The Commission has adopted its own terms of reference which sets out how it can best deliver on those responsibilities.

1.3 Delegation of Powers and Functions

The Act provides that any of the statutory functions may be delegated by the Commission to the Governor, a Deputy Governor or an employee of the Bank.

1.4 Members of the Commission

The Governor is the Chairman of the Commission. The other ex-officio members comprise the Deputy Governor (Central Banking), the Deputy Governor (Financial Regulation) and the Secretary General of the Department of Finance. The Minister for Finance appoints at least six, but no more than eight, other members of the Commission who typically hold office for a term of five years. Ex-officio members of the Commission remain members for as long they hold the office in question.

1.4.1 Governor

Philip R. Lane is the 11th Governor of the Bank, taking office on 26 November 2015. The Governor is appointed by the President, on the advice of the Government, for a term of seven years which may be extended by a further seven years. The Governor is an ex-officio member of the Governing Council of the European Central Bank (the ECB). The Governor, or a substitute, must attend all meetings of the Governing Council. His roles and responsibilities are set out by the European Union (EU) Treaties, the ESCB Statute and the Act.

The Governor discharges his ESCB functions independently of the Commission and has sole responsibility for the performance of the functions imposed on him and the exercise of powers conferred on the Bank, by or under the EU Treaties or the ESCB Statute. The independence of his role is enshrined in the EU Treaties and takes precedence over Irish law.

1.4.2 Deputy Governor (Financial Regulation)

Cyril Roux was appointed as Deputy Governor (Financial Regulation) of the Bank on 1 October 2013. He is an ex-officio member of the Central Bank Commission. As Deputy Governor (Financial Regulation) he is responsible for all regulatory activities in the Central Bank including proper and effective regulation of financial institutions, markets and the protection of consumers of financial services. Details of the directorate structure in Financial Regulation are set out in Chapter 3.

Cyril Roux is a member of the Supervisory Board of the Single Supervisory Mechanism (SSM) and of the General Board of the European Systemic Risk Board (ESRB). He is a member of both the Management Board and the Board of Supervisors of the European Securities and Markets Authority (ESMA), as well as being a member of the Board of Supervisors of the European Banking Authority (EBA).

1.5 Internal Governance Structures

While the Commission has overall responsibility for the management and control of the Bank, there are a number of internal committees with responsibility to coordinate the development and implementation of policies and to advise and inform on major issues.

The internal governance model includes the following committees which are chaired by the Governor:

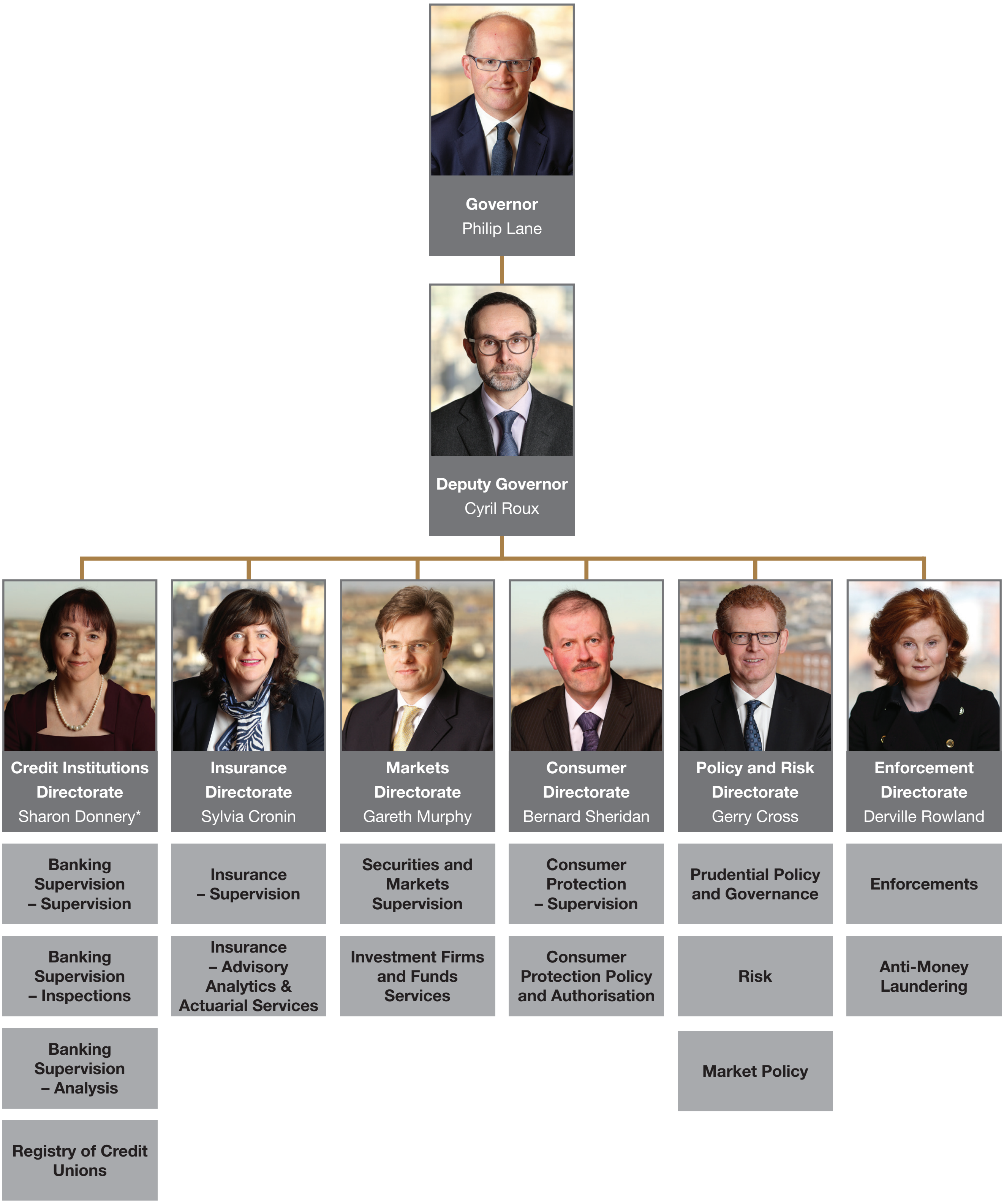
- The **Governor's Committee** oversees the preparation for Commission meetings and follow-up actions, approves senior appointments and considers other significant strategic issues.
- The **Senior Leadership Committee** ensures alignment of all activities and the successful execution of the Bank's strategy through the development and review of the organisational Balanced Scorecard. The Committee ensures the structures and activities across the Bank are aligned and coordinated, and focuses on delivering strategic outcomes agreed by the Commission.
- The **Financial Stability Committee** is responsible for monitoring and assessing domestic and international economic and financial developments and for highlighting potential areas of concern in the Irish financial system. The committee's focus is, in particular, on risk mitigation strategies and the consideration, implementation and review of micro and/or macro-prudential policy instruments. The role of this committee is both to advise the Governor, and to discuss with and inform key internal management on financial stability issues.

Other high-level committees which relate to Financial Regulation include:

- The Supervisory Committee, chaired by Deputy Governor (Financial Regulation), advises him and relevant supervisory directorates and divisions on issues central to the management of supervisory risks and also on the development and enhancement of risk-based supervision and supervisory engagement, including PRISM matters.
- The Policy Committee, chaired by Deputy Governor (Financial Regulation), advises him on regulatory policy issues and initiatives including consultation papers, feedback statements, codes, guidelines, and regulations before their adoption by the Deputy Governor or by the Commission, in accordance with relevant delegations.

1.6 Organisation Chart – Financial Regulation

Responsibility for supervision and regulation of financial service providers is allocated over six directorates within the Bank which report† directly to Deputy Governor (Financial Regulation). The chart below shows the Divisions within each directorate. An overview of the remit of each directorate is set out in Chapter 3.



† A full organisation chart for the Bank is contained in the 2015 Annual Report.

* Sharon Donnery was Director of the Credit Institutions Directorate until 1 March 2016 when she became Deputy Governor (Central Banking). Ed Sibley was subsequently appointed as Director of Credit Institutions.

Chapter 2: The Bank's Key Financial Regulation Outcomes for 2015

The Bank continued to build on the work conducted in previous years to restore stability and confidence to the financial system, to ensure that the needs and interests of consumers are protected and to complete the regulatory framework.

This chapter sets out five key financial regulation outcomes of the Bank in 2015. These outcomes were pursued in the delivery of the goals of the Bank as set out in the Strategic Plan 2013-2015. They were achieved through the completion of many actions by Bank staff across the regulatory directorates and supported by staff within the central banking and operations pillars, which include the legal and regulatory transactions divisions of the Bank.

Chapter 3 contains further details of these and other outcomes.

2.1 The protection of the customers' interests

KEY OUTCOME 1

The Bank protected the interests of the clients of Irish-regulated financial service providers.

Clients of firms prudentially regulated by the Bank, including depositors in Irish banks, credit union members, clients of investment firms, and policyholders of Irish insurers, were protected by the actions of the Bank from financial loss stemming from failure of their providers. The Bank does not operate a 'no failure' regime; however, in 2015, no failure of an Irish provider leading to consumer loss was recorded.

Key actions undertaken to achieve this outcome

- 34 bank inspections, with an average duration of eight weeks each, were completed in Irish banks covering capital, governance and business model analysis and risk areas such as credit, liquidity, operational and IT risk. Detailed remediation plans were issued to address the findings.
- A total of 135 on-site credit union engagements were completed which resulted in a strengthening of governance, risk management and provisioning with particular focus on low impact credit unions. These engagements resulted in risk mitigation programmes being issued to 126 credit unions resulting in hundreds of required actions by supervisors.
- A wide range of supervisory engagements were completed in insurance companies including, 43 full risk assessments and financial risk reviews. A number of thematic reviews were also conducted covering topics including pricing and bodily injury claims in non-life companies and unit linked governance of cross border life companies. These engagements resulted in insurance companies being required to strengthen their technical provisions, governance and risk management functions and related processes.
- A number of inspections and thematic reviews were undertaken in investment firms, fund service providers and stockbrokers.

Where we have seen financial detriment amenable to redress or compensation, the Bank has undertaken to address it.

Key actions undertaken to achieve this outcome

- A review of Permanent TSB plc. (PTSB), and its subsidiary, Springboard Mortgages Limited, commenced during 2014, uncovered the firms' failures associated with tracker mortgage options and rates. A Mortgage Redress Programme was developed and implemented for the 1,372 mortgage accounts holders within its scope. The Programme was rolled out by PTSB on 28 July 2015 and the Bank is closely monitoring its completion.
- Thematic inspections were completed in the Consumer Protection area to ensure firms are complying with relevant requirements. They included a review of compliance by lenders with key consumer protections in the Code of Conduct on Mortgage Arrears, an examination into the sale of Contracts for Difference, an examination into the sale of pension annuities, a review of the sale of pensions by retail intermediaries and the review of the financial position and levels of Professional Indemnity Insurance held by retail intermediaries. The results of this work have been set out in detail in section 3.4.
- Thematic reviews were conducted on the treatment of pricing errors for the calculation of Net Asset Value in investment funds; on securities lending for investment funds; on governance and controls for MiFID firms trading on their own account; on selected MiFID conduct of business requirements and on the ongoing application of risk management processes employed by the Undertakings for Collective Investment in Transferable Securities. Two other thematic reviews which received significant media attention related to Cyber Security and Operational Risk. The results of the reviews were communicated to industry and received supervisory attention.

2.2 The strengthening of the finances of regulated firms

KEY OUTCOME 2

The Bank oversaw the strengthening of the capital structure of Irish banks and insurance companies in addition to the restructuring of credit unions.

Better capitalised firms are more resilient to adverse events and less susceptible to failure, reducing the likelihood of financial detriment to their consumers.

Key actions undertaken to achieve this outcome

As a result of the supervisory actions of the Bank within the SSM Framework, Irish banks undertook actions such as raising capital in the market and restructuring their capital bases.

- The aggregate transitional total capital ratio of the banks active in the Irish retail sector improved in the year to September 2015 from 17.3% to 20.3%. Transitional Common Equity Tier 1 (CET1) capital increased by €3.0bn, transitional total capital increased by €3.3bn, while transitional tier 1 capital rose by €3.9bn. These changes were as a result of capital restructuring and new issuance by banks to enhance their capital position, increased profitability and a reduction in risk weighted assets year on year.

The pace of restructuring in the credit union sector increased during 2015, ensuring the protection of members' savings and the stability of the sector.

- The increased pace of restructuring saw the number of registered credit unions reduce from 383 at the end of December 2014 to 354 at the end of December 2015. In 2015, the Registry of Credit Unions worked closely with the Credit Union Restructuring Board and individual credit unions on voluntary restructuring proposals. The Registry also engaged with credit unions and their representative bodies to resolve a number of unviable credit unions that could not demonstrate their ability to adequately safeguard their members' funds. These credit unions were restructured through the transfer of engagements process and were supported by private sector funds where necessary, which resulted in savings of taxpayers' funds. This was done with minimal disruption to credit union services, no loss of funds to any member and through solutions within the credit union sector itself.

Targeted engagements and thematic reviews were undertaken in non-life companies, resulting in firms taking action to strengthen their solvency position as requested by the Bank.

- The domestic non-life claims environment has been marked by increasing claims payouts, stemming in part from court awards inflation, the introduction of Periodic Payment Orders and an increase in claims frequency. This, in tandem with a low interest rate environment, has resulted in widespread losses and an erosion of the solvency position of the sector. The resulting Bank's supervisory requirements, combined with the pending entry into application of Solvency II, resulted in firms raising capital, issuing subordinated debt, increasing reserve protection, and upgrading underwriting discipline among other actions to strengthen their balance sheet.

2.3 Holding regulated firms and individuals to account

KEY OUTCOME 3

The Bank has held regulated firms and individuals to account through the effective use of its Enforcement tools.

Key actions undertaken to achieve this outcome

Using its Enforcement Powers, the Bank concluded nine Administrative Sanctions Procedures (ASP) resulting in fines of over €7.3m with all settlements being published on the Bank's website.

- The Bank entered into a Settlement Agreement with Irish Nationwide Building Society (INBS) relating to multiple breaches of requirements, including persistent failure by the firm to comply with its internal policies and procedures on commercial lending and credit risk management processes.
- The Bank imposed a fine of €1,750,000 on Western Union Payment Services Ireland Limited in respect of Anti-Money Laundering and Countering the Financing of Terrorism failures by the firm.

On two occasions the Bank used its powers to refer cases to Inquiry.

- Two cases were referred to Inquiry under Part IIIC of the Central Bank Act, 1942 (as amended) related to individuals concerned in the management of regulated entities.

A settlement agreement was entered into with an individual which resulted in the individual being disqualified.

- A settlement agreement between the Bank and Mr. Tadhg Gunnell former general partner of Bloxham Stockbrokers was reached in May 2015. The Bank disqualified Mr. Gunnell from being a person concerned in the management of a regulated financial service provider for a period of 10 years.

The first settlement agreement, since the Administrative Sanctions Procedures became fully applicable to credit unions on 1 August 2013,[2] was reached with a credit union and a member of its management in 2015 in relation to the failure to submit regulatory returns to the Bank.

- The Bank imposed a fine of €5,000 on the Irish Taxi Owners' Co-Op Credit Union Limited, in respect of the failure to submit regulatory returns. It also entered into a Settlement Agreement with a person concerned in the management of the credit union, in respect of his participation in breaches by the credit union.

A Prohibition Notice and a Suspension Notice were issued to individuals in controlled functions for failure to meet the minimum standards of fitness and probity.

During 2015, **the Bank revoked/refused, on an involuntary basis, a total of 18 authorisations/applications** for authorisation held by regulated financial service providers. The Bank also refused to give its approval to proposed acquiring transactions in three cases.

2 Prior to this date, the Administrative Sanctions Procedures only applied to credit unions in relation to prescribed contraventions of Anti-Money Laundering and Payment Services legislation.

2.4 Enhanced regulations protecting customers and investors

KEY OUTCOME

4

European and domestic regulations were enhanced to protect consumers and investors and strengthen regulated firms.

A number of significant enhancements and new regulations were introduced which ensure increased protection for clients of financial services and products.

Key actions undertaken to achieve this outcome

- On 1 January 2016 Ireland implemented Solvency II – the new regulatory regime for insurance undertakings. The regime introduced a 'whole balance sheet approach' to capital calculation for insurers, combined with a strong emphasis on risk management and supervisory review. More robust risk management and governance requirements means consumers are better protected.
- Following extensive consultation with sector stakeholders during 2015, the new Credit Union Regulations became effective on 1 January 2016. The Regulations cover a number of areas including reserves, lending, liquidity, investments, savings and borrowings and aim to enhance the protection of members' savings. These regulations build on existing prudential and governance requirements in the above areas and include the establishment of categories of loans which a credit union may make and related concentration limits, the introduction of a maximum individual members' savings limit of €100,000 and counterparty and maturity limits for investments by credit unions.
- The publication of the Central Bank UCITS Regulations, which the Bank imposes on UCITS, UCITS management companies and depositaries of UCITS, will assist investment fund providers by bringing additional clarity and certainty to the rules applied by the Bank. It is the first time that investment fund rules have been issued in the form of Central Bank regulations. All Bank rules in the area are written to ensure good outcomes for investors in the way UCITS are managed.
- The Central Bank Client Asset Regulations update existing requirements for the safeguarding of client assets held by investment firms. The Central Bank Investor Money Regulations introduced for the first time rules for the safeguarding of monies invested in investment funds and held in collection accounts maintained by Fund Service Providers. The development and implementation of these regulations follow a lengthy period of consultation with investment firms and funds service providers. In the event of insolvency of an Investment Firm or Fund Service Provider, these regulations will facilitate the efficient and cost effective return of those client assets or investor money.
- New Regulations for regulated firms lending to small and medium-sized enterprises (SMEs) were published in December 2015, aimed at providing enhanced protections for SME borrowers, while also facilitating access to credit. The Regulations introduce specific requirements that lenders must comply with, including transparency in the application process and decisions on declining credit applications, greater protections for guarantors, requirements around arrears and expanding the grounds for appeal, including the setting up of an internal appeals panel.
- Part V of the Central Bank Act, 1997 (the 1997 Act) was amended by the Consumer Protection (Regulation of Credit Servicing) Act, 2015 (the 2015 Act) to provide for a regulatory regime in respect of Credit Servicing Firms, bringing such firms within the Bank's regulatory remit. Credit Servicing Firms are typically firms that manage or administer credit agreements such as mortgages or other loans on behalf of unregulated entities. This legislative amendment ensures that relevant borrowers whose loans are sold to unregulated third parties maintain the regulatory protections they had prior to the sale, including the protections provided by the Bank's statutory codes of conduct. Under the 2015 Act a person who meets the definition of a credit servicing firm is required to obtain authorisation from the Bank in order to provide these services.
- The Bank's contribution to the work of the European Supervisory Authorities in areas such as remuneration, liquidity, capital and securitisation in banking; the development of comprehensive guidance on implementation of Solvency II; and technical standards on the Market Abuse Regulation, the Central Securities Depositories Regulation and mandatory clearing through central counterparties of credit default swaps and interest rate swaps, has helped achieve high quality regulation which reflects the Irish perspective and contributes to the enhancement of the domestic regulatory framework.

2.5 The authorisation of new firms

KEY OUTCOME 5

The Bank extended its authorisation regime to new firm types and new business models and as a result is regulating an increasing number of firm types.

The Bank granted authorisation to VHI Insurance Designated Activity Company (DAC) as a non-life insurance company.

- In June 2015 the Bank granted authorisation to VHI Insurance DAC as a non-life insurance company and to VHI Healthcare Ltd as an insurance intermediary. VHI previously availed of a derogation from European directives and was not under the supervision of the Bank until its authorisation. The authorisation process constituted a major project for the Bank and required extensive analysis.

The Bank authorised the first branch of a non-EU bank under new powers granted to it in 2013.

- On 18 December 2015, the Bank authorised Credit Suisse (Irish branch). This 'third country branch' authorisation is the first such authorisation granted by the Bank under Section 9A of the 1971 Act. The authorisation process also required extensive analysis and was a major project for the Bank across a number of its divisions.

Further to the signing of the Irish Collective Asset-Management Vehicles (ICAV) Act, 2015, the Bank authorised the first ICAV on 30 March 2015.

- The Irish Collective Asset-Management Vehicles (ICAV) Act, 2015 was signed into law on 4 March 2015. It provides an additional legal structure for Irish authorised investment funds, both UCITS and Alternative Investment Funds (AIFs). In 2015 a total of 79 ICAVs (214 including sub-funds) were authorised by the Bank with a current net asset value of over €4bn.

During the year, the Bank authorised the first E-Money institution in Ireland and 1 Payment Institution was authorised.

- On 5 November 2015, the Bank authorised the first e-money institution in the State under the European Communities (Electronic Money) Regulations 2011. On 4 June 2015, a new payment institution was authorised under the European Communities (Payment Services) Regulations 2009, bringing the total number of payment institutions authorised in the State to 12 at end-December 2015.
- On 16 October 2015, the Bank introduced an updated application process for Payment Institutions and Electronic Money Institutions aimed at ensuring a clear, straightforward and facilitative process for applicant firms seeking authorisation in Ireland, while continuing to meet its obligation to operate a rigorous and effective gatekeeper function.

Chapter 3: Directorate Overview and Outcomes

Sharon Donnery
Director of Credit Institutions

3.1 Credit Institutions Directorate[3]

Objectives

The Bank's prudential supervision objectives are to protect banks' depositors and financial stability by demanding of Irish credit institutions that they:

- have sustainable, capital generating business models over the economic cycle;
- are governed and controlled appropriately, with clear and embedded risk appetites, which drive an appropriate culture within them;
- have sufficient financial resources (considering both capital and liquidity needs); and
- are resolvable in the event of a failure without recourse to the Irish taxpayer.

2015 Key Outcomes

Implementation of the New Banking Supervision Structure and SSM transition

As part of the Single Supervisory Mechanism (SSM), which is a system of prudential supervision of credit institutions, comprising the European Central Bank (ECB) and the national competent authorities of participating EU countries, it is the responsibility of Banking Supervision to contribute to ensuring the safety and soundness of the euro area banking system and to increase financial integration and stability in Europe. For Significant Institutions (SIs), consisting of the larger institutions operating in Ireland, a Joint Supervisory Team (JST) led by the ECB, and consisting of both ECB and Bank supervisors directly supervises these firms. Other credit institutions operating in Ireland are designated as Less Significant Institutions (LSI) and continue to be supervised by the

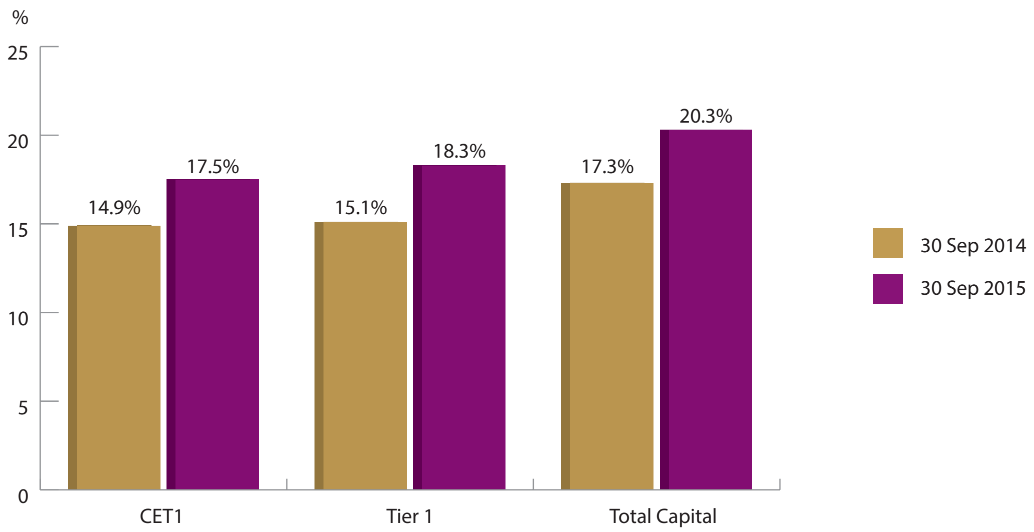
3 Sharon Donnery was Director of Credit Institutions Directorate until 1 March 2016 when she became Deputy Governor of the Central Bank.

Bank with oversight from the SSM and in accordance with the SSM methodology.[4] JST and LSI Supervision teams in the Supervision Division (BSSD) are supported in their work by the Inspections Divisions (BSID) and the Analysis Division (BSAD) who perform on-site inspections and analysis that support the overall objective of having a safe and sound banking system. These Divisions also contribute to the Bank's financial stability role. In 2015, BSSD completed the move to supervision of SIs as part of the ECB led JST structure; while the LSI teams transitioned to supervision in accordance with the SSM Manual. BSID commenced inspections from January 2015 with new teams, such as the IT risk and Business Model Analysis teams commencing on-site work in April 2015. BSAD is delivering specialist support to bank supervisors and banking supervision generally across a range of activities that includes analytics, regulatory reporting, crisis management, policy implementation and authorisation of branches of non EU banks. Bank staff received training from the ECB on the SSM methodology and subsequently provided this training locally to both existing staff and new recruits. Each of the Banking Supervision Divisions actively engages with the SSM in carrying out their respective remits, including active participation in a number of SSM High Level Groups, Task Forces, Networks and Working Groups, contributing to the ongoing development of both the SSM Manual and influencing regulatory initiatives.

Increased Capital Ratios

The aggregate transitional total capital ratio of the banks active in the Irish retail sector improved in the year to September 2015 from 17.3% to 20.3%. Transitional Common Equity Tier 1 (CET1) capital increased by €3.0bn, transitional total capital increased by €3.3bn, while transitional tier 1 capital rose by €3.9bn. These changes were as a result of capital restructuring and new issuance by banks to enhance their capital position, increased profitability and a reduction in risk weighted assets year on year. Overall, this led to an increase in domestic banks aggregate capital ratios (from 14.9% to 17.5% for CET1, 15.1% to 18.3% for tier 1 capital, and 17.3% to 20.3% for total capital).

Chart 3.1: Transitional Capital Ratios – Domestically Focused Banks – Sept 2014 and Sept 2015



Source: Regulatory returns

4 The ECB has responsibility for authorisations, revocations, acquiring transactions, and passporting applications. The Bank is responsible for the authorisation of Third Country Branches.

Supervisory Review and Evaluation Process (SREP)

The SREP includes analysis and challenge of the banks' Internal Capital Adequacy Assessment Process (ICAAP) and is conducted annually following the SSM Methodology for the SI banks. This methodology is based on four main elements – Business Model Assessment; Governance and Risk Management Assessment; Assessment of Risks to Capital; and Assessment of Risks to Liquidity. The assessment is forward-looking, grounded in strong quantitative analysis and combined risk and judgement based assessments. A holistic view is taken considering all elements, as opposed to the outcome being based on a simple sum of the assessment scores.

The SREP also includes an assessment of both qualitative and quantitative elements including Pillar II techniques for addressing risks not fully captured within the Pillar I methodology; and banks' forward-looking analysis of their capital adequacy, including a review of the banks' own stress test methodologies. The analysis of both the Pillar II models and the Stress Test elements incorporated SSM benchmarks and Bank quantitative analysis. The SREP process required engagement with a range of stakeholders to ensure that the SREP analysis was conducted within compressed SSM timeframes in 2015.

Case Study 1: On-site Inspections

On-site inspections of the banks' operations under the SSM methodology are more intensive than heretofore and consequently are of a significantly longer duration.

During 2015, the following objectives were achieved:

- 34 on-site inspections were conducted, with 32 of these inspections being led by local Heads of Mission and the remaining two being led by a Head of Mission from within the wider SSM;
- A Risk Control and Testing Framework was developed for the completion of on-site engagements, based on the SSM Manual;
- The appropriate structures, systems and governance were put in place to facilitate the effective execution of inspections;
- Appropriate training was identified and provided to all staff on the execution of on-site inspections; and
- 7 dedicated inspection teams focused on discrete risk areas were established including the creation of new teams to inspect IT risk and to conduct detailed business model analysis.

The purpose of inspections through the performance of in-depth inspections is to assess:

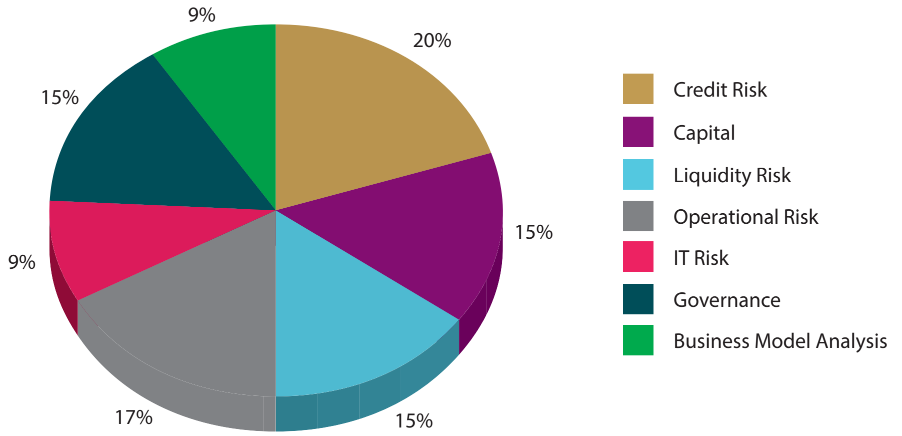
- The level, nature and features of the inherent risks taking into account the risk culture;
- The appropriateness and quality of banks' corporate governance and internal control framework;
- The control systems and risk management processes, focusing on detecting weaknesses or vulnerabilities;
- The quality of balance sheet items and the financial situation of the credit institution; and
- Compliance with banking regulation.

Inspections carried out on both SIs and LSIs covered all risk areas as set out in the chart below.

Case Study 1: On-site Inspections

The inspection process is fully transparent with credit institutions receiving a copy of the pre-draft report for factual accuracy challenge only and final reports (excluding the ranking of findings) being issued as part of the remediation plan to address the issues identified. The outcome of these inspections is that reports were issued on each that contained findings which were ranked in accordance with the SSM Methodology, and the ranking was used by supervisors in developing the remediation plans which are issued to the relevant credit institutions. This work led to improved governance, internal controls and risk management in credit institutions inspected in addition to increased provisioning and enhancements to IT infrastructure in certain cases.

Chart 3.2: 2015 On-Site Inspections by Risk Area



Adoption of Macro-Prudential Measures

Working closely with financial stability and other colleagues, banking supervision played a significant role in the formulation of the macro-prudential measures relating to mortgage regulations which were implemented in Q1 2015. This included input to the formulation of the measures, drafting of the consultation paper, analysing various options and scenarios to test the robustness/feasibility of the proposed measures in terms of their impact on the market, banks and borrowers and drafting of the final regulations. Post implementation our role is to deal with enquiries regarding implementation and importantly monitoring and assessing the mid-year returns.

Reduction of Non-Performing Loans (NPL)

An extensive review, driven by the Bank, with support from the SSM, of both the NPLs strategies and impairment provisions at the retail banks was undertaken during 2015, with specialist input from the analytical teams. The Bank (in conjunction with the SSM) issued the retail SIs with requirements relating to their Distressed Credit Strategy (DCS) and their Impairment Provisioning (IPR). The DCS work identified actions regarding NPL resolution while the IPR looked at recommended actions on collective provisioning models for the Republic of Ireland (RoI) mortgage portfolios. Letters were sent to the CEOs of each of the retail banks in early November setting out regulatory expectations regarding provision coverage ratios; concluded solutions; NPL reduction; and granular Risk Mitigation Programmes (RMPs) on RoI collective provisioning models which detail issues, outcomes sought and required actions. Specific targets were set and communicated to banks during 2015 to conclude sustainable solutions for at least 80% of distressed mortgage borrowers by the end of Q1 2016. Enhanced mortgage monitoring requirements were introduced, including revised aggregate templates and additional loan level data information. Importantly in the interest of maintaining an appropriately conservative approach to provisioning, banks were guided to maintaining provision coverage ratios on RoI mortgage portfolios at December 2014 levels until such time as RMPs arising from the IPR had been addressed. The findings from credit inspections completed were released to the relevant supervisory teams who will develop remediation plans for the banks inspected. In addition, the Director of Credit Institutions was Chair of the SSM High Level Group on Non-Performing Loans (NPLs) which is examining approaches to the consistent supervision of banks with high levels of NPLs.

Auditor Assurance

The Central Bank (Supervision and Enforcement) Act, 2013 amended the Central Bank Act, 1997 by inserting an auditor assurance (AA) provision.[5] This section enables the Bank to require the external auditor of a specified regulated financial service provider to conduct an examination of the obligations imposed by certain provisions of financial services legislation identified by the Bank. The Bank, for the first time in 2014, commissioned the external auditors of high impact credit institutions to conduct an AA exercise on internal governance, new lending and cyber security during 2015. The findings contained in the reports issued by the external auditors are now being addressed by the institutions and these are subject to oversight by the supervision teams.

Third Country Branch Authorisation

Following a comprehensive assessment process and in consultation with its home supervisor the Bank authorised a Swiss bank to establish a branch in Ireland, subject to the imposition of a comprehensive suite of conditions. This is the first branch to be authorised under Section 9A of the Central Bank Act, 1971 (as amended). Branches do not have capital or a Board of Directors. Accordingly, the Bank is limited in its ability to supervise such entities.

Registry of Credit Unions

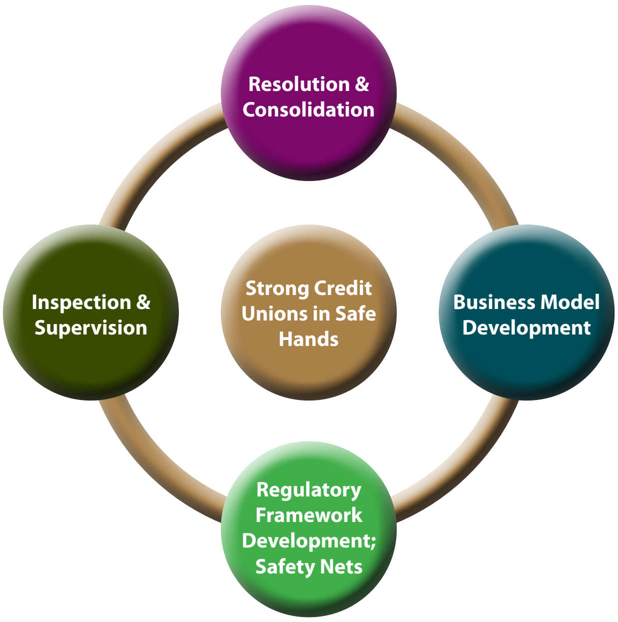
Objectives

The statutory function of the Registry of Credit Unions (RCU) is to ensure the protection of members' funds by credit unions and the maintenance of the financial stability and well-being of credit unions generally. The RCU vision for the credit union sector is 'Strong Credit Unions in Safe Hands' – financially and operationally sound, well governed credit unions, able to serve members now and in the future through effective regulation, supervision and credible threat of enforcement.

Credit Union Regulatory Framework

Bring about **further restructuring** and resolve credit unions at risk while protecting members' funds. Use supervisory engagement model to spur voluntary mergers (through focus on viability and on strengthening transferees). Review post-merger credit unions to keep a focus on tackling business model challenges.

Enhanced Supervisory engagement to raise standards towards that expected of entities managing depositors' funds. Prioritise engagements by Risk as well as Impact, use viability model to profile.



Facilitate prudent **strategic business model development** so sector has ability to grow without unduly undermining resilience.

Develop and embed **appropriate regulatory framework**, to protect stability of individual entities & members' funds.

5 Section 27BA of the 1997 Act.

2015 Key Outcomes

Issuance of Credit Union Regulations

The Commission on Credit Unions made a number of recommendations regarding the strengthening of the regulatory framework for credit unions. The recommendations included more effective governance and regulatory requirements and the provision of regulation making powers to the Central Bank, the majority of which were reflected in the Credit Union and Cooperation with Overseas Regulators Act, 2012 (the 2012 Act).

Following a detailed consultation process in 2015, a comprehensive suite of prudential regulations were introduced for credit unions from 1 January 2016. The regulations cover a number of areas including reserves, liquidity, lending, investments, savings and borrowings.

These regulations build on existing prudential and governance requirements in the above areas and include the establishment of categories of loans which a credit union may make and related concentration limits, the introduction of a maximum individual members' savings limit of €100,000 and counterparty and maturity limits for investments by credit unions.

The regulations introduced a cap on members' funds of €100,000 (with certain exceptions). This is an important step in mitigating risk by limiting potential loss of member funds arising from any failure of an individual credit union. It is particularly relevant in the current phase of restructuring and financial weaknesses in many credit unions.

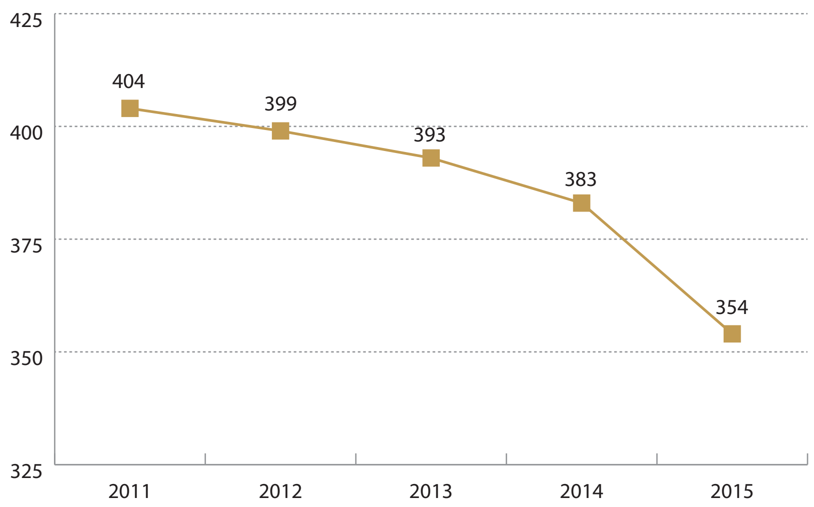
The commencement of these regulations marks another important step in the development of a strengthened regulatory framework for credit unions. These regulations, combined with the commencement of the remaining sections of the 2012 Act and the prudential and governance requirements already in place, provide an appropriate regulatory framework for credit unions at this time and are proportional to the nature, scale and complexity of the Irish credit union sector.

The provision of regulation making powers to the Bank also provides flexibility so that in the future, the Bank can review and update the regulations following consultation as appropriate, taking sector development into account.

Restructuring of the Credit Union Sector

Restructuring of the credit union sector is necessary to address the viability and operational challenges that continue to face many credit unions. Most mergers provide an important starting point to address financial and operational weakness in credit unions and to provide a broader scope of product and services offerings to members. There was a significant increase in the pace of restructuring during 2015, there are now 354 registered credit unions, down from 383 at the end of 2014.

Chart 3.3: Trends in number of Registered Credit Unions



During 2015, RCU proactively engaged with ReBo and individual credit unions on restructuring proposals in order to ensure that each proposal takes account of our legal and regulatory requirements and policy on restructuring. In 2015, 33 projects involving 77 credit unions were completed. RCU also participated in the work of ReBo as a non-voting member of its Board, to oversee and facilitate restructuring of the sector.

In 2015, RCU also worked closely with credit unions and their representative bodies to resolve a number of credit unions that could not demonstrate their ability to adequately safeguard their members' funds. These unviable credit unions were restructured through the transfer process and were supported by private sector funds where necessary. Availing of private sector funds resulted in savings of taxpayers' funds (if resolved using the Bank's resolution powers, this could have given rise to the use of the Credit Institutions Resolution Fund). This was done with minimal disruption to credit union services, no loss of funds to any member and through solutions within the credit union sector itself.

Enforcement Action

The Administrative Sanctions Procedure (ASP) became fully applicable to the credit union sector on 1 August 2013. The Bank took an ASP case against a credit union and a member of its management in 2015 which resulted in the credit union being fined €5,000 and reprimanded for failing to:

- submit its Prudential Returns within the required timelines;
- have adequate systems and controls in place to ensure that the Prudential Returns were submitted within the required timelines; and
- ensure the accuracy of the information contained in certain of the Prudential Returns.

A member of management of the credit union was also reprimanded for failing to submit the prudential returns in time and ensure the accuracy of the information contained therein.

The provision of accurate and timely information is essential for the effective regulation and supervision of credit unions and for the protection of members' funds and safeguarding the financial stability of the sector. This case demonstrates that the Bank will take enforcement cases against credit unions, where deemed appropriate, to ensure the highest standards of compliance with regulatory reporting requirements across the sector.

Supervisory Engagement

During 2015, RCU implemented a Temporary Engagement Model (TEM). Under TEM, we shifted the priority focus of our risk assessment and onsite engagement programme for that year to low impact credit unions while also maintaining our engagement with those credit unions considered as potential lead transferees (consolidators) and those considered higher risk.

TEM primarily sought to increase our visibility of low impact credit unions and to enhance our understanding of the quality of their governance, risk management and compliance frameworks. Our engagement further sought to ensure, where viability challenges and business model constraints were evident, that Boards had prepared the necessary contingency arrangements to safeguard members' savings and ensure continuity of service to members in recognition of the time bound and incentivised remit of ReBo to facilitate credit unions in the context of restructuring and amalgamation. During 2015, we completed 135 on-site engagements (54% were in relation to Low Impact credit unions) and subsequently issued risk mitigation programs (RMPs) to 126 credit unions.

Overall, our supervisory engagement in 2015 has enhanced our understanding of the risk profile of smaller credit unions in the sector and has enabled us to prioritise those entities which are most vulnerable from a strategic business model and viability standpoint. Having highlighted our concerns to credit unions in this regard, we noted a marked increase in the numbers of credit unions engaging with ReBo. Many recognised the challenges in relation to medium and long-term financial resilience while also seeking to enhance member value and provide a broader service and product offering.

Fitness and Probity for Credit Unions

A Fitness and Probity regime for credit unions came into effect on 1 August 2013 and will be fully implemented by 1 August 2016. The regime was introduced on a phased basis with the first phase commencing on 1 August 2013 with the introduction of fitness and probity requirements for credit unions with total assets of greater than €10 million.

The second phase of the Fitness and Probity regime for credit unions commenced on 1 August 2015, which brought all remaining credit unions (i.e. credit unions with total assets of €10 million or less) within the scope of the regime. Additional fitness and probity requirements also applied from that date to credit unions who are also authorised as retail intermediaries for the part of the business that relates to being a retail intermediary.

In applying a Fitness and Probity regime to credit unions, the Bank's aim is to improve governance standards at board and management level within the credit union sector by ensuring that individuals who exercise significant influence and control in a credit union are capable, competent and financially sound individuals with the appropriate skills, experience, knowledge and integrity to manage and govern the credit union for the benefit of all stakeholders.

Sylvia Cronin
Director of Insurance Supervision

3.2 Insurance Supervision Directorate

Objectives

The Bank's prudential supervision objectives are to protect policyholders by demanding of Irish insurance undertakings that they:

- have sustainable capital generating business models over the economic cycle;
- are governed and controlled appropriately, with clear and embedded risk appetites, which drive an appropriate culture within them; and
- have sufficient financial resources to pay out claims in full when they fall due.

In 2015, the Bank focused on implementing the Solvency II directive, including reorganising its own Insurance Directorate, and requiring insurance undertakings to address their continued losses in domestic non-life lines of business.

2015 Key Outcomes

Implementation of the Solvency II Directive

On 1 January 2016 Ireland implemented the Solvency II regime. Solvency II is the most significant change in insurance regulation in over 40 years. The main objective of Solvency II regulation and supervision is the adequate protection of policyholders and beneficiaries. The Solvency II regime has a three pillar approach:

1. Quantitative requirements;
2. Governance Requirements and Supervisory Review Processes; and
3. Reporting and Disclosure.

Solvency II will lead to a more intensive engagement with regulated insurance undertakings. The Bank initiated a significant Solvency II implementation project which was sponsored by the Deputy Governor – Financial Regulation.

The implementation project consisted of ten major work-streams (see below) in addition to a number of smaller sub-projects. The project required significant cross-directorate effort between the Insurance Directorate and colleagues in Prudential Policy and Governance (PPG), Risk, Information Management and Technology Division (IMTD), Human Resources Directorate (HRD), Legal (LEG), Enforcement (ENF), the Press Office and the Internal Communications Team.

Chart 3.4: Solvency II Project Workstreams

The Bank's online reporting system (ONR) has been upgraded to receive the substantially increased volume and complexity of Pillar III reporting from insurance undertakings. The Bank is substantially upgrading its capabilities to analyse and interrogate this new data in the furtherance of its mandate to effectively supervise insurers.

The implementation of Solvency II was a strategic objective of the Bank in 2015 and the project successfully delivered all of its 2015 requirements and 1 January 2016 marked the commencement date for the new system of regulation. However, the Solvency II project has continued into 2016 in order to deliver the full Solvency II reporting solution, increased analytics capabilities, and to complete the training plan for insurance supervisors.

Internal Model Applications

The Bank received and approved eight formal internal model applications during 2015. Formal approval assessments involved detailed technical reviews of the suitability of the methods used and a quantitative analysis of the results as well as an assessment of the compliance with the use and governance requirements. The process concluded with a final decision that examines the model as a whole and feedback into supervisory strategy. These assessments identified areas of strength and weakness that were fed back to the respective companies and also allowed the Bank to observe best practices in these areas. In many cases this feedback included terms and conditions to improve or amend the model, and often significantly increased the capital requirement.

Delivery of an Appropriate Level of Supervisory Engagement

A wide range of supervisory reviews and engagements including Risk Governance Panels (RGPs), Full Risk Assessments (FRAs), Financial Risk Reviews (FRRs) and meetings with executive management and key personnel were completed. In total, over 1,400 PRISM Engagements occurred. A number of thematic reviews were conducted covering topics including bodily injury claims in non-life companies (See Case Study 2), unit linked governance of cross border life companies and pricing by non-life companies. On foot of these engagements, companies were required to strengthen the technical provisions, governance and risk management functions and related processes. Alongside our supervisory engagement with regulated undertakings there was also regular interaction with industry stakeholders e.g. scheduled meetings, participation in industry fora and speaking engagements at industry conferences. Effective communication with industry remains a key a priority for the Insurance Directorate and plays an important role in support of our wider supervisory agenda.

Case Study 2: Bodily Injury Claims Review

Background and Context

The Insurance Directorate carried out a review of bodily injury claims and reserving data during 2015. The main objective of the review was to assess the extent to which the insurance industry had measured and recognised these data trends up to the end of 2014 but it will also serve to inform and support the Bank's supervisory engagement.

The non-life insurance industry has been gradually recognising a growing claims charge reflecting upward trends in frequency and average cost of claims stemming from legislative and judicial changes and changing macroeconomic conditions. Bodily injury claims in the motor, employer liability and public liability lines of business comprise a significant majority of overall reserves. In normal circumstances it is a challenging exercise to calculate the ultimate cost associated with these claims, which can take a very long time to settle. This uncertainty has been further increased owing to recent developments such as court awards and other legislative changes, including the proposed introduction of Periodic Payment Orders (PPOs).

Key Findings

Increases in average cost per claim: Across all three classes we noted an increase in the average cost per claim from 2012 to 2014 (8% in private motor, 27% in employer liability and 8% in public liability).

Increases in private motor claims frequency: Private motor injury frequency has increased for all companies from 2013 to 2014 by between 4% and 12%.

Variability in average cost per claim across industry: We observed a significant level of variation in the average cost per claim across the industry. While one would expect some variation due to differences in underwriting criteria between the companies, the level of variation is significant and likely shows evidence of different levels of case estimate/reserving strength.

Case Study 2: Bodily Injury Claims Review

Variability in the average reserve per vehicle: For private motor we noted a significant variation in the average reserve per vehicle. The company with the lowest average reserve held half the reserve of the company with the highest reserve. We accept that individual company reserves will be influenced by different underwriting standards and reserving practice but nonetheless this level of variation is high and unlikely to be fully explained by differing risk profiles.

Slowdown in settlement rate: The settlement rate has slowed down in Motor and Employer Liability although this is not a uniform effect across companies. For those companies which have seen a slowdown, the level of settlement rate decreased by approximately 13% to 10% in motor and 5% to 2% in Employer Liability. This slowdown means that claims are staying on companies' books for longer periods, which can result in higher legal costs and potentially higher settlement costs.

Approach to Periodic Payment Orders (PPOs): The Civil Liability (Amendment) Draft Bill published in May 2015 contains provisions for the introduction of PPOs which may be awarded by the Courts to severely injured individuals requiring long term care. Across the market we noted some optimistic assumptions being made in relation to the estimated impact of PPOs on reserves including the definition of claims considered as eligible for PPOs and the likely take up rates.

Actions Taken

The findings from the review have been shared with industry through the publication of a market report. This report sets out the key findings at an industry level and the Bank's expectations with a view to:

- Driving a greater awareness of the potential financial impact of the current operating environment on companies' reserves and pricing approaches;
- Facilitating enhanced challenge by companies' Boards and Risk Committees by providing comparative data for key assumptions and instances of expert judgment; and thereby
- Promoting consistent and robust reserving processes across the industry.

Company-specific findings were communicated directly to the relevant company and have informed our ongoing engagement on matters such as reserve strength, pricing adequacy and claims operations.

Authorisation of the VHI

On 22 June 2015 the Bank granted authorisation to VHI Insurance DAC as a non-life insurance company. VHI Healthcare Ltd was also authorised as an insurance intermediary. The authorisation of VHI Insurance DAC constituted a major project within the Insurance Directorate and required an in-depth assessment of the application prior to its approval by the Bank.

Insurance Directorate Reorganisation

The Insurance Directorate was reorganised in 2015 to ensure that the Directorate was ready to implement the new regulatory regime, Solvency II. The Bank was also cognisant of recent peer reviews undertaken by the IMF and the European Insurance & Occupational Pensions Authority (EIOPA). The new structure comprises two separate divisions: i) Supervision and ii) Advisory, Analytics & Actuarial Services.

Within Supervision the changes introduce a clearer focus on the different sectors of the insurance market and the revision to our supervisory approach is supported by a new PRISM engagement model aligned to Solvency II requirements. Within Advisory, Analytics & Actuarial Services the reorganisation serves to enhance the Insurance Directorate's analytical skillset with newly created teams dedicated to actuarial support, prudential analytics and supervisory strategy. The development of our research capability will assist us in identifying trends and developments at an early stage and will guide our supervisory agenda into the future.

Enhancements to our Supervisory Approach

The Insurance Directorate's supervisory approach continues to develop and evolve. Over half of the insurance undertakings supervised by the Bank are rated as Low Impact. In line with the recommendation from the IMF in its Report on Standards and Codes issued in May 2015, the Bank has moved from a reactive engagement model for Low Impact undertakings to a proportionate engagement model. The necessary changes to the design of our PRISM engagement model have been made to support this approach and these changes will be implemented in 2016.

Gareth Murphy
Director of Markets Supervision

3.3 Markets Supervision Directorate

Objectives
The Bank is responsible for the authorisation and supervision of a wide range of financial services firms and investment funds and for the supervision of primary and secondary securities markets and client assets. Through effective authorisation and supervision, the Bank aims to deliver on the following objectives:
- The protection of investors and client assets;
- Financial stability;
- Market integrity; and
- Ensuring that market participants act fairly and transparently.

2015 Key Outcomes

Mitigate potential risks through supervisory interventions, particularly in higher impact firms
All supervised firms have been classified with the appropriate PRISM impact rating and a wide range of supervisory reviews and engagements, including RGPs, FRAs and meetings with executive management and key personnel were completed. On foot of these reviews and engagements, firms and investment funds were required to strengthen the technical provisions, governance, risk management functions and related processes.

A number of thematic reviews were conducted, including topics such as:
- the treatment of pricing errors in the calculation of net asset values (NAV) for investment funds;
- review of securities lending for investment funds;
- review of governance and controls for MiFID firms trading on their own account; and
- review of selected MiFID conduct of business requirements and examination of the ongoing application of risk management processes employed by UCITS.

Two thematic reviews in areas that foster key risks to our objectives related to Cyber Security and Operational Risk which involved an inspection of controls and procedures around system security and access, and a review of Directorships within the investment fund industry. On the basis of their widespread impact, these reviews are discussed separately as significant outcomes below.

Cyber Security – inspection of controls and procedures around system security and access

Cyber security is the ability to protect or defend an organisation's online systems and technology from attack. Given the financial and reputational implications of cyber-attacks, the Bank scheduled a thematic review to establish, firstly, the extent of awareness by firms to the risks posed by cyber-attacks and, secondly, the extent to which firms had put controls in place to counter such attacks. The Bank found that in a number of firms, information technology (IT) security, including cyber security, is deemed to be the sole responsibility of the IT Department with limited involvement, if any, from other business areas or from the Board itself. A letter outlining the findings from this review was published on the Bank's website and expressed the Bank's view that it is the responsibility of the board to ensure a firm is properly governed and has the necessary processes and systems to protect the firm and all of its assets. The focus placed by the Bank on the importance of cyber security has gained considerable media attention as other regulated jurisdictions consider the impact for their respective industries.

Case Study 3: Proper and effective investment fund governance: Directors' time commitments

Background and Context

Arising from concerns regarding persons holding a large number of positions on the boards of corporate investment funds and fund management companies, the Bank undertook a thematic review of director time commitments to (i) examine current time commitments of directors including all professional commitments; (ii) determine whether the number of directorships held by individuals represented a governance risk to the investment fund industry; and (iii) ascertain whether director time commitments needed to be addressed through prescriptive regulatory requirements.

The Bank considers that high numbers of directorships combined with high levels of professional time commitment is an indicator of the risk that an individual director may not be able to fulfil their directorial roles to an appropriate standard. The review found that the Irish funds industry has a substantial population of 2,057 active directors with a broad range of expertise. Amongst this population there is clearly a strong level of commitment to pursue high ethical standards and directorial responsibility. However the review identified a small number of potential 'high risk' directors with an extensive level of aggregate professional commitments.

Key Actions and Activities

Following this review, the Bank issued a 'Dear Chair' letter and 'Directors' Time Commitments' guidance in June 2015. The letter included the Bank's opinion that individuals with aggregate professional time commitment in excess of 2,000 hours a year, including commitments to at least 20 boards, could pose a risk to the performance of the boards on which they sit.

In 2015 the Bank carried out an examination of the time commitments and portfolio numbers of potential 'high risk' directors including:

Number of:	Time commitment to:
Clients	Employment
Funds & sub funds	Funds & sub funds
Non-Irish directorships	Non-Irish directorships
Other roles (e.g. charity committees)	Other roles (e.g. charity committees)
Chairperson & Designated Person Roles	Chairperson & Designated Person Roles
	Board meeting prep & attendance

Case Study 3: Proper and effective investment fund governance: Directors' time commitments

The Bank gathered information from directors in the form of a comprehensive questionnaire and held interviews to discuss, in person, their respective time commitments and Directorship portfolios.

Outcomes

This intensive engagement has resulted in enhanced awareness of the impact on effective investment fund governance where multiple directorships are held by individuals and inadequate time commitments are applied.

There has been and continues to be extensive communication and ongoing engagement by the Bank with industry stakeholders regarding the Bank's governance expectations in the fund industry.
The Bank's assessment of potential 'high-risk' individuals has resulted in a decrease in board numbers and increase in time committed by individuals to director roles.

Ensure efficient and effective authorisation and approval processes

The Markets Supervision Directorate is responsible for the authorisation of a range of regulated entities and continuously strives to improve its authorisation processes. A number of key projects were undertaken in 2015 to enhance and improve the rigour and efficiency of authorisation processes. The Bank engaged in a consultative process with industry in 2015 to assess the efficiency of the revised authorisation process for MiFID Investment Firms, implemented in 2014, and to consider extending this process to fund service providers. This involved a series of meetings and analysis of feedback received. Based on positive feedback from industry, a decision to extend this process to fund service providers was agreed and was effective from January 2016.

The Irish Collective Asset-Management Vehicles (ICAV) Act, 2015 (the ICAV 2015 Act) was signed into law on 4 March 2015. It provides an additional legal structure for Irish authorised investment funds, both UCITS and AIFs.[6] The Bank's authorisation processes have been amended to incorporate investment funds intending to establish as ICAV. The Bank began accepting ICAV applications on 16 March 2015 and the first ICAV investment fund was authorised on 30 March 2015.

Under the ICAV 2015 Act, the Bank has the role of registrar[7] of ICAVs. The Bank will register an ICAV provided that it is satisfied that the ICAV is and will continue to be, in compliance with the ICAV legislation and any directions made by the Bank. An ICAV which has been registered is not permitted to carry on business unless it has also been authorised by the Bank. As at 31 December 2015, the Bank had registered a total of 129 ICAVs, 17 of which were conversions from other existing Irish investment fund structures and 3 of which were migrations inwards to Ireland of investment funds from other jurisdictions.

Protection of client assets

A new regime for the safeguarding of client assets and investor money was implemented in 2015, involving the publication of two sets of new rules and guidance in relation to client assets and investor money. This was a significant project involving:

6 The ICAV was initiated in order to provide a more tailored, bespoke corporate solution designed to meet the needs of European investment funds and their investors. The ICAV Act does not result in any changes for established investment companies, which continue to co-exist with the ICAV. Existing funds established as investment companies have the option of converting to ICAV status while funds domiciled outside of Ireland can migrate into Ireland as ICAVs by continuation.

7 For existing funds established as investment companies, the Companies Registration Office acts as registrar under the Companies' Act 2014 and the Central Bank authorises the investment company under relevant collective investment scheme legislation. Under ICAV the Central Bank assumes responsibility for both functions.

- extensive engagement with an industry working group prior to the enactment of the new rules;
- the hosting of two industry engagement events for fund service providers and investment firms in respect of the new rules;
- presentation to Association of Compliance Officers in Ireland (ACOI) seminar; and
- the publication of Central Bank Regulations concerning the distribution of client assets in circumstances where a shortfall arises following the failure of an investment firm. These are contained in S.I. 407 of 2015, Investor Compensation Act 1998 (Return of Investor Funds or Other Client Property Regulations 2015).

Supervisory Analytics

Early in 2015, a new Supervisory Analytics Unit was established in the Markets Supervision Directorate with the primary objective of improving the analysis of the data that is collected in the Bank which is relevant to the work of the Directorate. Key achievements for the Unit in 2015 include:

- Supervisory access was enabled to new data sets arising from the recent European Market Infrastructure Regulation (EMIR) and Alternative Investment Fund Manager Directive (AIFMD) regulations. This involves the receipt and management of more than 3 million records on a daily basis;
- Tools were developed to analyse run-risk and liquidity risk in open-ended investment vehicles; and
- There were engagements with the European Securities and Markets Authority (ESMA) and other national regulators in the area of managing data collected from investment firms and securities markets participants.

Bernard Sheridan
Director of Consumer Protection

3.4 Consumer Protection Directorate

Objectives

Part of the Bank's statutory objective of effective regulation of financial service providers and markets is to ensure that the best interests of consumers are protected. The Bank's consumer protection objectives are based on the need to ensure that firms are acting in the best interests of their customers, are treating them fairly and with dignity and respect. The Consumer Protection Outlook Report, published in February 2016, describes how we aim to achieve those objectives and what our priorities are. Our work, which is risk and evidence based, is focused on delivering the right outcomes for consumers and seeks to influence a consumer-focused culture in all firms, thus enabling consumers to have confidence in the decisions they are making.

The Bank delivers on its mandate within the three broad functions performed in the Directorate i.e. Supervision, Gatekeeper and Consumer Policy; CPD assesses applications for authorisation from individuals and firms across a number of retail sectors.[8] CPD also monitors and investigates compliance by firms with consumer protection and prudential requirements (where relevant), taking robust supervisory action where potential or crystallised risks outside our appetite are identified. Our work also includes ensuring the consumer protection framework is fit for purpose.

2015 Key Outcomes

Enhancing the Consumer Protection Framework for Borrowers

A new regulatory regime was introduced to provide protections for borrowers where their loans are sold to third parties, which are not regulated firms. In July 2015, the necessary legislation was enacted introducing a regulatory regime for a new type of entity called a 'credit servicing firm'. Credit servicing firms now must meet mandatory requirements in order to gain an authorisation and must comply with the requirements of financial services legislation including the Bank's statutory codes of conduct on an ongoing basis.

8 Payment Institutions/Electronic Money Institutions, Credit Servicing Firms, Retail Credit Firms, Moneylenders, Mortgage Intermediaries, Insurance Intermediaries, Investment Intermediaries, Debt Management Firms, Bureaux de Change, Money Transmission Firms and Home Reversion Firms.

Enhanced Protections Introduced for SME Borrowers

Following a review of the existing Code of Conduct for Business Lending to SMEs (SME Code) new regulations (SME Regulations) were published on 18 December 2015. The SME Regulations will replace the existing SME Code and will come into effect from 1 July 2016 for all regulated entities other than credit unions and from 1 January 2017 for credit unions. The Regulations introduce new requirements on lenders, including greater transparency for borrowers around the application process, borrowers being provided with reasons for decline in writing, greater protections for guarantors, a requirement for lenders to engage with borrowers in arrears and financial difficulties and expanded grounds for appeal.

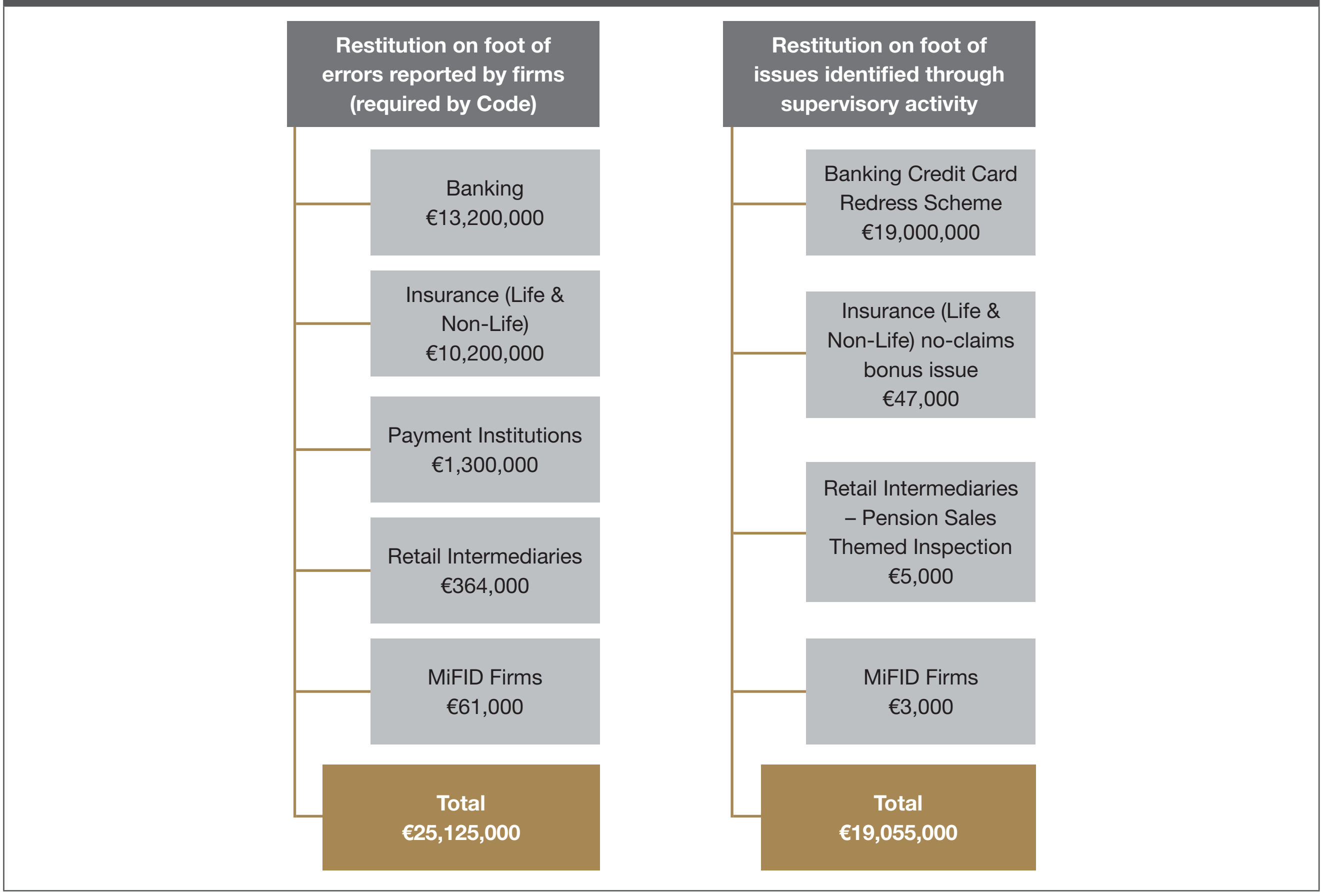
Increased Protections Proposed for Variable Rate Mortgage Holders

The Bank's view is that there is a lack of clarity as to what the terms and conditions of variable rate contracts mean, how such rates are calculated and how such rates can change over time. It is also evident that there are a number of non-financial barriers to mortgage switching. In order to address these concerns, increased protections have been proposed that would build on the strong consumer protection framework already in place. A Consultation Paper on these proposals was published on 12 November 2015.

Consumer Restitution

In delivering on the Bank's consumer protection mandate, the aim is to continually challenge regulated firms to act in the best interest of their consumers, which includes acting swiftly to correct any situation which results in a consumer being disadvantaged by any action of a firm (See chart below for further breakdown).

Chart 3.5: Consumer Restitution 2015[9]



9 Please note the figures for consumer restitution are approximate.

Case Study 4: Redress Agreed for Consumers of Card Protection Insurance

The selling of insurance along with other financial products can offer benefits to consumers where it is suitable to meet the needs of those consumers. However, selling linked products also poses risks to consumers where they may purchase insurance which is not needed or where they may be unaware they have the insurance. The Bank's Consumer Protection Code (the Code) contains important requirements which firms must comply with in order to ensure that the consumers' best interests are protected.

Arising from our monitoring of the market for issues that may impact consumers and arising from an issue regarding the sale of card protection insurance in the UK, a review of this product concluded that a similar issue arose in Ireland.

Homecare Insurance Limited (HIL), in conjunction with its partner banks, Bank of Ireland, Ulster Bank and MBNA, offered card protection insurance to Irish customers. The insurance provided, among other things, cover against unauthorised card use, provided HIL was notified within 24 hours of discovering loss/theft. However, this element of the insurance was not required as customers were already indemnified by their bank for losses in these circumstances.

At the request of the Bank, a number of regulated financial service providers agreed to initiate a voluntary redress scheme which commenced on 31 March 2015. Letters were issued to c.148,000 impacted policyholders explaining the issue and offering customers the option of claiming redress or retaining the card protection insurance policy. c.67,000 (45%) policy holders requested redress and total redress of approximately €12m was paid by Bank of Ireland, Ulster Bank and MBNA.

Similarly, in another case, we engaged with AIB concerning a card protection product it had introduced to its customers, which included cover against card loss or theft which customers did not need, as again, they were already indemnified by their banks under their card terms and conditions.

AIB initiated a redress scheme for Pinnacle Insurance PLC (trading as Cardif Pinnacle) card protection policyholders. Letters were issued to c.100,000 impacted policyholders of which c.74,000 (73%) have requested redress of c.€7m.

Although both redress schemes are essentially closed, the Bank has received assurance from partner banks that impacted card protection customers who have not made a claim to date and wish to do so can contact their bank to make a claim.

Thematic Reviews – Focusing on Product-Specific Consumer Protection Issues

While financial products and services can deliver consumer benefits, they can also present risks if the right product or service is not sold to the right consumer in the right way. During 2015, we conducted a number of product-specific reviews, where we felt that there was a potential risk to our consumer protection objectives:

- **Contracts for Difference (CFDs) Not Suitable for Low-Risk Consumers**
  Understanding the high-risk nature of CFDs, we conducted a themed review to assess how firms are delivering fair outcomes for consumers who purchase these products. Our review concluded that CFDs are not suitable for investors with a low risk appetite. The review also identified shortcomings in some firms' assessments of consumers' knowledge and experience and the need for consumers to be fully informed of the high risk nature and potential for loss with CFD investments. As a result of the themed review, marketing material must be constructed to highlight both the risks and benefits of CFD's especially as the review identified that 75% of clients, during 2013 and 2014, made a loss.

- **Retirement Income - Greater Transparency Needed**
  Pensions are long-term, complex products, which can have both significant benefits and consequences for consumers. It is critical, therefore, that each consumer has full confidence that their interests are being looked after when purchasing a pension product. During 2015, we reviewed the sale of pension annuities, primarily to assess whether or not consumers are being provided with relevant information, to enable them make decisions consistent with their long-term interests. The review identified significant differences in the annuity rates being offered. Marked differences were also observed in relation to the level and adequacy of information provided by firms to facilitate the customer in making informed decisions. The Bank pointed out (to annuity providers) a number of areas in which improvements could be made, such as explaining more fully to consumers that they can purchase an annuity from any provider (the open market option) and that financial advisers should explain all the guarantee options and make consumers aware of new enhanced annuity options.

- **Tracker Mortgages**
  The Bank announced in October 2015 that it had embarked on a broader examination of tracker mortgage related issues covering, amongst other things, transparency of communications with and contractual rights of tracker mortgage borrowers. To that end, the Bank wrote to relevant lenders in December 2015 requiring them to develop a robust plan and framework for their review of their mortgage lending practices in line with the framework and scope outlined in the letter. The lenders were required to submit their plans to the Bank by the end of March 2016.

Monitoring Compliance across the Retail Intermediary Sector

There were 2,624 retail intermediaries supervised by the Bank as at 31 December 2015. These firms provide advice and sell insurance, investment and mortgage products on behalf of insurance companies, banks and other firms. We monitor the sector through analysis of financial returns, trigger-based supervision and spot-check on-site inspections to identify and mitigate issues that may negatively impact on consumers. Themed reviews also continue to be an important supervisory tool for this sector of the industry, given its size. The following themed reviews were conducted in 2015:

- **Review of Compliance with Minimum Reporting Standards**
  A significant supervisory project was commenced to target retail intermediaries that are not meeting the minimum standards in terms of complying with reporting and other obligations to the Bank. Our objective is to target a culture of non-compliance which can often signal other issues in those firms, which can impact negatively on consumers. During 2015 we undertook a major review to target those non-compliant firms. We identified 325 firms and following extensive engagement, including 127 unannounced on-site visits by end-2015, 297 of these firms have either submitted their annual returns or revoked their authorisations.

- **Adequacy of Professional Indemnity Insurance (PII)**
  Holding the required level of PII is a key prudential and consumer protection safeguard in that it provides an additional resource from which a firm can pay justified claims made by consumers relating to professional negligence, for example, the provision of negligent or incorrect advice. During 2016, we pursued 315 firms in relation to breaches of PII cover, of which 312 cases were resolved. Enforcement action was taken against one firm and the remaining two firms are subject to ongoing supervisory action.

- **Financial Position**
  A breach of capital/solvency rules can pose a significant consumer risk as a negative financial position can impact on a firm's ability to continue operating as a going concern and can lead to poor outcomes for consumers. Solvency is a basic prudential standard for all financial institutions. A breach of this standard is grounds for revocation of a licence under the Investment Intermediaries Act, 1995. We pursued 64 retail

intermediaries in relation to their financial positions throughout 2015, following which 62 firms resolved the breaches, while the two remaining cases are the subject of ongoing supervisory action.

Ensuring Borrowers in Arrears are being Treated Fairly

The Code of Conduct on Mortgage Arrears (CCMA) provides a strong consumer protection framework for borrowers who are struggling with mortgage repayments or who are in, or facing, arrears. The focus of this themed inspection was to build on previous supervisory work on mortgage arrears and specifically to assess lenders' arrangements for delivering on the important consumer protections prescribed in the statutory CCMA. Overall, we found that lenders have implemented frameworks as required by the CCMA. However, the inspection identified weaknesses, of varying degrees, in some lenders' policies, procedures, systems and controls. These in turn failed to provide assurance to the Bank that the lenders in question are delivering fair outcomes for borrowers in arrears. Some specific practices and policies, which are contrary to the letter and spirit of the CCMA and which posed a threat to consumer protection were also identified and, as such, lenders were instructed to cease these practices immediately. Formal risk mitigation programmes were issued to a number of lenders and in the case of two lenders, identified as outliers, an independent third party review has also been required. Further use of our regulatory powers is being considered.

Debt Management Firms

During 2015, the Bank has continued to apply a rigorous regulatory assessment to those applicants who have sought authorisation as debt management firms. During the year, six debt management firms were authorised, bringing the total number of authorised debt management firms to 57 (from a total of 114 applications reviewed since 2013). A further nine applications for authorisation were refused by the Bank.

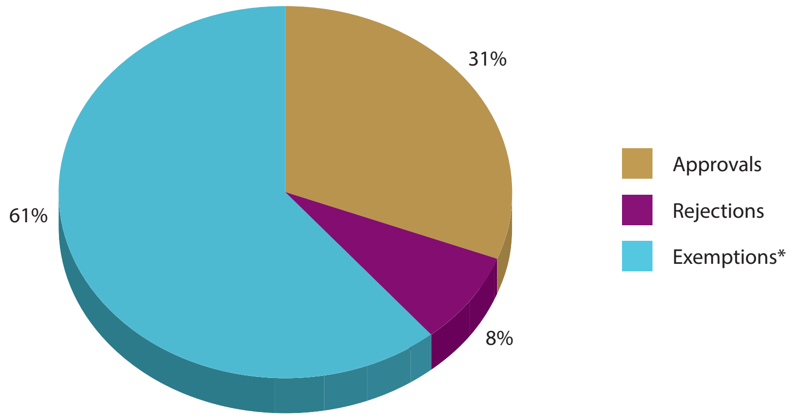
A key part of our supervisory strategy is to inspect new firms shortly after authorisation, to ensure that they are acting in accordance with the terms and conditions of their authorisations, complying with the requirements of the Code and to ensure that the sector is developing the correct culture from the outset. In line with this strategy, the Bank concluded its third thematic inspection of debt management firms' compliance with the Consumer Protection Code in 2015, which highlighted deficiencies in how some firms are assessing consumers' circumstances prior to giving advice and also in how they are explaining the impact for consumers of taking such advice. The Bank has taken robust and appropriate supervisory action in all cases where deficiencies were identified during this latest inspection. The Bank has also written to all firms in this sector, requiring them to critically assess their compliance arrangements in the light of the Bank's findings.

Gatekeeping customer charges

Legally,[10] credit institutions and bureaux de change are required to submit a notification to the Bank for approval before introducing any new customer charge or increasing any existing customer charge in respect of certain services. In 2015, four notifications were granted full approval and one notification was fully rejected (a notification may contain one or more charges). There were no instances in 2015 where notifications were rejected at the levels sought and subsequently approved at a lower level. A total of eight exemptions were approved.

10 Sections 149 and 149(A) of the Consumer Credit Act, 1995 (as amended) (the Act).

Chart 3.6: Bank Charge Increase – Notifications Processed



* These are applications made seeking exemption from the obligation to make a notification under Section 149, where charges are negotiated on an individual basis.

Gerry Cross
Director of Policy and Risk

3.5 Policy and Risk Directorate

Objectives

The Bank oversees the development and implementation of regulatory policy in relation to banking, insurance, investment firms, investment funds, and securities and markets both domestically and internationally. Its core objectives in this area are:

- To develop and maintain the Bank's domestic regulatory and policy framework for prudential and markets supervision;
- To contribute to the formation and implementation of European and international regulation;
- To lead the development and maintenance of the Bank's risk-based framework for supervision (PRISM);
- To provide support and assurance for supervisors' implementation of the Bank's policy and supervisory frameworks; and
- To promote a high quality and effective policy environment across the Bank.

2015 Key Outcomes

Improving the Regulatory and Policy Framework for Banking and Insurance

The regulatory framework in Ireland and Europe continues to transition to a more comprehensive and intrusive regime, particularly in banking and insurance.

In 2015, comprehensive measures were developed for the insurance sector. The implementation of Solvency II – the new regulatory regime for (re)insurance undertakings – on 1 January 2016 was a key focus for the Directorate. The regime introduced for the first time an EU wide, sound and robust prudential and supervisory framework recognising differing risk profiles of individual (re)insurance undertakings.

In addition to providing expert advice and policy support for implementation, the Directorate developed a number of domestic policies to supplement the EU framework and incorporate additional supervisory safeguards. These included 'Domestic Actuarial Regime and related Governance Requirements under Solvency II' and amendments to the Bank's Fitness and Probity Requirements. It also worked closely with the Insurance

Supervision Directorate in designing and implementing changes to our supervisory framework – PRISM – to reflect the higher standards required.

2015 was also the first full year of operation of the SSM. The key to influencing decision making and policy development is to be actively engaged in the work of the SSM Supervisory Board and at committee level. Policy input and advice is a critical component in facilitating effective staff engagement in the work of the SSM.

During 2015, the Directorate led the Bank's input to harmonising the SSM's approach to Capital Requirements Directive IV (CRDIV)/Capital Requirements Regulation (CRR) options and discretions and provided briefing and advice on various SSM decisions/policy proposals mainly related to bank capital requirements. Within the wider ECB structure, policy staff also contributed to the work of the ESRB, its Advisory Technical Committee (ATC) and associated working groups.

Influencing the EU and International Regulatory Framework

Within the EU, there are a number of institutions/authorities which determine regulatory policy in Europe. The European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA) and European Securities Markets Authority (ESMA), collectively referred to as the European Supervisory Authorities (ESAs), develop the technical Standards, Guidelines and Recommendations which give effect to EU financial services legislation.

The Bank is an active member of the ESAs and the Directorate takes a leading role in this engagement. The Bank's contribution to the work of the ESAs has helped achieve high quality regulation which reflects the Irish perspective and contributes to the enhancement of Ireland's reputation and regulatory framework.

EBA work for the banking sector completed in 2015 includes:

- Guidelines on limits on exposures to 'Shadow Banking Entities' setting out the approach to be taken by credit institutions in developing their internal policies for monitoring and setting appropriate limits for shadow banking entities.
- Benchmarking Reports on Approved Higher Ratios for Remuneration monitoring pay in European credit institutions.
- Impact Assessment and Calibration of the Net Stable Funding Requirements (NSFR) to support stable funding structures and to inform potential legislative proposals from the European Commission.
- Reports on Securitisation intended to support the European Commission's efforts to further develop securitisation as a funding source.
- Updated Additional Tier 1 Monitoring Report assessing recent capital issuances for the implementation of eligibility criteria under CRR and applicable technical standards.

For insurance, 2015 saw:

- Development of comprehensive guidance on the implementation of Solvency II including guidelines and approvals across all three Pillars[11]:
    - Guidance on an Own Risk Solvency Assessment.
    - Guidelines on System of Governance.
    - Guidelines on Reporting and Public Disclosures.
    - Guidelines on the Supervision of Branches of Third Country Insurance Undertakings.
- In complying with these Solvency II guidelines, the Bank contributes to a harmonised and stronger European supervisory approach with respect to (re)insurers.

11 The three Pillars are: Quantitative Requirements, Governance and Supervision and Reporting and Disclosures.

On Markets, work completed in ESMA in 2015 includes:

- Technical Standards for the Market Abuse Regulation ensuring that regulation keeps pace with market developments such as high frequency trading.
- New technical standards relating to Central Securities Depositories (CSDs) regulation intended to increase the safety and efficiency of settlements and the safety of CSDs.
- Technical standards on the mandatory clearing through central counterparties of index credit default swaps and interest rate swaps in G4 and non-G4 currencies providing greater transparency about these derivatives.

At the level of the legislature, proposals are negotiated and agreed between the three EU institutions: the Commission, the Council and the Parliament. During 2015, the Bank has participated in EU Council negotiations providing technical advice on both the Banking Structural Reform and Securitisation proposals which achieved General Agreement at Council in 2015. The Directorate provided expert advice that allows the Bank to achieve this level of influence in Europe.

Increased Focus on Shadow Banking

Ireland is an important location for non-bank financial entities or shadow banks. Throughout 2015, the Policy and Risk and Markets Supervision Directorates increased their focus and engagement on issues involving the shadow banking sector. The Bank substantially increased its focus on policy issues through expanding the scope of its work in Europe and with leading international organisations. This has included chairing sub-groups developing policy in the ESRB and the International Organisation of Securities Commissions (IOSCO). The increased focus and engagement has enabled the Bank to input extensively in policy discussions in the area and carefully consider the implications for Ireland.

Case Study 5: Focus on Shadow Banking

Monitoring the size of the non-bank financial system is of increasing importance. Significant research was conducted on shadow banking in Ireland to measure the size of the sector and to assess the financial stability implications of activities within this sector. Initiatives undertaken by the Bank in this area included:

- Engagement with public and private sector stakeholders (including European and international regulatory bodies such as the Financial Stability Board, the IMF, the ESRB and ESMA) on the assessment of risks in shadow banking activities.
- Contributing for the first time to the annual Financial Stability Board Global Shadow Banking Monitoring Report through a Bank case study on the Irish shadow banking sector giving a detailed statistical breakdown of the sector, its size and linkages to the domestic and international economies.
- Presenting a paper analysing the EMIR trade repository data on credit default swaps reported by Irish counterparties at a Bank for International Settlements (BIS) workshop.
- Providing research and analysis on shadow banking and related matters e.g. publication of a Quarterly Bulletin article (July 2015) focusing on Irish domiciled special purpose vehicles.

Strengthening Investment Funds Regulation

The regulatory framework for investment funds was strengthened in October with the introduction of Central Bank UCITS Regulations 2015 that consolidate the rules which the Bank imposes on UCITS, UCITS management companies and UCITS depositaries. These regulations simplify the application of rules and provide additional enforceability. The provisions in the regulations supplement those imposed by the EC UCITS Regulations 2011 transposing the UCITS Directive in Ireland. The Directorate has also produced themed guidance and a number of new UCITS ‘Q&As’ to assist regulated entities in understanding the UCITS regulatory framework.

Managing and Monitoring Supervisory Risk

The Directorate continued to strengthen the framework for the Bank's risk-based supervision in 2015. PRISM is the system we use to articulate the Bank's risk appetite in respect of supervised firms. We have worked to identify emerging risks to ensure they are appropriately reflected in that system and support our supervisory colleagues in their supervisory approach that is assertive, rigorous and demanding but proportionate and fair.

In 2015 a project was launched to review the effectiveness of PRISM and to enhance further the contribution of the PRISM Framework and IT software towards achieving our regulatory mandate. Work also commenced on making the necessary changes to PRISM to implement the new supervisory model for insurance companies under Solvency II. This work will continue throughout 2016.

The Supervisory Support Team within the Bank fulfils an important quality assurance function in relation to the PRISM framework. The team continually assesses supervisory engagement with regulated entities to ensure that

- PRISM standards and guidance are complied with;
- Risks within firms are properly identified, understood and mitigated in a timely manner; and
- The consistency and quality of supervisory decisions and judgements are maintained. The team provides continuous advice, support and assistance to supervisors including an ongoing programme of training on maximising the use of PRISM and related IT software.

The Bank's 2014 'Risk Appetite – A Discussion Paper' generated public policy debate on risk appetite and its influence on organisational strategy and risk management. In October 2015, the Bank organised, in conjunction with the Institute of Directors, a Risk Appetite Forum attended by over 350 participants from financial services and other industry sectors.

Participants exchanged views on the role of risk appetite, best practice in setting and embedding risk appetite in an organisation. Feedback was very positive and risk appetite will continue to be a focus of supervisory attention both at an EU and national level in the coming year.

Cyber security is a key emerging risk for all sectors. The risk is increasing with supervised firms' growing dependency on complex IT systems coupled with increasing reliance on the internet and technological trends such as cloud computing, big data and increased use of mobile devices. Cyber-attacks are becoming increasingly sophisticated and are growing in scale and financial firms are prime targets for these attacks.

This has serious implications for prudential, systemic and consumer risks. The Directorate is leading internal work on an IT and Cyber Security Strategy and will continue to prioritise that work in 2016.

Derville Rowland
Director of Enforcement

3.6 Enforcement Directorate

Objectives

The Bank seeks to hold regulated firms and individuals to account where their behaviour fails to meet the required standards. Where firms and individuals fail to comply with their regulatory requirements, enforcement is an important tool to affect deterrence, achieve compliance and promote the behaviours we expect.

The Bank's enforcement powers to achieve these objectives include the following:

- Imposition of administrative sanctions on firms and individuals who breach their regulatory requirements;
- Prohibition of persons, who do not meet the applicable fitness and probity standards, from performing specified functions in the financial services industry;
- Revocation or refusal of firms' authorisations to carry out regulated financial services where those firms fail to meet their regulatory requirements, or where a firm fails to meet the authorisation requirements; and
- Summary criminal prosecutions.

The four key areas of responsibility for the Bank as regards Anti-Money Laundering are as follows:

- Effective risk-based supervision of Anti-Money Laundering (AML)/Counter Financing of Terrorism (CFT) and Financial Sanctions (FS) compliance;
- Contribution and input into AML/CFT legislative and policy developments;
- Authorisation of Trust or Company Service Providers; and
- Investigation of the provision of services by unauthorised firms/individuals.

2015 Key Outcomes

Case Study 6: Mortgage Redress Programme

As a result of an investigation by the Bank, significant failures were identified by Permanent TSB (PTSB) and its subsidiary company, Springboard Mortgages Limited (Springboard), associated with tracker mortgage options and rates. The consequences of these failures were serious and included: mortgage overpayments; mortgage arrears; legal proceedings; and in certain cases loss of ownership of properties, including some homes.

The Bank commenced an investigation of PTSB during June 2014 in relation to PTSB's failures associated with tracker mortgage options and rates, a suspected breach of the Consumer Protection Codes 2006 and 2012. During the investigation an issue regarding the application of incorrect interest rates to mortgage accounts was also identified in respect of PTSB's subsidiary, Springboard, and a separate investigation commenced in respect of that entity during July 2015 in respect of this issue.

Approximately 1,100 PTSB accounts (including 44 accounts where a loss of property occurred) and 220 Springboard accounts (including 16 accounts where a loss of property occurred) were impacted by the issues identified.

The development of a scheme to provide redress and compensation to impacted customers was identified as the priority of the investigation process during the initial months of the investigation. Significant levels of Bank resources and expertise were allocated to engage with PTSB to deal with this legally complex matter with the aim of ensuring that PTSB's approach to the review and rectification of the issue was conducted and implemented in such a manner as to ensure the best outcome for impacted consumers. A redress scheme was agreed and rolled out on 28 July 2015. Some of the major features of the scheme included:

- Reinstatement of the right to a tracker mortgage;
- Balance adjustment/repayment of historical overpayments;
- Additional compensation for detriment suffered by customers;
- A customer friendly appeals process: independent appeals process established; rights to appeal to Financial Services Ombudsman and Courts preserved; and
- Upfront redress and compensation payments regardless of whether an impacted customer chooses to appeal or not.

The Bank required that in addition to ensuring that the MRP appropriately remediated and compensated impacted customers (as outlined above), the MRP prioritised ease of engagement for impacted customers with the scheme (to ensure a better customer experience) and ensured clarity of communications with impacted customers. In this regard, the Bank required PTSB to: 1) establish dedicated telephone lines with specially trained staff to deal with customer queries, 2) ensure that letters to impacted customers were informative and written in 'plain English', 3) produce Customer Guides and FAQ's to inform and educate customers on their options and 4) provide additional funding to all impacted customers to enable them avail of legal/financial advice while considering the redress offer made to them.

Both firms agreed to implement a major redress and compensation programme (Mortgage Redress Programme) to address the detriment suffered by customers.

The investigations of PTSB and Springboard into the tracker mortgage issues are ongoing. The Bank prioritised the development and implementation of the Mortgage Redress Programme over the progression of the investigations to ensure that the lenders urgently addressed the ongoing detriment to mortgage holders.

Administrative Sanctions Procedure Outcomes

Settlement Agreements

During 2015, the Bank concluded nine Administrative Sanctions Procedure (ASP) settlement agreements, in which a total of just over €7,333,000 in fines were imposed (€105,000 of which was waived in the case of Mr Tadgh Gunnell and €5,000,000 was waived in the case of INBS, as it would not be in the public interest to pursue the collection of the fine due to lack of assets).

On 20 May 2015, on the basis of a settlement agreement, the Bank disqualified Mr Tadhg Gunnell, a former general partner of Bloxham (in Official Liquidation) for 10 years from being a person concerned in the management of a regulated financial service provider and reprimanded him for his actions when Head of Finance and Compliance of Bloxham. The Bank considered that the actions of Mr Gunnell also merited a monetary penalty of €105,000 being imposed on him. However, on the basis that Mr Gunnell was adjudicated bankrupt by the High Court on 26 January 2015, this monetary penalty was waived.

This settlement is in line with the Bank's overall objective of holding individuals, as well as firms, to account. Also, the disqualification period, of 10 years, is the longest disqualification imposed by the Bank to date.

Referral of ASP Cases to Inquiry

In 2015 the Bank published announcements that two cases had been referred to Inquiry. This is the first time the Bank has used its powers to refer cases to Inquiry under Part IIIC of the Central Bank Act 1942 (as amended). Both referrals relate to individuals concerned in the management of regulated entities. A number of legal challenges have since been made in the High Court relating to the Bank's power to hold an Inquiry, and relating to the process involved in referring a case to such an Inquiry. The Bank is robustly defending those cases.

The Bank believes that there is a very real and significant public interest in it defending the use of its statutory powers which provides for an effective and credible enforcement regime. The Bank will continue to vigorously defend such cases when and if they arise.

Fitness and Probity

In 2015, following fitness and/or probity concerns raised by supervisors in relation to proposed appointments to Pre-Approval Controlled Functions in regulated firms, the Bank prepared for 26 specific interviews (22 of which were conducted) with proposed appointees. Following contact from the Bank, ten proposed appointments were subsequently withdrawn, one proposed appointment was refused and another is currently with a decision maker. The first Prohibition Notice and the first Suspension Notice in relation to individuals in controlled functions were issued by the Bank in 2015 under the powers set out in the 2010 Act.

Effective Supervision of AML/CFT Compliance

The Bank carried out a range of supervisory activities aimed at ensuring AML/CFT compliance in 2015.

The Bank carried out 32 AML/CFT/FS inspections in 2015. Firms from the following sectors were inspected: life insurance, payment institutions, trust or company service providers, credit unions, retail intermediaries, investment firms, retail credit firms, money-lending, regulated market and bureaux de change.

- The Bank met with 41 Money Laundering Officers and five industry representative bodies to gather information on how different sectors perceive the main money laundering and terrorist financing risks that they face.
- A report on AML/CFT/FS compliance in the banking sector was published in February 2015; a report in respect of compliance in the credit union sector was published in May 2015 and a report in respect of compliance in the funds industry was published in November 2015.
- The Bank participated in a wide range of speaking engagements in 2015; the Bank also updated its website to provide further advice and information in relation to AML/CFT/FS requirements and information

for consumers. Both these tasks resulted in an increased awareness of the Bank's expectations in relation to firms' compliance with AML/CFT/FS obligations.

Input into AML/CFT Policy Development at a National and International Level

The Bank sought to increase its influence in relation to AML/CFT policy at European and international level as well as actively participating in national committees relating to AML/CFT.

- The Bank actively participated in plenary and working group sessions of the Financial Action Task Force, as well as plenary sessions and working groups of the Anti-Money Laundering Committee of the European Supervisory Authorities; the Bank made both oral and written representations in respect of a range of working papers and was effective in influencing the development of guidelines on risk-based supervision and ML/TF risk factors.
- The Bank was an active contributor to the Anti-Money Laundering Steering Committee and the Cross Departmental International Sanctions Committee in 2015; the Bank was also active in preparing for the Mutual Evaluation Review of Ireland by the Financial Action Task Force in 2016.
- The Bank provided the Department of Finance with an assessment of ML/TF risks in the financial sectors that it supervises. The purpose of this was to assist the Department of Finance in the preparation of a National Risk Assessment.

Chapter 4: Our Strategic Priorities for 2016

Our Strategic Plan 2016 -2018 builds on work already underway in the Bank. The Bank's Mission Statement 'Safeguarding Stability, Protecting Consumers' will guide the action of the Bank in delivering on its mandates including that of financial regulation. The contribution of each of the financial regulation directorates in achieving the Strategic Plan in 2016 is set out in this chapter.

4.1 Banking Supervision

The Bank's prudential supervision objectives are to ensure that credit institutions:

- have sustainable, capital generating business models over the economic cycle;
- are governed and controlled appropriately, with clear and embedded risk appetites, which drive an appropriate culture within them;
- have sufficient financial resources (considering both capital and liquidity needs); and
- are resolvable in the event of a failure without recourse to the Irish taxpayer.

These continued aspirations are underpinned by supervisory engagement plans, the key elements of which include for 2016:

- The **Supervisory Review and Evaluation Process (SREP):** will update the determination of the minimum regulatory capital and liquidity the SIs are required to hold;
- Continued work on **distressed credit portfolios**: building on the intensive engagement over a number of years, to ensure that Non-Performing Loan (NPL) reduction continues and to press the banks to act conservatively, not prematurely, in writing back provisions;
- **Business model analysis** and assessments: including consideration of overall strategy, risk appetite, linkages with capital and recovery planning, governance and underlying assumptions;
- **Mitigating Risks** and issues identified through inspections and other supervisory activities considering use of our **enforcement powers** as appropriate;
- **Inspections, SSM Thematic reviews and 'deep dives'**: It is planned that over 30 inspections will be performed on SIs and LSIs and these will be resourced by inspectors from the Bank with members of the ECB and/or other NCAs possibly joining/leading a small number of missions. Separately, four topics have been selected which will be subject to thematic reviews across all SIs in 2016. Deep dives comprise ad-hoc analysis on areas identified by the supervision teams and are bespoke and reflect the supervisory priorities for the banks;
- **Recovery Planning:** building on progress made in 2015 particularly on the largest SIs, requiring remediation as necessary to ensure banks have executable recovery plans;
- **Auditor Assurance**: external auditors of specified banks will be instructed to conduct an examination of certain provisions of banking regulation; and
- **Internal Rating Based Approach (IRB) model review work**: over 20 internal model investigations will be prioritised in 2016 with additional work being required on any subsequent model approvals, as well as the wider SSM Target Review of Internal Models.

The International Banks comprise thirteen LSIs directly supervised by the Bank, together with four non-retail subsidiaries of SI banks and 32 branches. Supervisory engagement plans have been drawn up for these international banks. The supervisory approach to each bank is driven by the different risks that the banks present, recognising the divergence in business models and plans and the minimum engagement under PRISM and SSM methodologies. The key elements of the LSI supervisory plans include maintaining the minimum engagement levels expected under PRISM and SSM methodologies, exceeding these where more intensive engagement is deemed appropriate; assessing the adequacy of governance arrangements and culture; understanding the business model, profitability drivers and rationale for operations in Ireland; assessing liquidity and capital adequacy, including reliance on parental support; and progressing recovery and resolution planning.

International Agenda

European engagement on supervision and banking policy matters will continue to be a priority with supervisors actively participating in a range of EBA and SSM working groups including significant engagement on the SSM NPL task force such that we continue to enhance the Bank's reputation through the quality of our supervisory efforts, expertise and professionalism; not for its own sake, but to ensure we can influence the development of SSM and EBA methodologies and the supervisory approach and outcomes (including those operating in Ireland).

The International Monetary Fund (IMF) Financial Sector Assessment Programme (FSAP) will be completed in the first half of 2016. While not exclusively focused on banks, Banking Supervision will play a key role in the assessment, including submission of key deliverables such as the stress tests across both the domestic and international banks. The scope of the solvency and liquidity stress tests covers 90% of the banking sector including the five retail banks and the seven largest Less Significant Institutions (LSIs). In addition to the FSAP stress tests, Banking Supervision will assist in the performance of the SSM stress tests that includes two banks in the EBA stress test and an additional bank as part of the SREP in 2016.

Banking Supervision will work to fulfil this broad and challenging mandate while faced with significant ongoing recruitment and retention challenges arising from the high turnover levels we are experiencing. We will continue to seek to deliver consistent, timely and effective supervisory outcomes working within the supra-national structures of the SSM.

Registry of Credit Unions

Credit unions have a potential future role as a strong, safe sector offering competition and choice to their members and we acknowledge the role they play in their communities. Our strategic priorities are focused on four core areas:

- enhanced supervisory engagement;
- regulatory framework development and engagement with the sector;
- restructuring; and
- business model development.

Each of these priorities is underpinned by our planned regulatory and supervisory activities for 2016, the key elements of which are set out below.

Supervisory Engagement

One of the key strategic priorities for RCU is the rollout of the new supervisory engagement framework for credit unions, under which the frequency and intensity of supervisory engagements will have a greater prioritisation by 'Risk Probability'. We will use our in-house viability model to profile individual credit unions using quantitative and qualitative inputs; the latter are driven by supervisory intelligence garnered through engagement with credit unions, and related sources of information. The framework aims to drive engagement with weaker credit unions at an earlier stage; to explore viable options, where available, and to put contingency arrangements in place, where necessary.

In addition, our regular cycle of engagement with larger credit unions will continue, as heretofore reflecting our greater expectations on this part of the sector to exhibit higher standards of governance, risk management and compliance, and the appropriate development of their business model. We will also conduct two Thematic Inspections during the course of the year. RCU's enhanced supervisory engagement will aim to move standards across the sector towards that expected of entities managing depositors' funds and support the development of governance and risk standards that take account of proportionality. RCU will seek to successfully implement our new supervisory strategy which will include a quality assurance framework; a thematic review approach; and internal structures and approaches that align our supervisory strategy with our restructuring work.

Regulatory Framework

RCU will seek to embed the new strengthened regulatory framework with enhanced communications with credit unions, taking account of the recommendations in the 2015 Peer Review. Following the introduction of the cap on savings over €100,000, as provided for in the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 (the Regulations), RCU will consider applications from credit unions to retain existing savings over €100,000, and, in certain cases, for larger credit unions to take in new savings of over €100,000. RCU will contribute to the review – established by the Minister for Finance and to be undertaken by his Credit Union Advisory Committee (CUAC) – of the implementation of the Recommendations set out in the Report of the Commission on Credit Unions (2012), with a view to ensuring that proposals put forward are appropriate, take account of risks and will also provide assistance to the review through the provision of data and analysis.

Restructuring

RCU will aim to bring about further restructuring of credit unions, including working closely with the Credit Union Restructuring Board (ReBo) while it is still in existence and resolving the credit unions most at risk while protecting members' funds. We will use our supervisory engagement model to spur voluntary mergers (through focus on viability and on strengthening transferees). There are some challenges in this area – inertia in some credit unions towards the voluntary restructuring process; reluctance by some credit unions to accept non-viability and seek early solutions; and insufficient numbers of suitable and strong transferee credit unions. For those credit unions that have been involved in significant transfers, we will review the post-merger situation to keep a focus on driving credit unions to tackle business model challenges. We will also continue to support voluntary transfers of engagement, post ReBo, while taking account of our statutory mandate. RCU will continue to ensure that there is an appropriate focus on viability and strategic planning, and to engage with both potential transferor and transferee credit unions to progress mutually beneficial restructuring projects. Where required, RCU will also take action to resolve credit unions where there is a particular risk to members' funds.

Business Model Development

RCU will seek to facilitate the prudent strategic business model development of the sector so that it has the ability to grow without unduly undermining resilience. Sectoral transformation of the business model is required to address a number of key challenges, including aging membership, product and service offerings and financial and operational weaknesses. We will continue to undertake focused dialogues and engagement, with both individual and groups of credit unions, and with credit union sector representative bodies and Government departments.

It is our intention to inform business model development by providing more formal guidance regarding our requirements. We are engaging with relevant bodies at an early stage on possible or emerging proposals and thereby clarifying our expectations, which should shorten lead-times for assessment and development of proposals. RCU will continue to influence and engage with the sector to ensure the regulatory framework is not adjusted in ways which may prove detrimental to the long-term safety of the sector.

Other areas of work which we will undertake in 2016 to support the achievement of the key strategic areas set out above include contributing to the regulatory and supervisory approach for credit unions as part of the IMF FSAP Programme, and the development and implementation of an appropriate stress testing method and approach for the credit union sector. RCU will work to fulfil its broad and challenging mandate while acknowledging that there continues to be internal challenges – including staff retention and recruitment. We will continue to seek to deliver effective and timely supervisory outcomes which are consistent with our statutory mandate to regulate credit unions with a view to the protection by each credit union of the funds of its members; and the maintenance of the financial stability and wellbeing of credit unions generally.

4.2 Insurance Supervision Directorate: 2016 Priorities and Challenges

The key elements of the Bank's prudential supervision plans for 2016 include:

- The assessment of the minimum regulatory capital and liquidity the undertakings are required to hold;
- **Risk assesments and risk governance panels** including consideration of overall strategy, risk appetite, linkages with capital planning, governance and underlying assumptions;
- Driving **risk mitigation** of issues identified through desk-top reviews, interviews, inspections and other supervisory activities;
- Considering use of our **enforcement powers** as appropriate; and
- **Inspections and thematic reviews:** It is planned that a series of inspections will be performed on insurance undertakings. Separately, several topics have been selected which will be subject to thematic reviews in 2016.

Pricing and Reserving of Non-Life Companies

Given the risks faced by the non-life insurance sector a themed review 'Private Motor Oversight and Governance' will be carried out with focus on the sustainability of premium levels within the market and the adequacy of pricing risk assessments carried out by firms. This work is intended to provide greater insight over the pricing practices used by companies, and to identify and require corrective actions where any issues are identified. Separately, firm specific detailed reserving reviews will be carried out during 2016.

Embed Solvency II

On 1 January 2016 Solvency II became the new business as usual regime, following years of preparation by industry and regulators across the EU. In parallel with getting ready for Solvency II, the insurance industry is facing significant challenges across a number of fronts. The Bank's priorities for insurance supervision in 2016 are informed by Solvency II, the structural changes we made to enable us to better deal with the future challenges and also some of the key environmental issues facing the industry.

Now that Solvency II has been implemented, a key priority for the Insurance Directorate will be to ensure that the new regime is embedded effectively, both within the Bank and the firms we supervise. Our supervisory engagement model has been tailored to realise the benefits that the new Solvency II regime has to offer. The Bank's objective, while embedding Solvency II, is to implement a forward-looking, risk-based approach that not only ensures technical compliance with Solvency II requirements but also ensures firms have robust risk management frameworks and processes that are capable of dealing with stressed scenarios and challenging market dynamics such as sustained low interest rates or increasing non-life claims cost.

Embed New Structure

The Bank's new structure has dedicated sector focused supervision teams. It is the Bank's view that this new structure will result in increased collaboration among supervisors and provide a holistic view of the state of various sectors of the insurance industry. Within our new structure, we have established two new teams to effectively deliver our mandate under the new regime.

From 2016 the Insurance Supervision Directorate has a dedicated on-site inspection team and a dedicated analytics team. The on-site inspection team is commencing reviews on a range of areas including underwriting, claims and operational risks. The purpose of the team is to increase the level of intrusiveness and effectiveness of current supervision to test, validate and provide evidence of the effectiveness of risk and governance frameworks and compliance with policies and procedures.

A key supervisory benefit of Solvency II is the increase in data that will be received from insurance firms, particularly with respect to annual and quarterly reporting. The Insurance Directorate has been reorganised in order to maximise this benefit, however work must continue to ensure sufficiency of infrastructure and resources, including continuing work on delivery of our full Solvency II reporting solution as well as increased analytics capabilities.

Cultural Awareness

The Insurance Directorate will focus during 2016 on cultural awareness within firms. Culture is based on morals, values and ethics and the focus on cultural awareness will cover aspects such as boardroom dynamics, risk culture and conduct culture. Observation of company attitudes and behaviours will position supervisors to form a more rounded view on the effectiveness of governance, controls and risk management within supervised companies.

Behavioural patterns and culture are often the root cause of supervisory concerns. The goal of focus in this area is to adopt a more forward-looking approach and preventative method of supervision.

Lower Impact Companies

Lower impact firms form the majority of the regulated insurance firms. Whilst in the past supervision of low impact insurance firms was primarily reactive, during 2016 the Bank will be moving towards a supervisory stance that includes a measure of proactive engagement and inspections of those firms.

These inspections will look at the governance and risk management frameworks of a sample of low impact firms and will test the effectiveness of internal controls, with a focus on reinsurance and outsourcing arrangements. For medium low impact firms, the Bank will look at outsourcing arrangements and the internal controls put in place to mitigate inherent operational risks arising from the outsourcing arrangements.

Owing to the vast number of firms involved, the Bank will need to focus on developing a suitable engagement framework to facilitate this engagement within available resourcing capabilities.

4.3 Markets Directorate: 2016 Priorities and Challenges

Focused on investor protection, market integrity and financial stability, the Markets Directorate is responsible for (i) the supervision of a broad range of investment firms, investment funds and funds service providers covering almost 6,500 entities and (ii) the oversight of Irish securities markets under a wide range of regulatory mandates including various disclosure, market abuse and securities reporting regimes. The core functions of the Markets Directorate are:

1. The operation of a rigorous and efficient authorisation gateway;
2. The effective risk-based supervision of regulated entities; and
3. Oversight of domestic securities markets within the European System of Financial Supervision.

Strategic Priorities

The strategic priorities of the Markets Directorate for 2016 are as follows:

- Effective management of staff complement within the Markets Directorate so as to preserve current levels of experience and further develop capabilities.
- The promotion of a data-driven supervisory culture.
- The migration of funds authorisation onto an electronic workflow platform with a view to (a) eliminating paper-based processes and (b) making funds authorisation and supervision self-funding.
- The promotion a stronger culture of risk and compliance in regulated entities.
- Influencing the international policy agenda on securities and markets issues.

Achievement of these strategic priorities will build a materially stronger platform for the successful delivery of the Markets Directorate's responsibilities in 2016 and also in subsequent years.

International agenda

The International Monetary Fund (IMF) Financial Sector Assessment Programme (FSAP) will be completed in the first half of 2016. The fund sector will be a focus in the assessment, including the development of the relevant methodology for a stress test.

The Bank will continue to take part in the development of European solutions concerning the need for a common IT and reporting platform, as coordinated by ESMA.

Priority Work Streams and Challenges

The priorities for 2016 include:

- The implementation of an extensive supervisory programme of pre-planned, reactive and themed supervisory inspections and reviews.
- Rigorous and efficient authorisation of funds and approval of prospectuses.
- Implementation of a project to automate funds authorisation.
- Continuing to influence international regulatory discussions in relation to securities and markets issues through active engagement with bodies such as ESMA, ESRB and IMF.
- Further development of the supervisory data analytics platform drawing on all relevant data sets collected by the Bank.
- Further refinement of the framework for analysing investment vehicle risk including (i) the development of new modelling frameworks and (ii) the acquisition of external securities trading data.
- Review of the supervisory engagement strategy for assessing governance and outsourcing risks in parallel with revisions to Bank policy in these areas.
- Maintaining high levels of stakeholder engagement so that the Markets Directorate supervisory expectations are understood and so that supervisors are clearly informed about market developments.
- Ensuring the smooth implementation of new legislative requirements, in particular UCITS V.

Challenges to these priorities include:

- The high level of staff turnover remains a significant challenge for 2016 and presents difficulties in maintaining current levels of staff capability and experience. Resources are also needed to train staff with relatively limited experience.
- Dependence on key stakeholders and vendors to support critical project delivery.
- The potential need to reprioritise workload later in the year owing to (i) complexities arising from some supervisory and inspection work, potentially in the area of outsourcing and/or (ii) increased workload driven by ESMA's supervisory convergence priorities and/or (iii) additional workload driven by the European Commission's Capital Markets Union Project.
- Unforeseen legislative implementation issues, e.g. in relation to MiFID II.

Expected Outcomes

The pursuit of these Strategic Priorities and Workstreams will support (a) the achievement of the Markets Directorate's responsibilities and (b) build a stronger and more efficient platform for the future delivery of its mandate. In particular, (i) greater use of supervisory data, (ii) reduced dependence on paper-based processes and (iii) stronger risk and compliance culture in firms will promote a more effective and efficient delivery of regulatory objectives.

4.4 Consumer Protection Directorate: 2016 Priorities and Challenges

Ensuring that the interests of consumers of financial services are protected continues to be a key priority for the Bank in 2016, consistent with our mission 'Safeguarding Stability, Protecting Consumers'. In February, we published our second annual Consumer Protection Outlook Report (CPOR), outlining our consumer protection objectives and our assessment of the current and emerging consumer environment and risks to those objectives, for full consideration by the firms we regulate. The CPOR also sets out a number of priorities that the Consumer Protection Directorate will be focusing on in 2016 in the context of our desired consumer protection outcomes, which are:

- A positive consumer-focused culture that is embedded and demonstrated within all firms;
- A consumer protection framework that is fit for purpose and ensures that consumers' best interests are protected; and
- Regulated firms that are fully compliant with their obligations and are treating their customers, existing and new, in a fair and transparent way.

We adopt a risk and evidence-based approach in prioritising our work, which ensures that we are focusing our resources on those areas where we consider there to be a significant threat to our consumer protection objectives. This includes carrying out a comprehensive annual consumer risk assessment, whereby we examine each of the retail sectors regulated by the Bank to identify current and emerging risks. This assessment is informed by intelligence from a number of internal and external sources.

The CPOR sets out our key priorities for 2016 under our 5 'C's Framework. This framework puts the Consumer at its centre, where the focus of firms must be on delivering positive consumer outcomes within a regulatory framework that is fit for purpose. This can only be achieved where firms have a consumer-focused Culture which enables consumers to have Confidence in the financial decisions they are making and the firms they are dealing with. Firms need to Challenge themselves and be challenged by the Bank where their focus is not on those consumer outcomes. There is a need and appetite for appropriate regulatory action where Compliance standards are not being met.

Consumer Protection Directorate's 5 'C's priorities

Consumer

- In addition to supporting the Department of Finance in its work to implement key EU directives such as the Mortgage Credit Directive and the Payment Accounts Directive into Irish law, we will continue to commit our resources to influencing and shaping the international and European agenda on consumer protection policy matters, including the work of the ESAs. We will continue to have a strong focus on retaining and enhancing the key protections we already have in place as these new provisions are being transposed into Irish law and advocating for a coherent cross sectoral consumer protection framework at a European level.
- We plan to publish, and promote to SMEs, a guide to the new regulations, published in December 2015, for firms lending to SMEs, with which regulated lenders (other than credit unions) must comply from 1 July 2016 or, in the case of credit unions, from 1 January 2017.
- We will conclude our review, following the public consultation, on proposals to potentially strengthen existing protections for variable rate mortgage holders in the Consumer Protection Code 2012.
- We will continue our ongoing monitoring of market developments and will conduct consumer research to inform our work.

Culture

- We will build on our engagement with firms' boards and senior management to ensure that there is a clear focus from the top on embedding and measuring the firms' own cultural change programmes.
- We intend to monitor and challenge how firms are developing their internal consumer protection risk frameworks, including governance arrangements and implementation and monitoring of performance metrics based on a comprehensive understanding of their customers' experiences, behaviours and needs.
- We intend to continue our work in the area of appropriate sales incentives and ensure that firms are responding appropriately to the guidelines issued in 2014 on variable remuneration arrangements for sales staff.

Confidence

- A significant theme currently underway is the broader examination of tracker mortgage-related issues covering, among other things, transparency of communications with and contractual rights of tracker mortgage borrowers. The purpose of the examination is to identify, and appropriately redress where relevant, any cases where:
  - Customers' contractual rights under the terms of their mortgage agreements were not fully honoured; and/or
  - Lenders did not fully comply with the various requirements and standards regarding disclosure and transparency for the customer.
- We will commence an examination of the risks and benefits of commission payments to intermediaries, the first step of which will be to publish a discussion paper on this topic in order to seek input from interested parties.
- We will be following up with lenders on the issues identified as part of the comprehensive themed review in 2015 of how lenders are delivering on the consumer protections prescribed by the Code of Conduct on Mortgage Arrears for borrowers in arrears and pre-arrears.
- Systems failures and errors will continue to be monitored to ensure that firms are delivering on their obligations to ensure that consumers are kept fully informed of any issues and that the impact on the consumer is dealt with in a timely and appropriate way.

Challenge

- Credit Servicing Firms, i.e. firms which service loans sold by regulated lenders to third parties, are now subject to Central Bank regulation. Credit servicing firms will need to demonstrate that they meet the Bank Authorisation Requirements and Standards in order to obtain authorisation.
- We have also developed a new Authorisation Process Model for other retail sectors including payment institutions, electronic money institutions, bureaux de change, retail intermediaries, debt management firms, retail credit firms and moneylenders. This new model has been rolled out for payment institutions and e-money institutions and we will be rolling it out to other sectors during 2016, where applicants can expect greater challenge on their business models and strategies. The model also introduces a more transparent process for applicant firms in terms of information required and timelines for decisions.

Compliance

- We will continue our reviews of investment products focusing on the sale of structured products to retail consumers.
- The sale of private health insurance is also being examined, particularly in relation to compliance with the Bank's requirements at time of renewal. Due to the large number of variations in products available on the market, this will continue to be an area of focus for us.
- Insurance companies are required to ensure that any claim settlement offer made to a claimant is fair and to ensure that claimants are given sufficient time to accept or reject an offer. We intend to review

compliance in this area to ensure that insurers are meeting their obligations, with a specific focus on motor insurance.

- We will continue to focus our supervisory work on firms that are not meeting the minimum standards in terms of complying with reporting and other obligations to the Bank. While many of these firms are small they can nevertheless pose a serious threat to our objectives, as non-compliance in one area can often be a sign of wider issues which can negatively impact on consumers.
- We will increase the frequency of our proactive firm-specific inspections of firms in the retail intermediary sector.

4.5 Policy and Risk Directorate: 2016 Priorities and Challenges

Strategic priorities

In 2016, the Bank will continue to provide strong **support for supervisors** in implementing the post-crisis regulatory framework. It will lead the development of a **policy network** within the organisation to enhance policy-related competencies of the Bank.

In Europe we will engage actively, both in the **European Supervisory Authorities and the Single Supervisory Mechanism**, to contribute to high quality financial services regulation that also reflects appropriately the Irish context.

We will take forward a **review of the PRISM supervisory risk framework**. This will include consideration of possible enhancements to the approach to impact, probability, and the supervisory engagement framework and our approach to low impact firm supervision as suggested by recent peer reviews.

To address the material increase in the frequency, sophistication and severity of cyber-attacks on financial sector firms, the Policy and Risk Directorate will lead the development of a Bank-wide strategy on **technology and cyber risk** and will coordinate an effective programme of **stakeholder relations** during 2016.

Priority Work Streams and Challenges

In **Banking**, via membership of key EBA committees, the Bank will actively contribute to EBA policy developments on capital, leverage ratio, liquidity risk, securitisation and covered bonds and International Financial Reporting Standards (IFRS) 9.

On the domestic regulatory front, the Bank intends to conduct a review of the national covered bonds framework in light of developments at EU and national level. It also intends to develop and consult on a Central Bank policy statement on third country branches. The Policy and Risk Directorate will continue to advise Banking Supervision on banking policy queries and assist in embedding the regulatory framework in supervisory practices through ongoing training and engagement.

The Bank continues to seek to strengthen its policy engagement within the SSM. Key policy issues will include harmonisation of CRDIV/CRR competent authority options and discretions across the SSM, Total Loss Absorbing Capacity (TLAC) implementation, Minimum Requirement for Own Funds and Eligible Liabilities (MREL) review, SREP methodology review (via input to the SSM Methodology and Standards Network) and development of a consistent supervisory framework with regard to non-performing loans.

In the context of Level 1 legislative development, the Bank will continue to provide technical advice to the Department of Finance in EU Council negotiations including on proposals for Simple, Transparent and Standardised Securitisation (STS) and the third pillar of banking union – the European Deposit Insurance Scheme (EDIS).

In **Insurance**, implementation of Solvency II remains a key priority. In 2016 PRD will continue to support embedding Solvency II within the Central Bank supervisory framework. The Policy and Risk Directorate will increase its active participation in EIOPA with a particular focus on the Solvency Capital Requirement (SCR), groups supervision, equivalence, regulatory reporting and development of the Supervisory Handbook.

In addition, the Department of Finance has commenced an Insurance Policy Review, with the objective of recommending measures to improve the functioning and regulation of the insurance sector. The Policy and Risk Directorate will lead Bank engagement and input to this review.

The Policy and Risk Directorate will provide the strategic lead for the Bank's engagement with the European Commission's Plan for **Capital Markets Union**. The Plan is designed to improve the diversity of funding sources for businesses, enhance investment opportunities for savings and reduce barriers within the Single Market for cross border investing. Regulatory settings for securitisation and prospectuses are two examples within a broad range of issues to be examined – some of critical importance to Ireland.

The Bank is represented and plays an active role in the FSB and the most significant international policy making bodies for **Shadow Banking** issues. This involves work in the IOSCO and the ESRB, to assess the threats to financial stability posed by shadow banking and to develop corresponding mitigants.

In November 2015, the Bank published guidance for **funds management** companies which focused on the role of directors and supervision of delegates, organisational effectiveness and time commitments. Further work is underway on guidance for fund management companies which will address managerial functions, operational and procedural matters which will be issued for public consultation later this year.

Following the publication of a consultation paper in November 2015, the Bank will develop a single rulebook for investment firms, in the form of Central Bank Regulations. The new Regulations will consolidate all of the conditions and requirements which the Bank imposes on investment firms. Additionally, the Bank will work towards converting the single AIF rulebook into Central Bank Regulations.

The Bank is also contributing to the **transposition** of UCITS V and MiFIDII/MiFiR legislation and associated work on regulation that will continue in 2016 and the next year.

What We Expect to Achieve

By the end of 2016 we expect to have enhanced further the suite of measures strengthening the framework for the regulation of banking, insurance and funds.

The Bank's effectiveness in Europe will be maintained and strengthened with continued strong representation helping deliver high quality regulatory outcomes.

The Bank will have strengthened further its policy function and risk-based supervisory framework through the work of the Policy Network and PRISM enhancements. This will contribute to delivery of the Bank's Strategic Plan 2016-2018 including ensuring that the regulatory frameworks are appropriate and effective and that the firms we regulate operate to high standards.

4.6 Enforcement Directorate: 2016 Priorities and Challenges

The Bank's strategic priorities for 2016 build on work carried out over recent years in using the range of available enforcement powers to achieve credible deterrence.

Administrative Sanctions Procedure (ASP) Cases Referred to Inquiry

Three ASP cases have been referred to Inquiry to date under Part IIIC of the Central Bank Act 1942 (as amended). These cases relate to: Irish Nationwide Building Society and persons who were concerned in its management;

persons who were concerned in the management of Quinn Insurance Limited (under administration); and an insurance intermediary.

The Bank anticipates that these Inquiries will be held during 2016. Two individuals who were involved in the management of the Irish Nationwide Building Society have taken three sets of High Court civil proceedings against the Bank relating to the Inquiry process. We will continue to defend these proceedings and related appeals, together with any other potential challenges to the Bank's enforcement powers, in 2016. The defence of the High Court proceedings and related appeals, along with preparations for the Inquiries, are key priorities for the Bank for 2016.

Use of Enforcement Powers to Hold Regulated Firms and Individuals to Account

The Bank will continue to use the range of its powers to carry out robust investigations of regulated firms and individuals. The Bank's enforcement powers include powers to impose administrative sanctions, prohibit persons who do not meet applicable fitness and probity standards from performing specified functions in the financial services industry, revoke or refuse firms' authorisation to carry out regulated financial services.

An important aspect of our case-work relates to cases where applicants for Pre-approval Controlled Functions or persons in Controlled Functions may not meet the required standards of fitness and probity. The Bank is strategically reviewing the exercise of its fitness and probity powers; the Enforcement Directorate will continue to be fully involved in this work, to ensure the maximum effectiveness of the Bank's powers in this area.

The Bank will continue to use its powers to carry out on-site inspections and interview individuals in order to carry out robust investigations. This will enable the Bank to obtain a comprehensive view of potential enforcement issues and deal with them effectively.

In order to foster and maintain a culture of compliance within the financial services industry, the Bank will continue to commit resources to investigating individuals and holding them to account where their behaviour does not meet the required standards.

Collaboration with the SSM

The Bank will continue to work with the SSM to assist in progressing enforcement matters within its jurisdiction.

Anti-Money Laundering/Counter Terrorist Financing (AML/CFT) Supervision

Ireland has an inter-agency strategy to combat money laundering and terrorist financing and the Bank works with An Garda Síochána, the Revenue Commissioners, the Department of Justice, the Criminal Assets Bureau, the Department of Finance and other state agencies in this regard. The Bank is responsible for monitoring the compliance of 11,000 credit and financial institutions with the requirements of Part 4 of the Criminal Justice (Money Laundering and Terrorist Financing) Act, 2010 (CJA 2010).

The following are the Bank's priorities with regard to AML/CFT supervision:

- Ensure appropriate and effective AML/CFT supervision of credit and financial institutions;
- Conduct supervision commensurate with the risk of money laundering and terrorist financing; and
- Monitor for effective application of preventative and detection measures by credit and financial institutions.

During 2016 activities to achieve these priority outcomes will include:

- The **Financial Action Task Force Mutual Evaluation** of Ireland's AML/CFT framework. Elements of the AML/CFT framework will also be considered as part of the **IMF Financial Assessment Sector Programme**. The Bank welcomes the opportunity to engage with these evaluations and the opportunity that both represent to further improve Ireland's AML/CFT framework;
- A programme of **on-site inspections** across all financial services sectors including banks, payment institutions, bureaux de change, e-money, securities and investment firms, funds, credit unions and retail intermediaries. While all of the requirements of Part 4 of the Criminal Justice (Money Laundering and Terrorist Financing) Act, 2010 will be covered by the inspection programme, the supervisory approach will be driven by the different money laundering/terrorist financing risks faced by each firm and particular areas of focus will include outsourcing, customer due diligence and suspicious transaction reporting;
- A programme of **AML/CFT review meetings** with the key AML/CFT control function holders. Firms' own AML/CFT risk assessments will be of particular focus during these meetings;
- The development, introduction and roll out of an **online AML/CFT return** that will be submitted by credit and financial institutions to the Bank on a periodic basis, depending on the money laundering/terrorist financing risk profile of that firm.
- The provision of guidance and feedback to assist credit and financial institutions in applying AML/CFT measures. This **outreach programme** will consist of the publication of AML/CFT reports and bulletins and participation in speaking engagements nationwide.

European and global engagement on AML/CFT supervision and policy matters will also continue to be a priority. The Bank actively participates in the European Supervisory Authorities' Anti-Money Laundering Committee and its working groups on risk and central contact points for payment institutions. The Bank also actively participates at a global level in the Financial Action Task Force and its Evaluation Compliance Group and Policy Development Group.

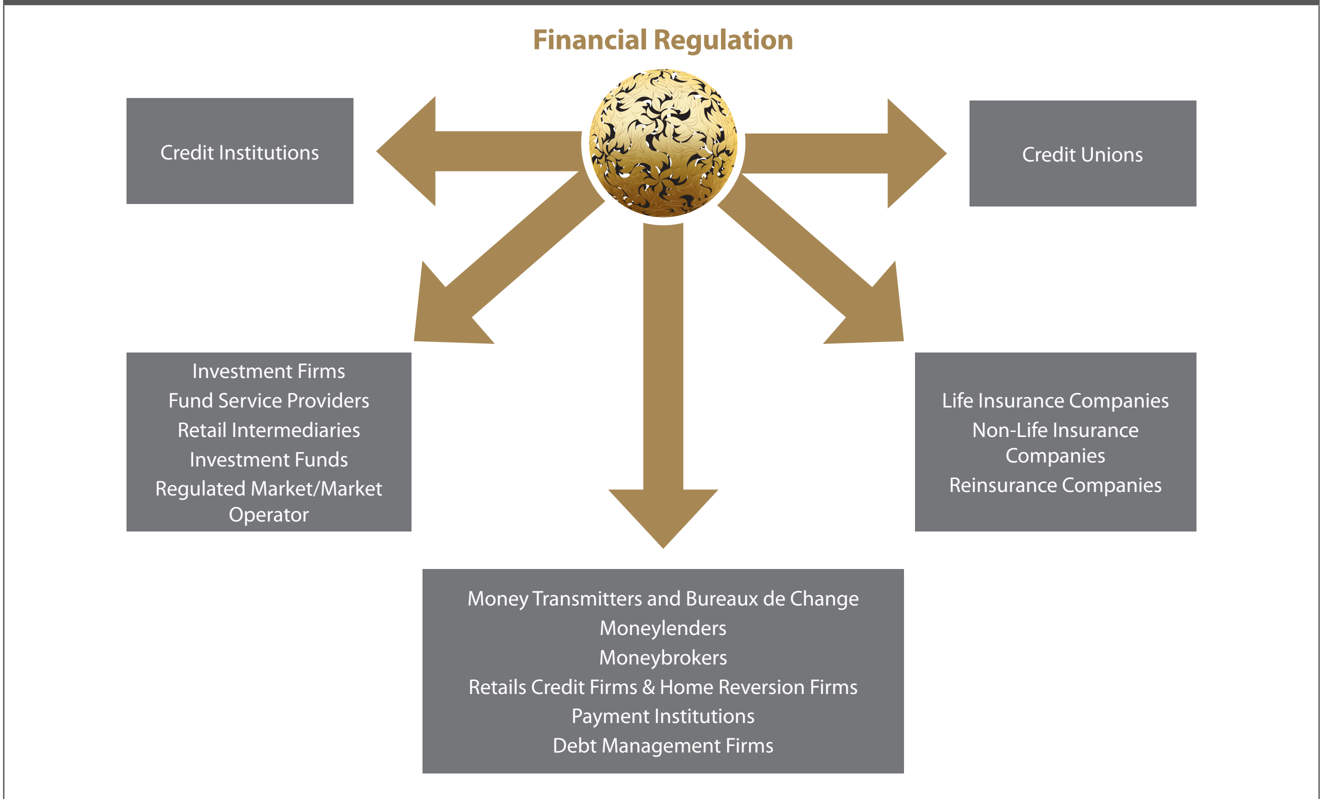
Chapter 5: The firms we regulate and how we regulate them

This Chapter sets out the following: Section 1: The range and volume of Financial Service Providers that are regulated by the Bank; Section 2: An overview of the tools, and methods that are implemented in order to effectively regulate, supervise and monitor Financial Service Providers, and the resulting outcomes; and Section 3: The measured Performance that underpins the associated regulation.

5.1 Who we regulate

The Bank is responsible for the proper and effective regulation of financial institutions and markets. In 2015 the Bank had responsibility for the regulation of 9,981 Financial Service Providers. Chart 5.1 below displays the range of providers, and Charts 5.2 and 5.4 the volume.

Chart 5.1: Firms that are regulated by the Bank



The Bank assumed responsibility for the authorisation and supervision of an increased number of financial service providers which is illustrated below, including responsibility for the supervision of the first Electronic Money Institution, and the authorisation of 79 ICAVs (214 including sub-funds).

Chart 5.2: Total Financial Service Providers 2012 – 2015

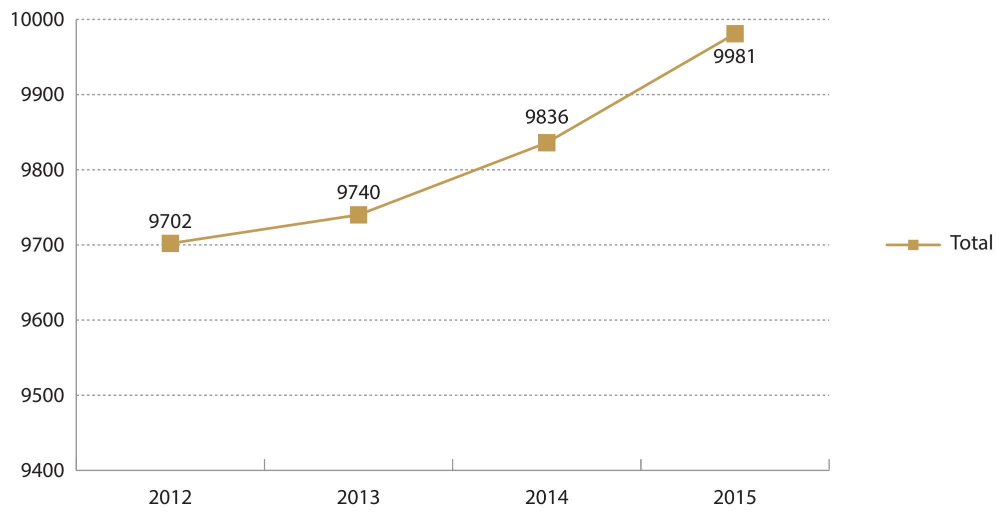


Chart 5.3: Newly Regulated/Authorised Financial Service Providers

Electronic Money Institutions	2015: Regulation of **first Electronic Money Institution**
Irish Collective Asset Management Vehicle (ICAV)	2015: **79 ICAVs (214 including sub-funds)** were authorised
Other Financial Service Providers	2015: **Increase in volume** of Money Transmitters & Bureaux de Change, Moneylenders and Debt Management Firms

Chart 5.4: Breakdown of Financial Service Providers 2012 - 2015

Chart 5.4.1: Credit Institutions

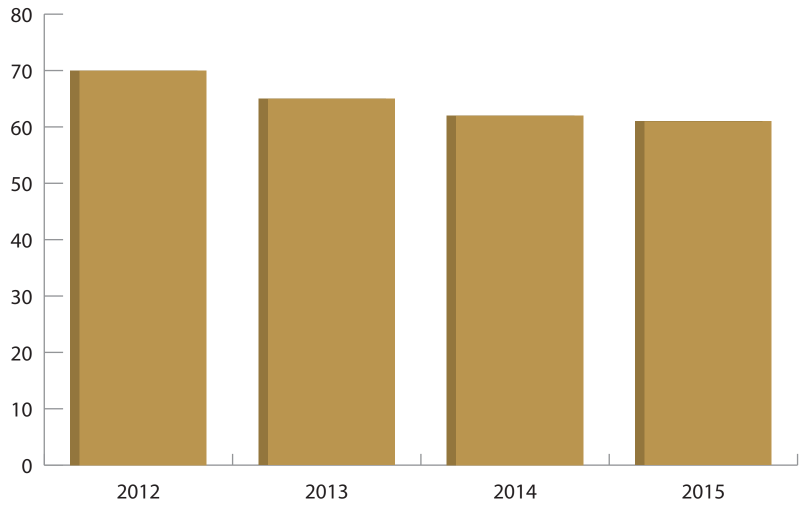


Chart 5.4.2: Credit Unions

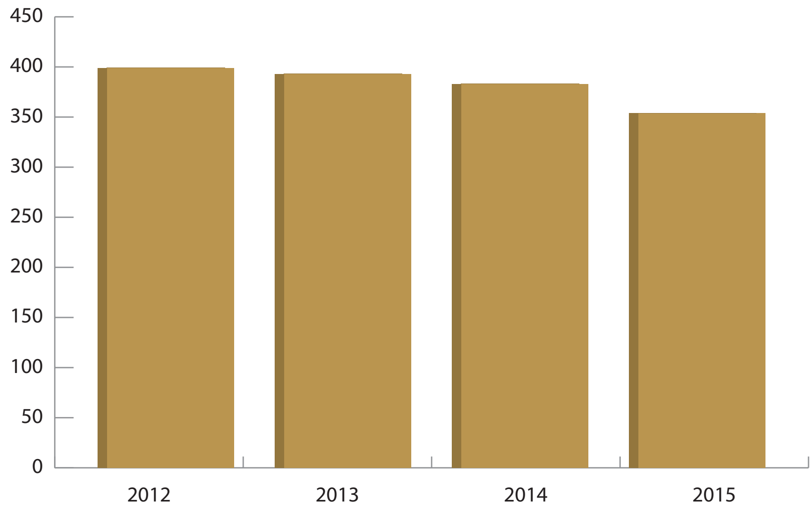


Chart 5.4.3: Insurance

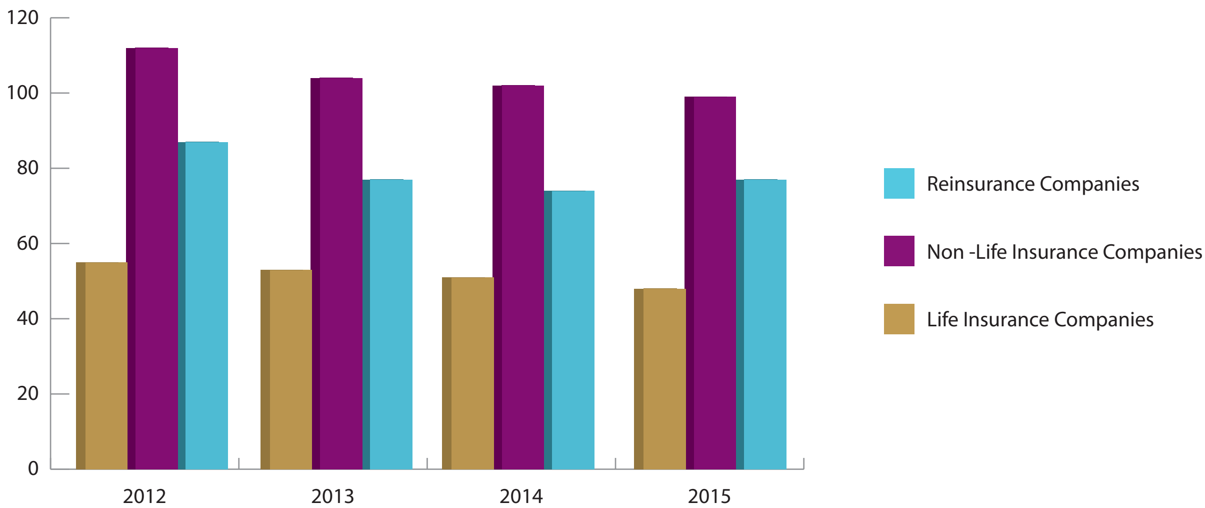


Chart 5.4.4: Investment Firms & Funds Service Providers

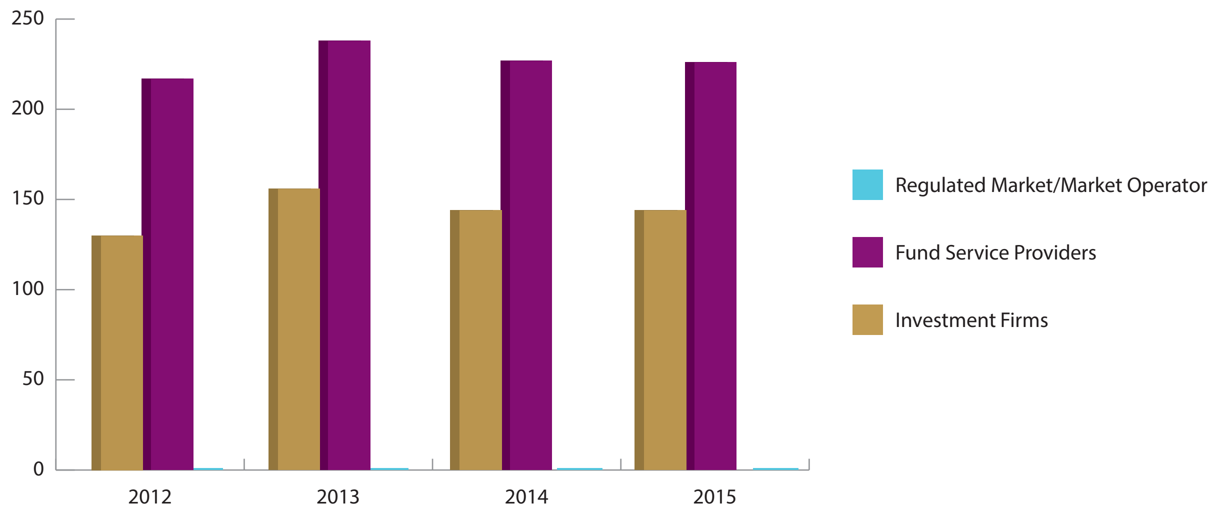


Chart 5.4.5: Investment Funds

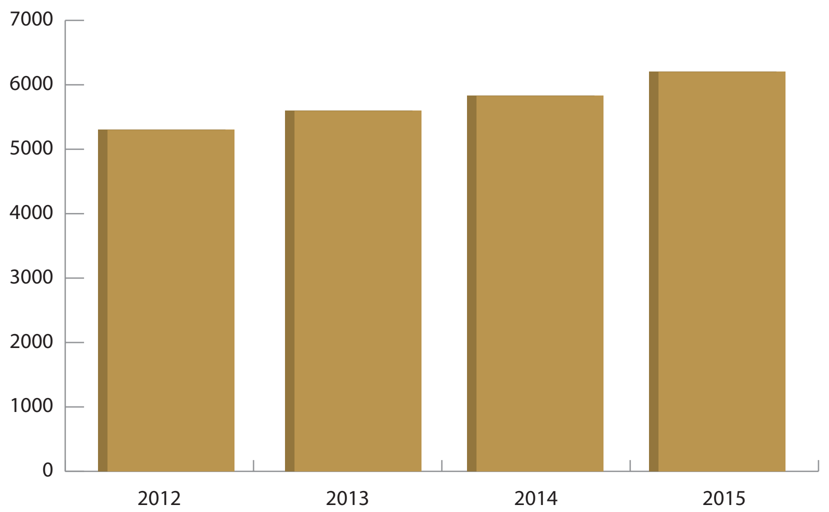


Chart 5.4.6: Retail Intermediaries

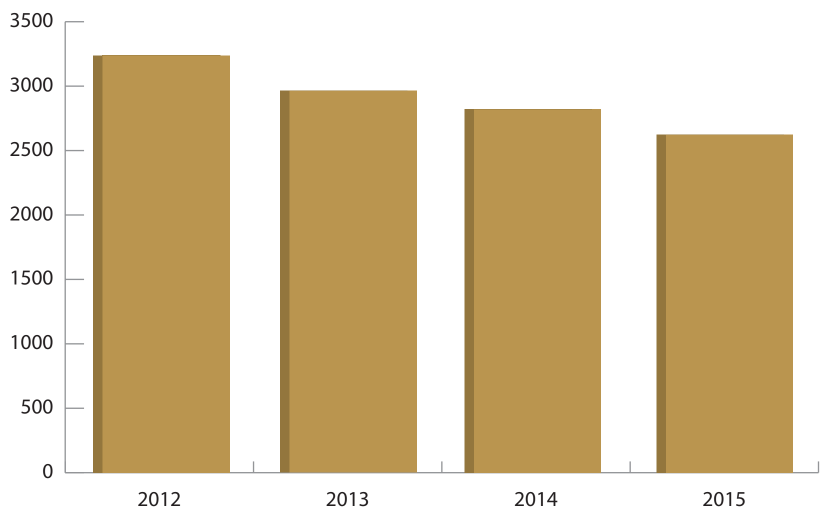
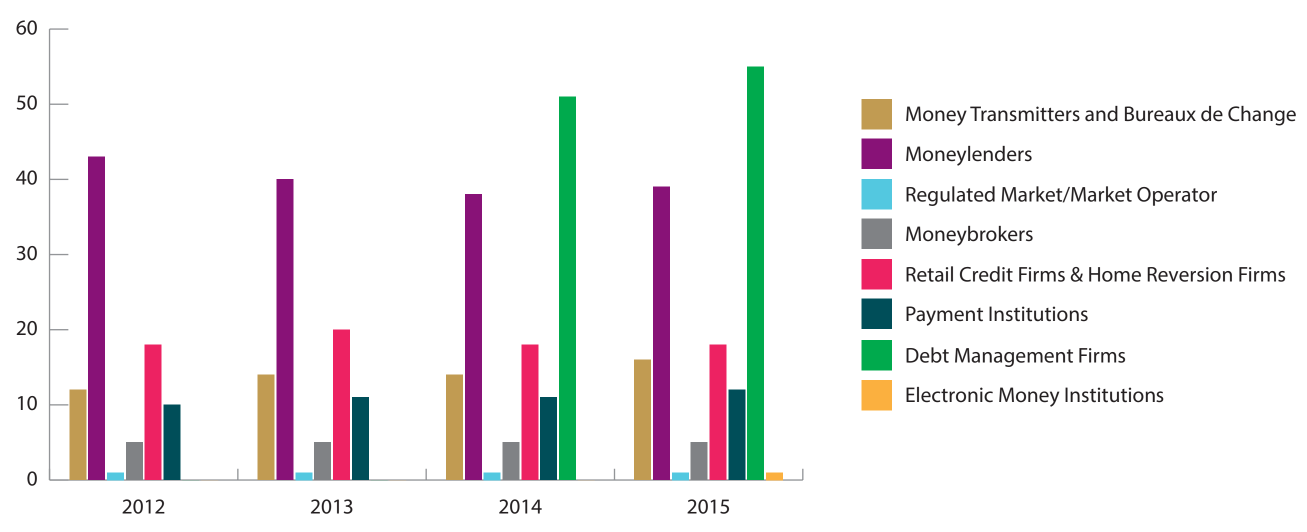


Chart 5.4.7: Other Financial Service Providers



There was an increase in the volume of authorisations (18%) and revocations (6%) processed in 2015, as set out in Chart 5.5. A total of 2,189 authorisations were made in 2015.

Chart 5.5: Volumes of Authorisations and Revocations 2014, 2015

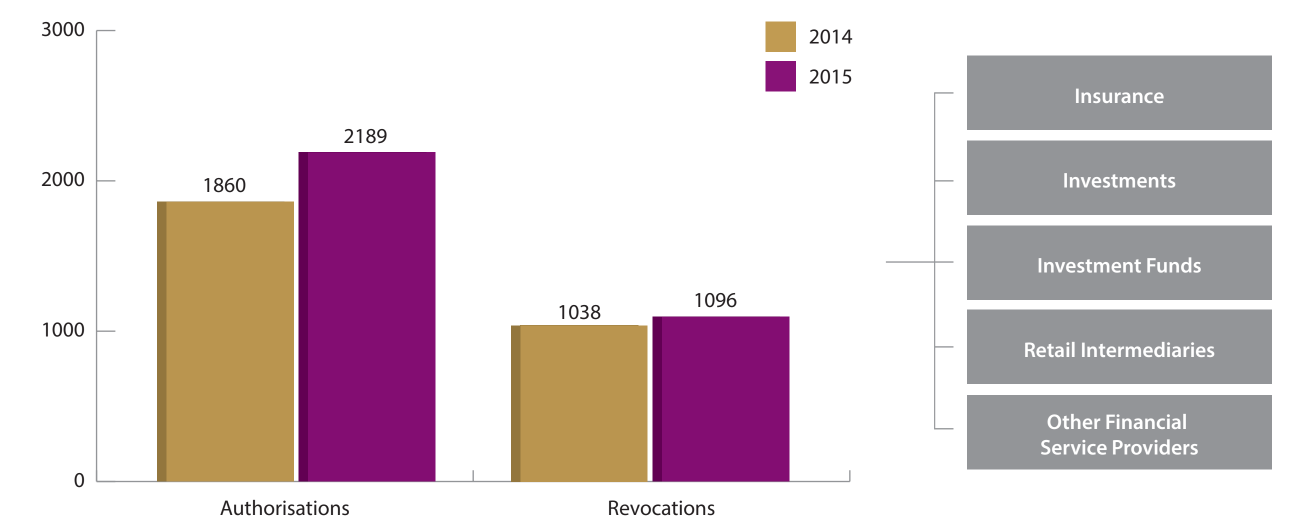
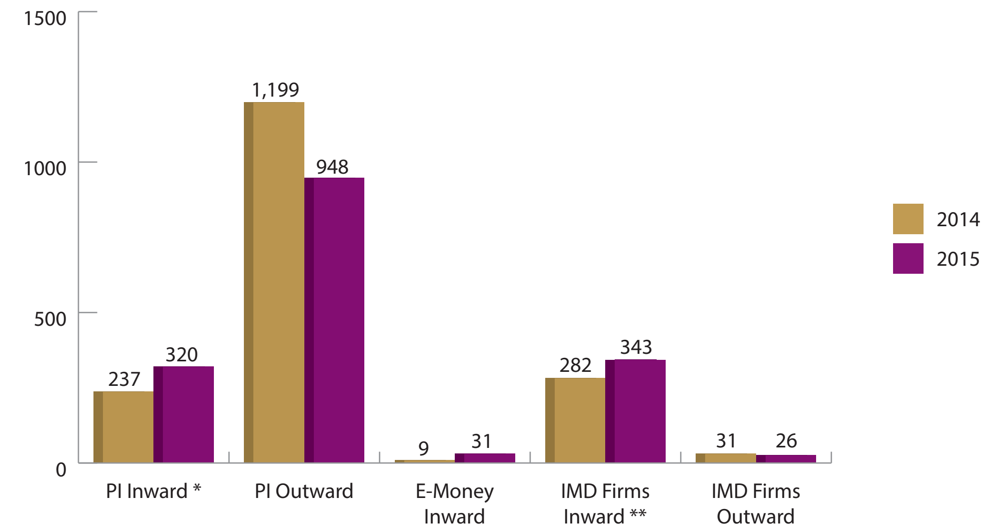


Chart 5.5.1: Passporting Notifications 2014, 2015



* Payment Institutions
** Insurance Mediation Directive

5.2 How We Regulate

The Bank's supervisory activities and outcomes across all financial sectors continued to be underpinned by its assertive risk-based approach to supervision, coupled with the credible threat of enforcement. Central to those activities is the Bank's focus on its strategic and statutory objectives of *Safeguarding Stability, Protecting Consumers*. In particular, there was increased activity in reviews and on-site inspections with a total of **696** carried out in 2015 under the prudential supervision engagement process, as well as themed consumer-focused and AML/CFT inspections.

5.2.1 Prudential Supervision Engagements

Charts 5.6 and 5.7 set out the volume of supervisory engagements conducted across the following sectors: Banking; Insurance; Consumer Protection; and Investment Firms and Funds Supervision. There was an overall increase of **21%** in prudential supervisory engagements in 2015.

Chart 5.6: Prudential Supervisory Engagements and Themed Inspections

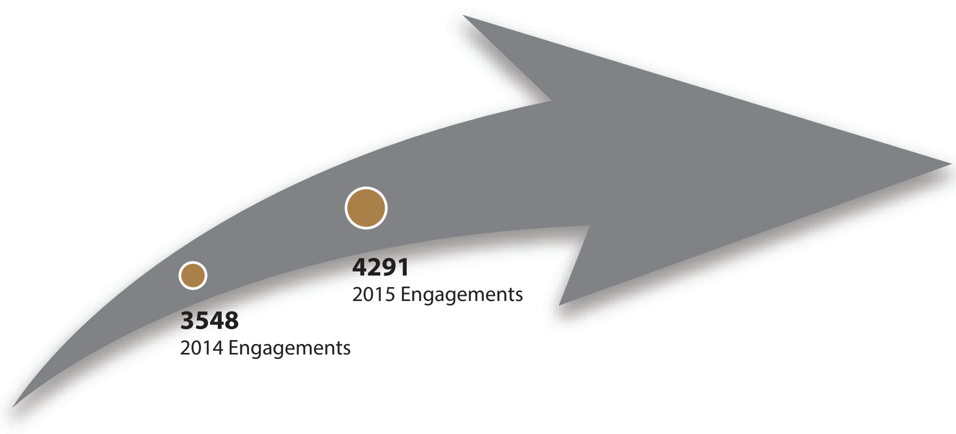
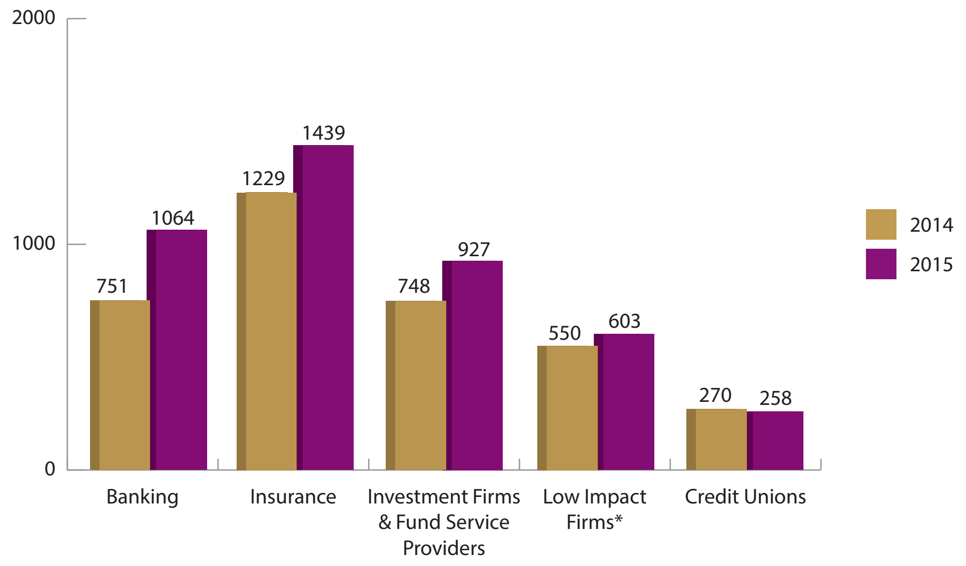


Chart 5.7: Prudential Supervisory Engagements and Themed Inspections by Sector[12]

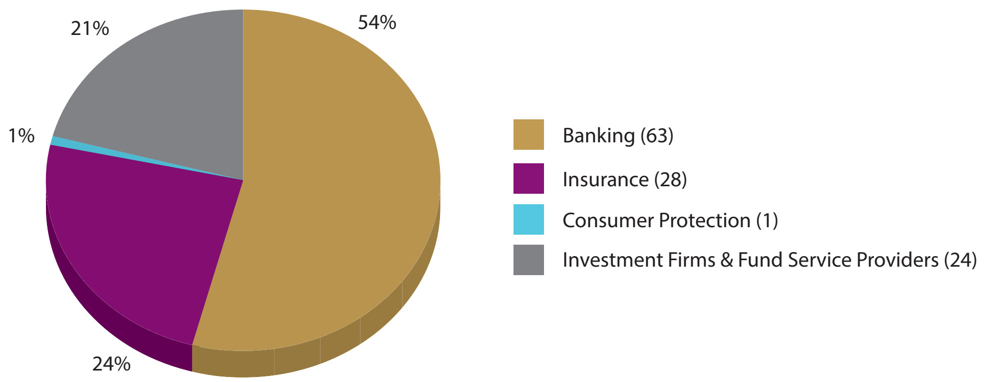


*Includes Themed Consumer Focused Inspections

5.2.2 Inspections

Charts 5.7, 5.8 and 5.9 set out a range of supervisory engagements carried out as part of the Prudential Supervision Engagement process, Themed Consumer Focused inspections, and AML/CFT/FS inspections.

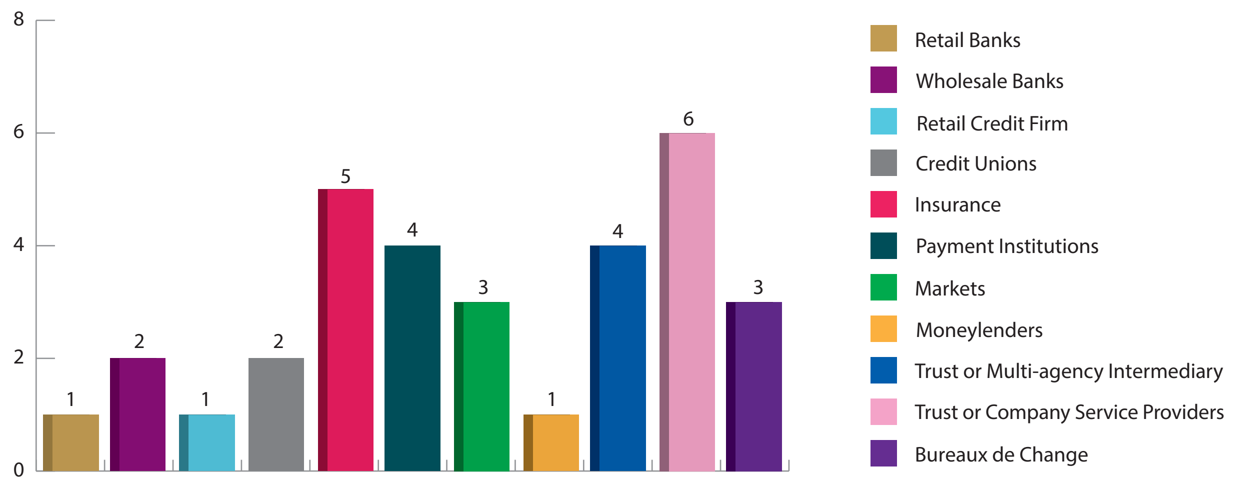
Chart 5.8: Prudential Supervisory Reviews or Inspections 2015[13]



12 Low Impact Firms include payment institutions, retail intermediaries, moneylenders, credit servicing firms, debt management firms, e-money firms and bureaux de change firms.

13 Excluding themed consumer focused inspections (see Chart 5.7) and AML (see Chart 5.9).

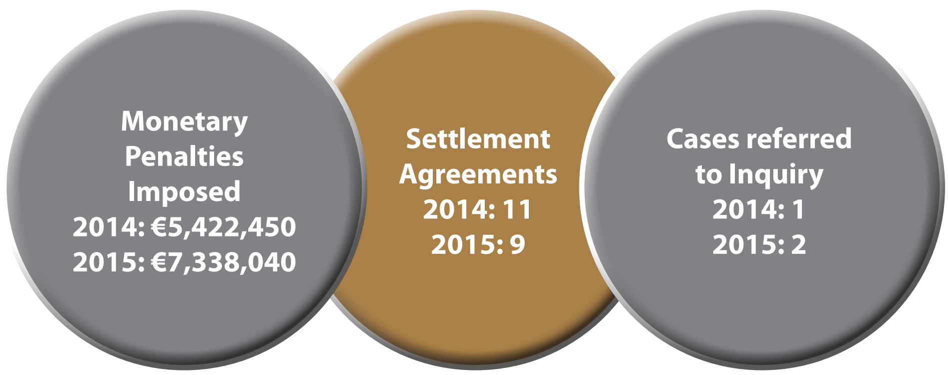
Chart 5.9: AML/CFT/FS Inspections 2015



5.2.3 Regulatory Actions

Where a financial service provider fails to comply with their regulatory requirements, enforcement is an important tool to affect deterrence, achieve compliance and promote the behaviours expected.

Chart 5.10: Enforcement Actions



5.2.4 Markets Supervision

The Bank is responsible for the monitoring and supervision of the primary and secondary markets in Ireland. In this regard it is responsible for (i) monitoring compliance by market participants with the Market Abuse Directive; (ii) approving prospectuses issued under the Prospectus Directive; (iii) monitoring Transaction Reporting under MiFID; and (iv) reviewing company disclosures under the Transparency Directive. Chart 5.11 sets out investigations conducted under the Market Abuse Directive and Short Selling Regulations and records a 34% increase in enquiries completed regarding possible contraventions. Chart 5.12 illustrates a 53% increase in the number of final terms filed, and a 38% increase in the number of documents/notifications published. Further actions are set out in Chart 5.13 concerning market monitoring transaction reports and Chart 5.14 on Company Information Disclosures.

Chart 5.11: Investigations under Securities Law 2014, 2015

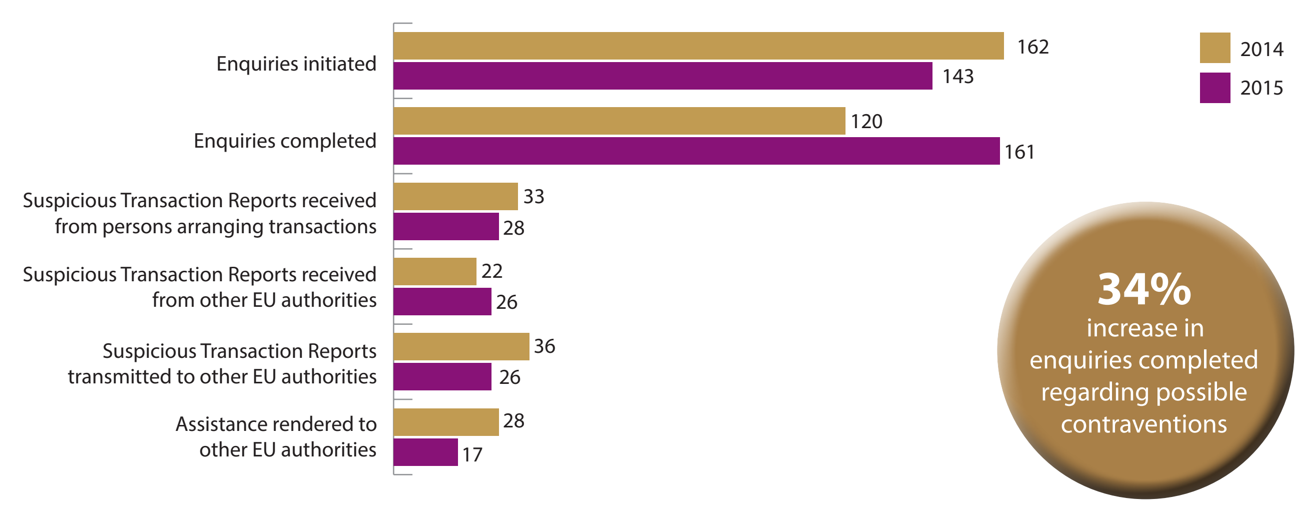


Chart 5.12: Prospectus Approval Process 2014, 2015

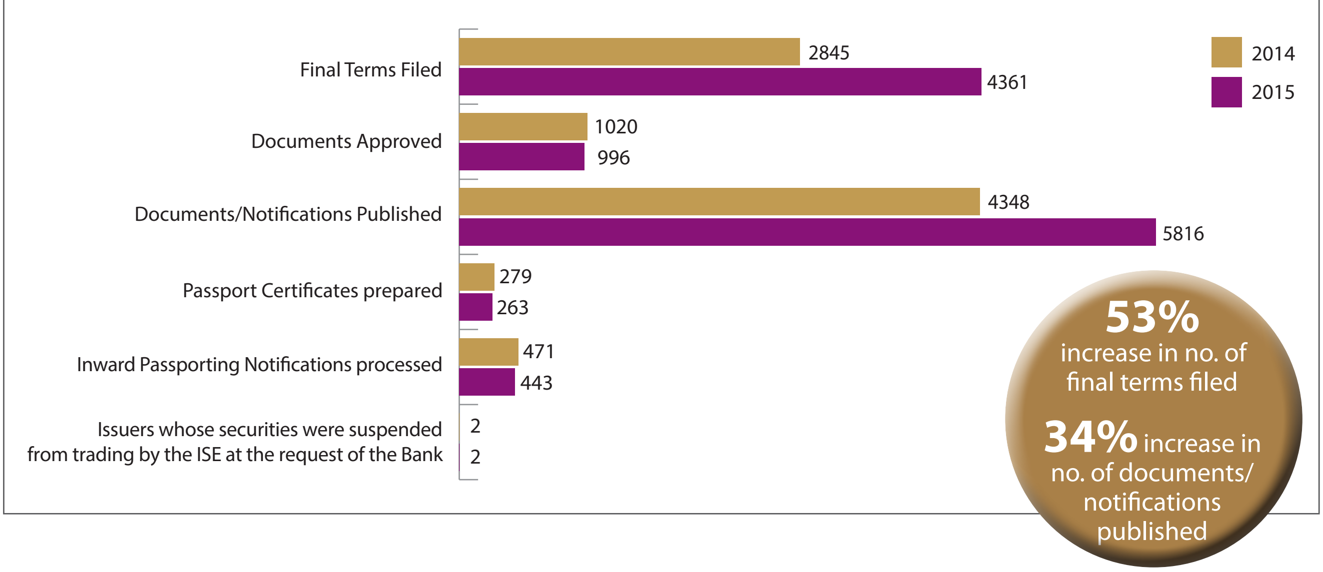
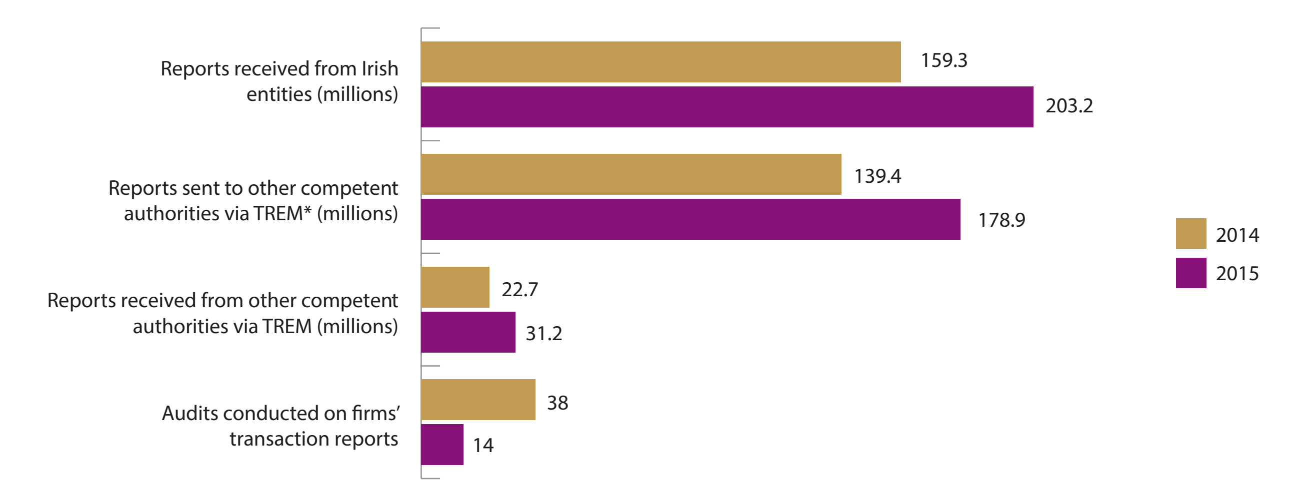


Chart 5.13: Market Monitoring Reports 2014, 2015



* Transaction Reporting Exchange

Chart 5.14: Company Information Disclosures 2014, 2015

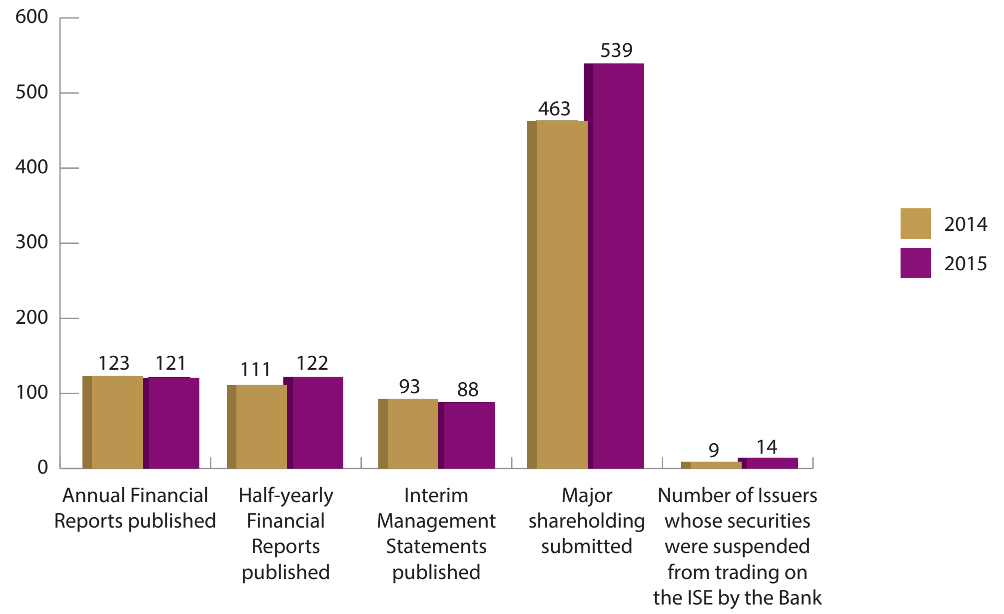
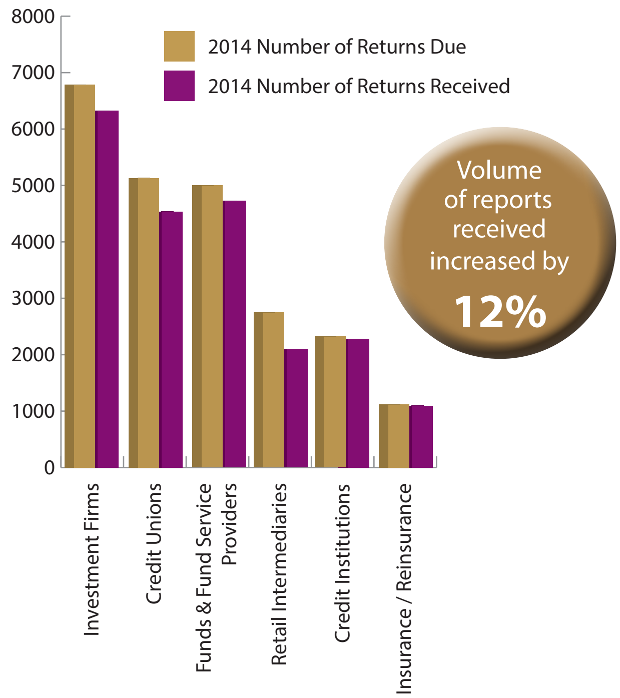
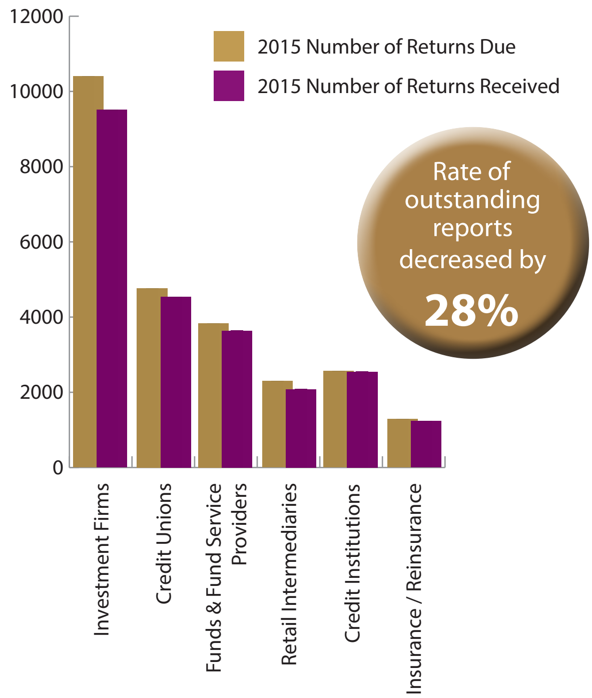


Chart 5.15: Online Reporting by sector





5.3 Performance Metrics

5.3.1 Fitness and Probity

The Bank's mandate to deliver proper and effective regulation of financial institutions and markets is effected through a range of tools, one of which involves the assessment of applications for approval of persons under the fitness and probity standards. Charts 5.16 and 5.17 below set out the volume of applications by sector and by status. In 2015 there was a significant increase of 60% in applications that were withdrawn by applicants during the course of the approval process.

Chart 5.16: Fitness and Probity Applications by Sector

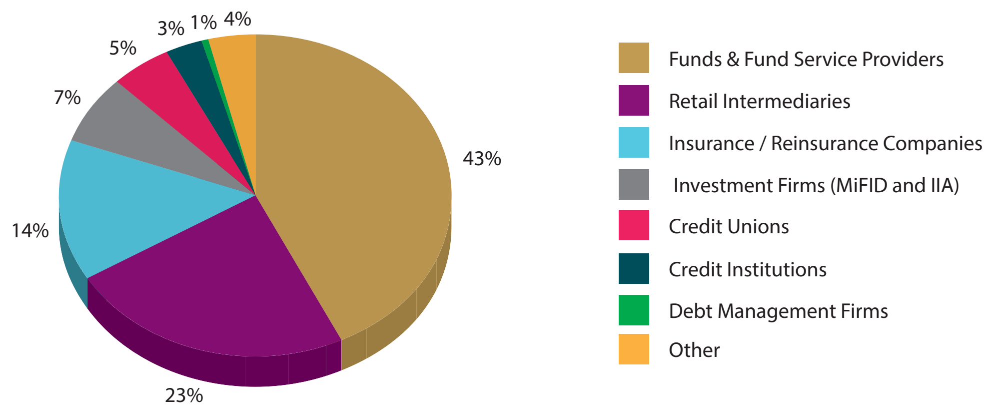
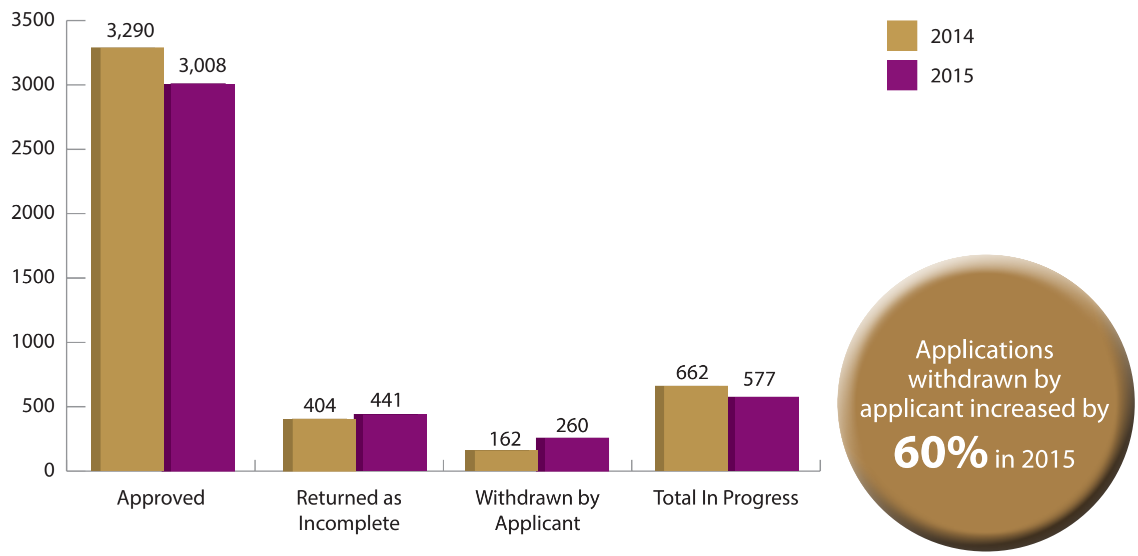


Chart 5.17: Fitness and Probity Applications by Status



In 2015, following fitness and/or probity concerns raised by supervisors in relation to proposed appointments to Pre-Approval Controlled Functions in regulated firms, the Bank conducted 22 interviews following which, ten proposed appointments were subsequently withdrawn, one proposed appointment was refused and another is currently with a decision maker.

5.3.2 Performance against Targets

Chart 5.18 sets out the Bank's performance against targets and demonstrates that 94% of targets were met or exceeded in 2015.

Chart 5.18: Overall Performance against Targets

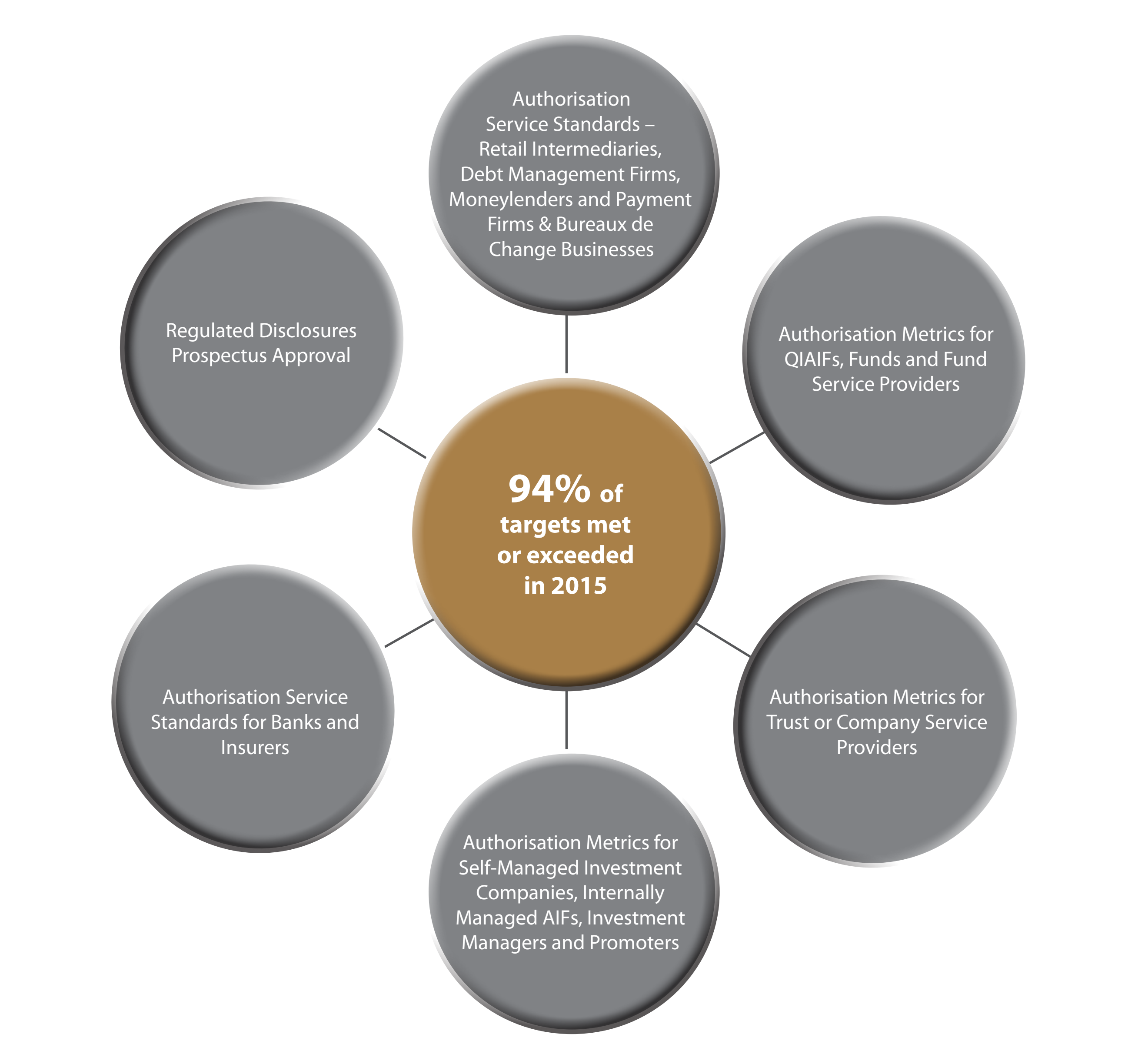
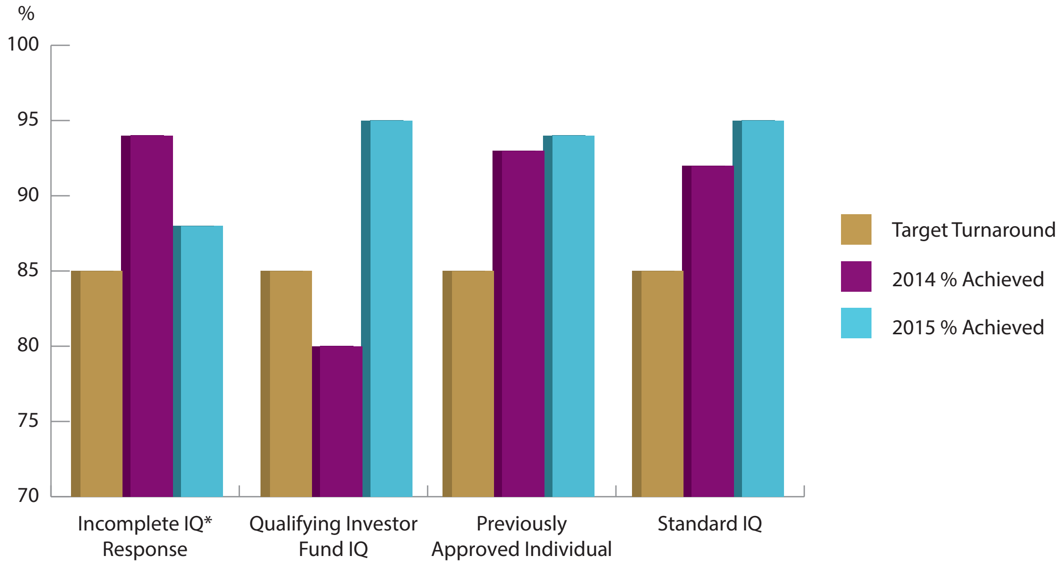
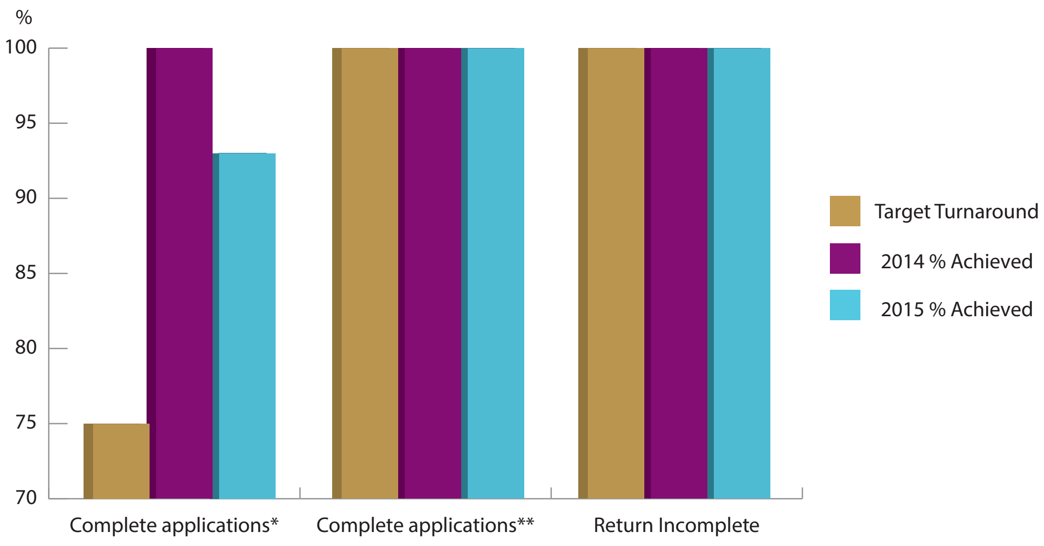


Chart 5.19: Performance against Fitness and Probity Standards – All Sectors



*IQ – Individual Questionnaire

Chart 5.20: Authorisation Service Standards for Banks and Insurers



*3 Months
**6 Months

Chart 5.21: Authorisation Metrics for QIAIFs, Funds and Fund Service Providers

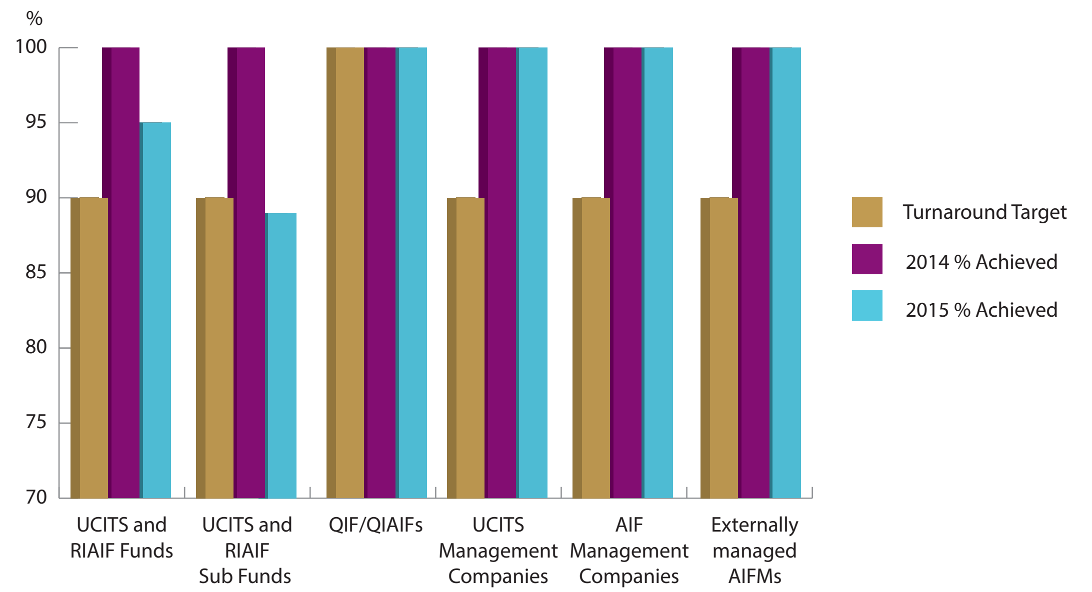
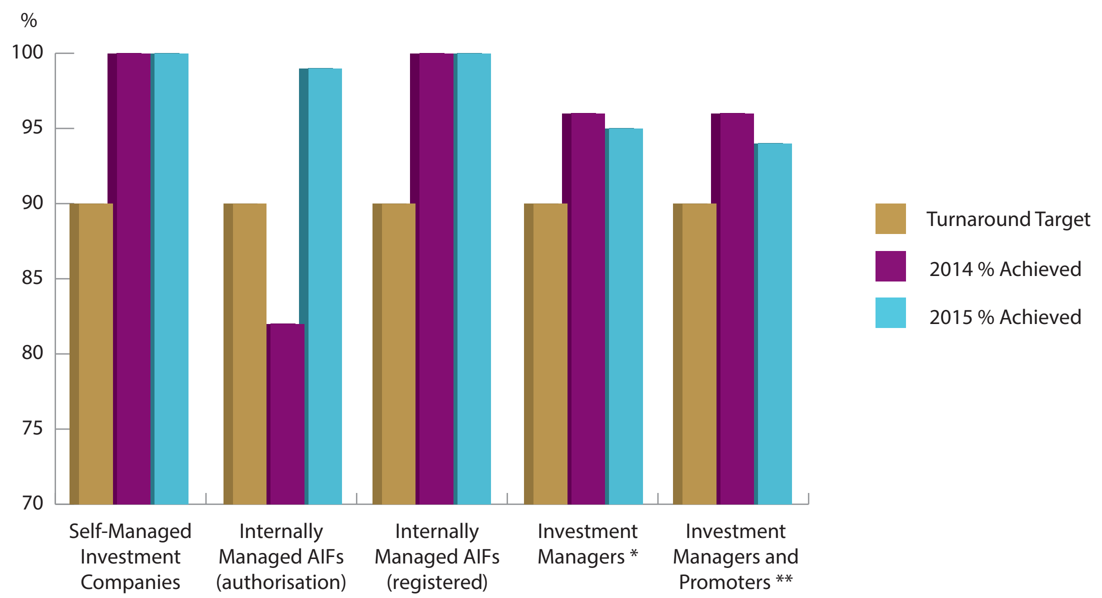
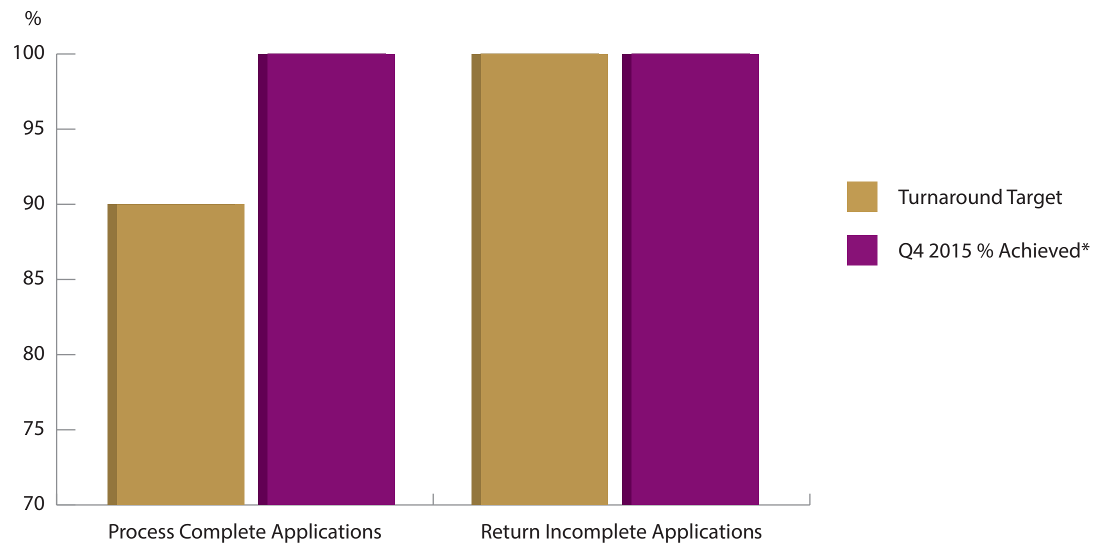


Chart 5.22: Authorisation Metrics for Self-Managed Investment Companies, Internally Managed AIFs, Investment Managers and Promoters



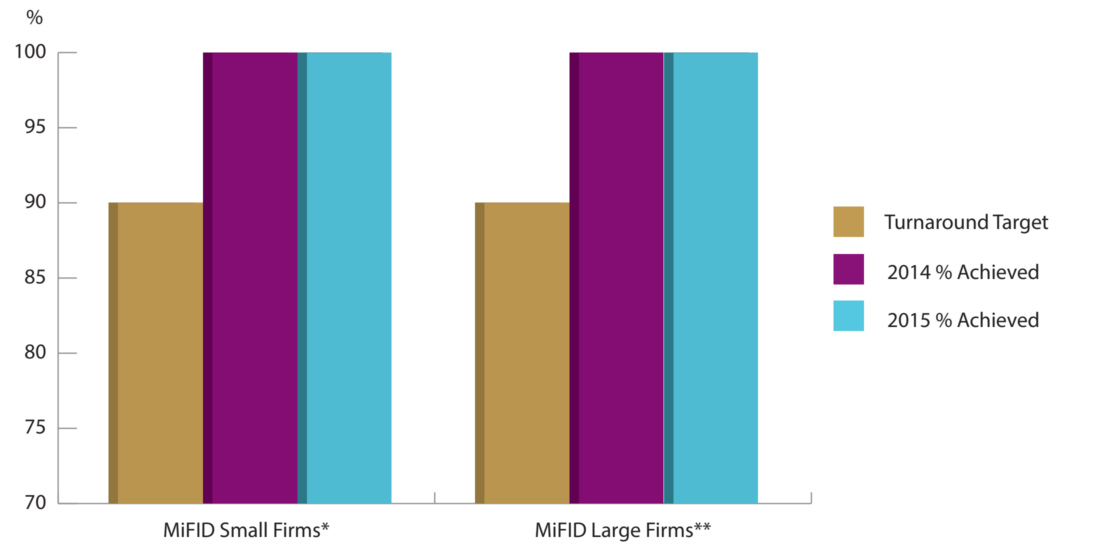
*(EU Authorised)
**(Non-EU Authorised)

Chart 5.23: Authorisation Metrics for Trust or Company Service Providers - Applications



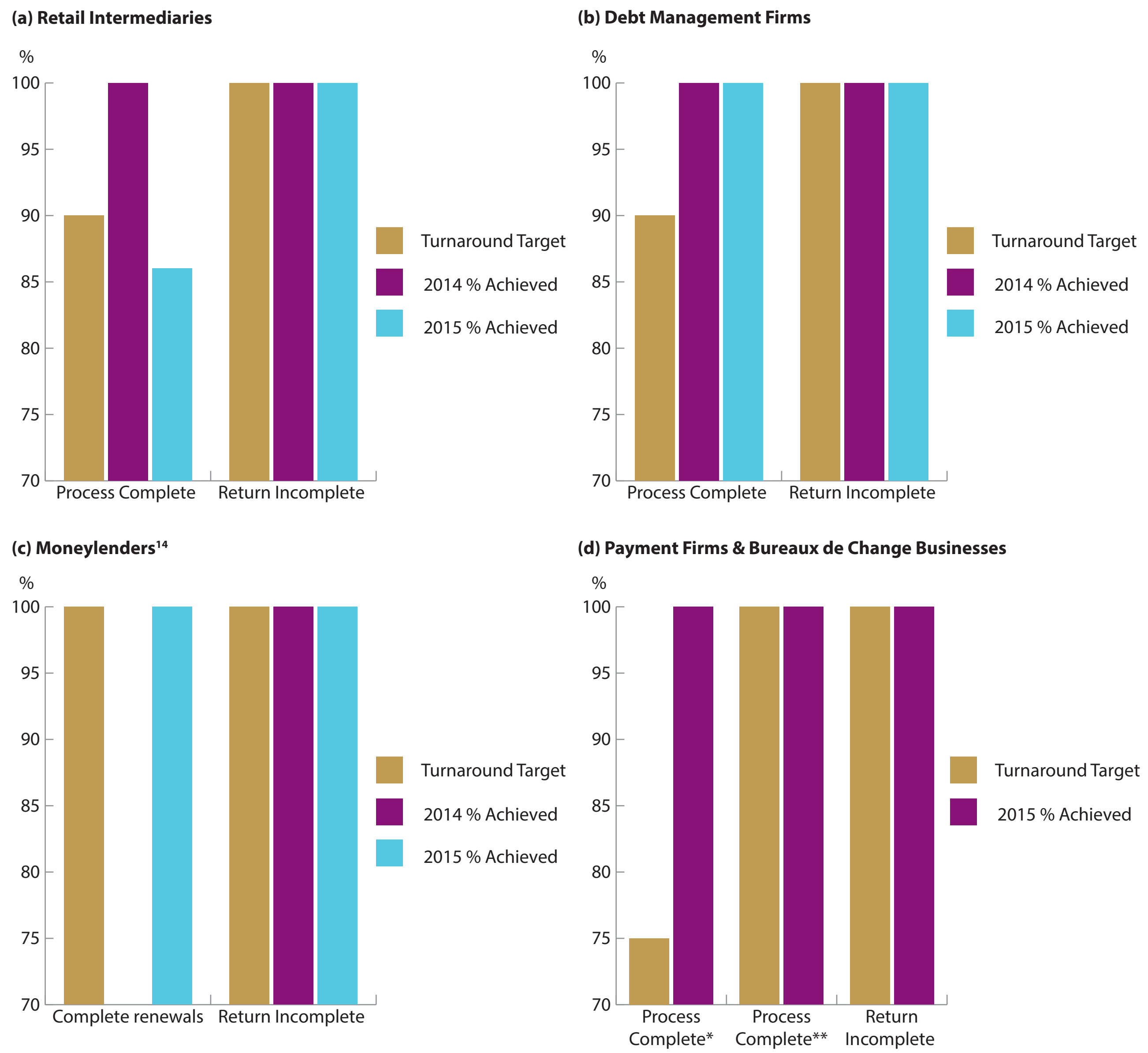
*Service Standards were introduced in Q4 2015, so earlier information is not available

Chart 5.24: Authorisation Metrics for Investment Firms



*Small firms with non-complex investment strategies
**Larger firms or those with complex investment strategies

Chart 5.25: Authorisation Service Standards – Applications



*3 months
**6 months

14 Service Standards were introduced in Q4 2014, so earlier information is not available. There were no complete renewals received in Q4 2014.

Chart 5.26: Regulated Disclosures – Prospectus Approval

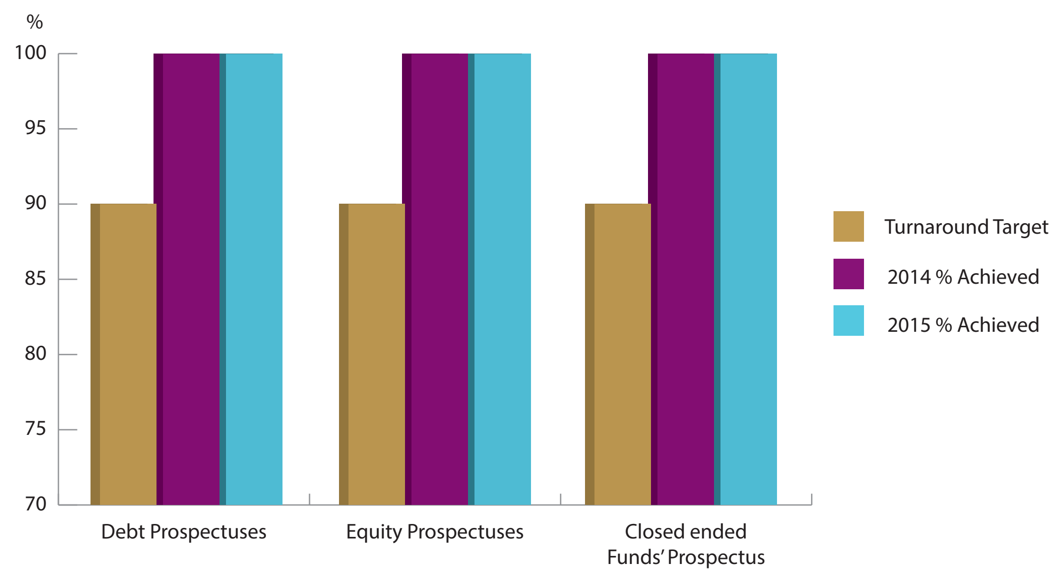
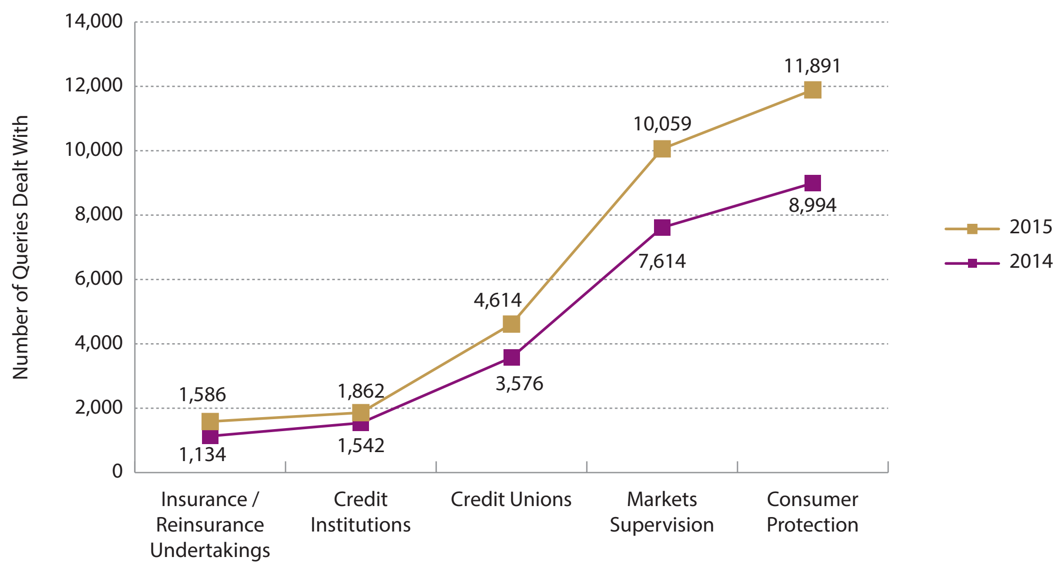


Chart 5.27: Regulatory Transaction Contact Centre Number of Queries dealt with 2014 – 2015



Chapter 6: Achievement of the High Level Goals of the Central Bank

This chapter provides an account of the outputs and results that were achieved in relation to the planned activities as set out in the Bank's 2015 Regulatory Performance Plan.

High Level Goal 3 - Strategic Plan 2013-2015

Proper and Effective Regulation of Financial Institutions and Markets

Continue to Implement and Enhance a Risk-Based Approach to Supervision

Deliver effective judgement-based, outcome-focused supervision
Key Actions:

- Enhancements made to **prudential supervision process**, including the development of new regulatory requirements, updated PRISM Guidance and enhanced data analytics reports to inform supervisors. There were a total of 19 enhancements/modifications made to PRISM and a further six are work-in-progress;
- Monitoring the quality of the output, judgements, risk mitigation programmes in all RGPs and Thematic Panels and providing guidance to both the panels and supervisors. The initiation of a PRISM Evolution Project to review the effectiveness and appropriateness of the PRISM Framework;
- The development of the risk assessment and supervisory engagement approach for Solvency II and the development of the PRISM tool and review of the guidance to be deployed in PRISM for the implementation of Solvency II[15];
- Work commenced to update the supervisory engagement approach with respect to credit unions; and
- Supervisory resources continually reviewed and allocated to highest risk issues.

Produce comprehensive Risk Mitigation Plans (RMPs)
Key Actions:

- Risk Mitigation Plans issued with all Full Risk Assessment letters for LSIs, to be completed by end January. Project undertaken to identify and address any compliance gaps, ensuring all Medium High risks or above are addressed via RMPs, or an appropriate rationale for a lower rating is assigned;
- 34 Environmental Risk Assessments and six cross sector topic reports[16] have been communicated to senior management and supervisors (these provide supervisors with a macro and micro economic context within which to conduct forward-looking risk assessments of supervised firms);
- Risk Mitigation Plans (RMPs) were completed as required and recorded on PRISM. RMPs issued, managed and monitored as required to regulated firms. In excess of 250 separate supervisory engagements were conducted with investment funds;
- A cross-functional group was established to raise awareness and co-ordinate the actions to address the risks that IT and cyber security pose to the Bank's regulatory objectives.
- Higher standards of supervision were promoted through:
  - Undertaking quality assurance reviews of 26 regulated firms and assisting the SSM in two of the reviews relating to significant institutions.

15 38 PRISM SRP guidelines were delivered in 2015 ranging from early approvals to own funds, internal audit, outsourcing, risk management systems, Own Risk and Solvency Assessment (ORSA), actuarial function, internal controls and reporting.

16 Cross sector topic reports analyse key risks which are not sector specific but have a significant impact on supervised firms. Papers have been produced on Cyber Security Risk, Brexit Risk, Political Risk in Europe, Logical fallacies explained, Framing bias explained and the Mobile Payments Industry.

- Three thematic reviews looking at the use of Risk Mitigation Programmes, Triage and Alerts.
- Providing training on areas where there was an identified need to address shortcomings in the supervisory activity, 17 such training sessions were provided in 2015.

Conduct on-site and off-site supervision of regulated firms, incorporating robust business model analysis to understand the key risks they face and how they generate profit

Key Actions:

- Business Model and Profitability assessment remains a key part of the annual SREP, while it is conducted on a proportionate basis under the Bank's existing PRISM framework for LSIs. RGPs were held for 6 of 13 LSIs in 2015. In addition, quarterly analysis provides on-going cross-sector overview of developments on supervised institutions business models and profitability, enhanced by regular interaction with JSTs and on-site teams. This was complimented by three on-site inspections on business models.
- Extensive information gathering exercise conducted involving industry representatives, prudential supervisors and law enforcement to update the Bank's understanding of money laundering and terrorist financing risks in each financial sector and to understand emerging trends; supervisory resources applied to areas of highest ML/TF risk.
- 32 inspections conducted to monitor AML/CFT compliance.
- A report on AML/CFT/FS compliance in the Banking Sector was published in February 2015; a report in respect of compliance in the Credit Union Sector was published in May 2015 and a report in respect of compliance in the Funds Industry was published in November 2015.
- The AML/CFT/FS webpages on the Bank's website have been updated with improved communications and daily updates in respect of Financial Sanctions.
- 15 speaking engagements were undertaken in 2015 aimed at increasing awareness of and ensuring compliance with AML/CFT/FS obligations.
- Risk-based approach to supervision has been implemented and is being continually enhanced and the Consumer Protection Directorate remains flexible to re-prioritising issues as they are identified.
- Consumer themes published.
- PRISM engagement undertaken in accordance with PRISM model including RMPs etc.
- Conduct risk assessments held in five banks and two MIFID firms.
- 18 Firms authorisations involuntarily revoked during 2015.
- Sectoral risk assessments completed to identify and prioritise sectoral and cross-sectoral risks for 2016-2018, which also fed into work plans for 2016.
- Comprehensive on-site and off-site inspections conducted.

Strengthen the Regulatory Framework for financial institutions

Oversee the implementation of new EU regulations

Key Actions:

- **Alternative Investment Fund Managers Directive (AIFMD):** Following on from the Bank's successful development of the Online Reporting System to receive Regulatory Reports from industry, the Bank successfully completed testing of the transmission of AIFMD reporting to ESMA and the first AIFM/AIF reports were successfully transmitted to the ESMA Hub in 2015. Internal reports for AIFMS have also been created and tested in 2015. The Bank continues to monitor AIF compliance and was in contact with relevant AIFs during 2015, including those intending to seek revocation.
- **The Irish Collective Asset Management (ICAV) Act 2015** (the ICAV Act 2015) was signed into law on 4 March 2015. It provides an additional legal structure for Irish authorised investment funds, both UCITS and AIFs. Work commenced on the development of an IT solution to automate ICAV work processes. However, given that initial volumes were not significant, work on this project has been put on hold until 2016 pending a review of volumes.

- **European Social Entrepreneurship Funds (EuSEF) and European Venture Capital Funds (EuVECA):** New application forms for processing EuSEF and EuVECA applications were developed and published in 2015. Regulatory reporting by such entities is facilitated by firms' existing AIFM Registration.
- **New Authorisation processes for MiFID and Fund Service Provider (FSP) Firms:** Following a review of the authorisation process for FSPs in 2015 which involved industry consultation through workshops and presentations, the Bank implemented a more transparent and efficient process for UCITS Management Companies and Alternative Investment Fund Managers (AIFMS) in January 2016. The new process aligns the authorisation process for such firms with the MiFID authorisation process which was implemented in 2014.
- **European Market Infrastructure Regulation (EMIR):** A response to the consultation paper on the supervisory approach for non-financial counterparties was published setting out the modified supervisory approach to be adopted, taking into account consultation responses received. A system was put in place to analyse trade repository data and a review of the quality of the data submitted to trade repositories in respect of derivative transactions undertaken was initiated, focusing on key trade identifiers (LEIs and UTIs).

Restore stability to the banking sector and facilitate prudent lending to households and SMEs

Key Actions:

- Much of the structured reform within the banking sector has taken place and the majority of the required downsizing is complete. Focus has turned to oversight of resolution of the legacy risks of NPLs and business model fragility. Work is also ongoing in relation to SME debt resolution.
- An ongoing cross-sector overview of developments in supervised institutions' business models and profitability is completed quarterly. This analysis is complemented by regular interaction with supervision and inspection teams on developments in banks' business models.
- The SREP included analysis and challenge of the banks' Internal Capital Adequacy Assessment Process (ICAAP). This covers both Pillar II techniques for addressing risks not fully captured in the risk weight methodology (Pillar I) and a forward-looking analysis of capital adequacy through the use of stress tests. Both the Pillar II models and the Stress Test elements incorporated SSM benchmarks and Bank quantitative analysis. Reviews of banks' own Stress Test methodologies and results were completed for both SIs and LSIs as part of the annual SREP cycle. Additional analysis and challenge was facilitated with new reporting templates and independent models. Sector wide stress tests have been designed and implemented as part of the IMF Financial Stability Assessment that is taking place in Q4 2015 and Q1 2016.
- On-site credit inspections were held across the SIs and LSIs, and included verification and challenge of the banks' use of classification of NPLs, provisioning and lending policies spanning both commercial and mortgage portfolios in SIs and LSIs. A provisioning assessment was conducted in 2015 examining provisioning practices across banks including the adequacy of provision releases / write backs and challenging collective provision models.
- Monitoring and analysing changes in asset quality within individual banks and in the sector as a whole included initiatives such as the provisioning reviews, assessments of the sustainability of arrears resolution / restructures, and chairing the SSM taskforce on Non-Performing Loans (NPL Taskforce).
- The Bank (in conjunction with the SSM) provided all SIs with requirements regarding their NPLs, setting out Bank / SSM supervisory expectations regarding the banks' strategies, management, measurement and reporting of the continued resolution and restructuring of their distressed loan books.

Complete a self-assessment exercise against Basel Core Principles for effective banking supervision

- The recommendations made by the IMF following the 2013 Report on the Observance of Standards and Codes (ROSC) review have been addressed to the extent that the Irish Authorities accepted the recommendations, and to the extent to which implementation was a matter for the Bank. This area will be reviewed by the IMF as part of the 2016 FSAP.

Implement an effective and efficient regulatory regime for the insurance industry

Key Actions:

- Significant changes were made to the PRISM Framework to adapt it for Solvency II purposes. The Bank's Insurance Directorate underwent a reorganisation in Q4 2015 to ensure effective resource allocation, on-site inspection capability was significantly increased in 2015 and responding to IMF recommendations, a more proportionate approach to the supervision of Low Impact insurance firms has been implemented.
- The Solvency II project constituted a significant part of the insurance work portfolio in 2015. Among the successful deliverables were the production of 47 supervisory review process (SRP) guidance documents, the design and roll-out of the Solvency II preparatory reporting system and the introduction of new software to underpin our internal model application process. Separately, a new Analytics Team was established to provide greater capacity for the interpretation and analysis of Solvency II prudential returns.
- A significant technical training course which included 11 bespoke Solvency II classroom training courses, online activities and e-learning modules was delivered.
- During 2015 several guidance and requirements documents were published in order to assist and inform undertakings. The guidance and requirements cover a range of supervisory issues including: the domestic actuarial regime and related governance requirements under Solvency II, Italian Withholding Tax requirements and Principles of Best Practice for Cross-Border firms.
- Over the course of 2015, seven industry roundtable meetings were hosted by the Bank, 10 editions of Solvency II Matters newsletter were published and a number of industry events and workshops were held. Addressing the Bank's Solvency II Forum in April 2015, Gabriel Bernardino (Chairman of EIOPA) highlighted the Bank's structured communications approach as being 'top of the class'.
- Engagement with EIOPA continued through participation on a range of Solvency II Working Groups and representation at the Board of Supervisors. The Director of Insurance, Sylvia Cronin, was elected as a member of EIOPA's Mediation Panel in Q4 2015.

Develop a strengthened legislative and regulatory framework for the credit union sector and a tiered regulatory approach

Key Actions:

- In 2015, a differentiated engagement approach which focussed on the credit unions designated as Low Impact under PRISM was implemented. Where necessary, Risk Mitigation Plans (RMPs) were provided to credit unions which identified key risks, actions and outcomes together with timeframes required to mitigate those risks.
- The introduction of the fitness and probity regime was extended to credit unions with assets of less than €10m and additional requirements were put in place for those authorised as retail intermediaries. The purpose of the fitness and probity regime is to improve governance standards at board and management level within the credit union sector. Updated fitness and probity regulations, standards and guidance for credit unions were issued in March 2015. Guidance on submission of Pre-Approval Controlled Function (PCF) returns was provided to credit unions with assets of less than €10m and those authorised as retail intermediaries in September 2015.
- On 31 July 2015, the Bank published the feedback statement on CP88 – Regulations for Credit Unions. These Regulations, which came into effect from 1 January 2016, combined with commencement of remaining sections of the 2012 Act (and the prudential and governance requirements already in place), marked another important step in the development of an appropriate strengthened regulatory framework for credit unions.
- As indicated in the Feedback Statement on CP88, in order to assist credit unions in implementing the Credit Union Act (Regulatory Requirements) Regulations 2015, the Bank published updated chapters of the Credit Union Handbook in draft form to reflect changes that will be introduced by the commencement of the remaining sections of the Credit Union and Co-operation with Overseas Regulators Act 2012 and the Regulations and to provide guidance as appropriate. The final version of the updated chapters of the Handbook was published on 8 January 2016.

- Throughout 2015, engagement continued with credit union sector stakeholders. Two issues of 'Credit Union News' were published in January and July, annual Information seminars were held in seven locations around the country in November, the Registrar of Credit Unions made a number of speeches, meetings were held with sector representative bodies and the Bank actively participated in other credit union fora.

Ensure that market participants act in a fair and transparent manner

Key Actions:

Regulated Disclosures:

- All prospectuses approved contained required disclosures under the Prospectus Directive and were completed within agreed timeframes. Compliance with the Transparency Directive and Short Selling Regulation continually monitored.
- The Bank engaged with ESMA regarding the peer review of regulators' compliance with market maker exemptions under the Short Selling Regulation and the peer review of prospectus review processes.
- The resulting Transparency (Directive 2004/109/EC)(Amendment)(No.2) Regulations 2015 (SI No. 541 of 2015) came into operation on 26 November 2015. The Bank's Transparency Rules were updated to reflect the changes introduced by the amending legislation.

Market Integrity:

- All suspicious activity reports have been actioned as required. Review of market monitoring strategy and monitoring systems commenced and will continue in 2016, taking into account legislative changes that come into effect in mid-year.
- With a view to promoting greater awareness about fair and orderly markets amongst Irish investment firms, Bank inspectors were active and visible in pursuing suspected breaches of market abuse regulations. Two themed reviews were conducted in relation to:
  - the reporting of suspicious transactions; and
  - the filing of share activity reports by persons concerned in the management of listed issuers.
- In light of the extensive reporting requirements which are being developed under MiFID II, Bank staff actively participated on ESMA's Market Data Reporting Working Group (MDRWG) and related sub-groups. Staff also worked closely with European peers on more efficient approaches to the collection of transaction reporting data.

Investment Funds:

- In its efforts to refine the effectiveness of the investment funds supervisory model, the Bank engaged with investment funds regarding compliance with specific prospectus requirements and also regarding incorrect charging of fees and expenses. Where required, the Bank oversaw the rectification of same, including the payment of compensation, as deemed appropriate.
- In cooperation with policy colleagues, ongoing support is being provided to the Department of Finance in relation to the implementation and updating of investment fund legislation. The transposition date for UCITS V is 18 March 2016 and work continues in this area. The Regulation on European Long-Term Investment Funds (ELTIFs) came into force on 9 December 2015. The Bank has published application forms for the authorisation of ELTIFs.

Protection of Client Assets:

- In the area of application of a risk-based approach towards the supervision of client assets, an engagement plan was developed and delivered involving nine inspections and a thematic review focussing on retail intermediaries. Eight Risk Mitigation Plans (RMPs) issued, managed and monitored as required to regulated firms.
- Significant progress was made in 2015 with the implementation of a new regime for the safeguarding of client assets and investor money, involving the publication of two sets of new rules and guidance in relation to client assets and investor money.

- Regulations were also published during 2015 concerning the distribution of client assets in circumstances where a shortfall arises following the failure of an investment firm.
- Two industry presentations were hosted by the Bank for the investment firm and investment funds sector in relation to newly published regulations.
- There was ongoing engagement with Chartered Accountants Ireland and industry representative bodies. Work will continue in 2016 on informing and educating the public regarding the protection regime applicable to their assets at each stage of the investment.

Improve compliance by focusing on key enforcement priorities

Key Actions:

- In total, 35 Enforcement cases were concluded in 2015:
  - 9 settlement agreements concluded;
  - 4 Supervisory Warnings issued;
  - 2 administrative sanctions cases were referred to Inquiry;
  - 9 authorisations/registrations were revoked/cancelled;
  - 9 applications for authorisation were refused; and
  - 2 proposed acquiring transactions were refused.
- Enforcement priorities for 2015 were published on the Bank's website on 9 February 2015.
- 55% of administrative sanctions cases concluded in 2015 related to Low/Medium Low Impact Firms. This was significantly higher than the target of at least 25% of cases relating to Low/Medium Low Impact firms.
- In 2015, following fitness and/or probity concerns raised by supervisors in relation to proposed appointments to Pre-Approval Controlled Functions in regulated firms, the Bank conducted 22 interviews following which, ten proposed appointments were subsequently withdrawn, one proposed appointment was refused and another is currently with a decision maker. The first Prohibition Notice and the first Suspension Notice in relation to individuals in controlled functions were issued by the Bank in 2015 under the powers set out in the 2010 Act.
- Public Notices relating to the PTSB/Springboard Mortgage Redress Programme and relating to all settlements reached in 2015 were published on the Bank's website.

Influence decision making and policy development through active participation in the EU Supervisory Bodies

Key Actions:

- The Deputy Governor (Financial Regulation) attended fortnightly SSM Supervisory Board and Steering Committee meetings and received briefings on all issues prior to attendance. The Bank's representatives also continue to participate in a range of task forces, working groups and networks within the SSM in addition to the Bank role in Chairing the NPL Task Force.The Bank is an active member of the ESAs and the Directorate takes the leading role in this engagement. The Bank's contribution to the work of the ESAs has helped achieve high quality regulation which reflects the Irish perspective and contributes to the enhancement of Ireland's reputation and regulatory framework.

During 2015, the Bank actively participated in the work of the ESAs as follows:

ESMA

Seven Board of Supervisors meetings were attended in 2015.
The Bank engaged with ESMA on a number of key initiatives including:

- Almost 60 briefing papers were provided to the Deputy Governor, for ESMA Board of Supervisors meetings and 22 additional briefings were prepared for the ESMA Management Board meetings as well as providing detailed technical contributions on a number of ESMA Standing Committees and Working Groups.
- Leading engagement in respect of significant and substantial EU legislation such as MiFID II and the Prospectus Directive III.
- Input provided on the Technical Standards for the Market Abuse Regulation finalised by ESMA and submitted to the European Commission.
- Working with the Department of Finance on the transposition of the Market Abuse Directive which covers criminal sanctions for market abuse.
- Providing input on the finalisation of the European legal texts mandating the clearing of certain over-the-counter (OTC) derivatives including different classes of:
  - Interest rate OTC derivatives in G4 and non-G4 currencies; and
  - Credit OTC derivatives (index credit default swaps).
- Developed various level two European texts, through the ESAs, including those relating to the Central Securities Depositories Regulation and European Markets Infrastructure Regulation.

EBA

Six Board of Supervisors meetings were attended in 2015.
The Bank engaged with the EBA on a number of key initiatives including:

- Report on the impact assessment and calibration of the Net Stable Funding Requirement;
- Guidelines on limiting institutions' exposures to 'shadow banking entities';
- Benchmarking Reports on Approved Higher Ratios for Remuneration;
- Report on Benchmarking Asset Encumbrance;
- Guidelines on Effective Communication between Supervisors and Auditors;
- Report on Bank's Transparency in their 2014 Pillar 3 Reports; and
- Updated additional Tier 1 capital monitoring report.

EIOPA

Five Board of Supervisors meetings held in 2015.
The Bank engaged with EIOPA on a number of key initiatives including:

- Guidelines on Own Risk Solvency Assessment;
- Guidelines on System of Governance;
- Guidelines on Reporting and Public Disclosure;
- Guidelines on the Supervision of Branches of Third Country Insurance Undertakings; and
- Opinion providing practical recommendations on Internal Models.

In addition, the Bank contributed to the work of the three ESAs in the development of technical standards, guidelines, reports and opinions in the areas of remuneration, governance, auditing, accounting and financial reporting.

High Level Goal 4 - Strategic Plan 2013-2015

Resolution of Financial Difficulties in Credit Institutions

Oversee the implementation of the Mortgage Arrears Resolution Strategies (MARS) in lenders

Key Actions:

- An extensive review of both the NPL strategies and impairment provisions at the retail banks was undertaken. Enhanced mortgage monitoring requirements were introduced, including information on revised aggregate templates and additional loan level data. Targets were set for banks to conclude sustainable solutions for at least 80% of distressed mortgage borrowers by the end of Q1 2016.
- The Bank continues to publish the Residential Mortgage Arrears and Repossessions Statistics on a quarterly basis, providing timely, consistent and comprehensive information covering a range of areas including arrears and restructures for all Irish mortgages (both PDH and BTL).
- All scheduled credit inspections were completed on time and the inspections' findings together with reviewed forbearance and loan modification techniques put forward by mortgage lenders were provided to the relevant JSTs and utilised to inform remediation plans for the banks inspected.

Small & Medium Enterprises (SME) Arrears Resolution

Key Action:

- There has been intense supervisory engagement to maintain momentum on the resolution of distressed commercial and SME debt through on-site inspections and provisioning assessments. Supervisory focus continues on the sustainability of distressed commercial solutions noting however that it will take some time for this debt to be resolved and the underlying business to recover.

Restructuring & Resolution of Credit Unions

Key Actions:

- On an ongoing basis throughout 2015, the Bank proactively engaged and met with ReBo in relation to restructuring solutions and related policy matters for the credit union sector. The Bank also participated in the work of ReBo, as a non-voting member of its Board, to facilitate restructuring of the sector. During the year, 33 voluntary transfers of engagements took place, involving 77 credit unions.
- During 2015, pre-emptive action was taken on credit unions which were identified as weak following a targeted programme of asset reviews. In each of these cases the Bank sought an appropriate solution.

High Level Goal 5 - Strategic Plan 2013-2015

Protection of Consumers of Financial Services

Enhance the Consumer Protection Framework

Key Actions:

- The **Mutual Learning** exercise by the Netherlands Authority for the Financial Markets (AFM)[17] aimed at providing an opportunity for knowledge sharing and the identification of best practices and challenges faced in each jurisdiction was completed and the report published in March 2015. A programme of work is now underway to implement the various recommendations and the Bank review of the AFM is planned for 2016.
- The **Consumer Protection (Regulation of Credit Servicing Firms) 2015 Act** enacted on 8 July 2015, is designed to protect consumers whose loan portfolios have been sold to unregulated entities, and provides for an authorisation and supervision regime for credit servicing firms. Since enactment, the Bank has consulted on and issued final Authorisation and Supervision standards for credit servicing firms.
- A **consultation paper on the review of the SME Code** was published in January 2015. Revised SME Regulations were agreed and published on 18 December 2015.
- During 2015, assistance provided to the Department of Finance on **various EU Directives**, including the final negotiations on the Payment Services Directive 2 (PSDII), the Insurance Distribution Directive (IDD) and the Payments Accounts Directive (PAD) and assistance on transposition of the Mortgage Credit Directive (MCD) and PAD. Increased participation in relevant European Supervisory Authority (ESA) consumer protection committees, including cross-selling, remuneration, product intervention, PRIIPS and cross-selling.

Ensure that consumers are treated fairly by financial institutions

Key Actions:

- **Consumer Protection Outlook Report** published in February detailing consumer protection objectives, priorities and themes for 2015.
- **Thematic reviews and Inspections** completed across a range of sectors and products including CCMA compliance and an examination of the sale of Contracts for Difference (CFDs) and pension annuities. In addition, reviews commenced in relation to tracker mortgages and the renewal of health insurance.
- In following up on the **publishing of sales incentives**, confirmation received from the Chair of each relevant firm that changes have been implemented on foot of the guidelines.
- **Compliance inspections in retail intermediaries** completed in relation to assessments of compliance with professional indemnity insurance and financial position rules and an examination of the sale of pensions to retail consumers. Guidance issued in October 2015 to retail intermediaries on PII requirements.

Low Impact Firms – deal with emerging risks in each sector

Key Actions:

- **Regulatory framework for Low Impact firms** was further developed with completion of the enhancement project of gatekeeper processes/procedures and the subsequent establishment of the centralised gatekeeper function. During this period of development, the Directorate continued to meet external service level commitments for the processing of applications.
- **PRISM engagement** for relevant firms completed.

17 Autoriteit Financiele Markten - Netherlands Authority for Financial Markets

- **Thematic review of compliance by debt management firms** with additional Code requirements completed. Findings to be published in early 2016.
- Work continuing in targeting and dealing with **un-cooperative and non-compliant retail intermediaries**. A total of 325 retail intermediaries were identified as not meeting minimum standards of compliance with reporting obligations and following extensive engagement, including 127 unannounced inspections, the submission rate of online prudential returns has significantly improved as a result.
- **Moneylender Newsletter** published in September.
- In progressing our direct **engagement with retail intermediaries**, two Intermediary Roadshows held in Dublin and Cork with over 400 attendees and three editions of the Intermediary Times newsletter published.

Engagement with Key Stakeholders

Key Actions:

- **Consumer Advisory Group (CAG)** meetings were refocused to align strategic input and advice with the priorities of consumer protection work. Two new members appointed in 2015 as part of a rolling renewal process.
- **Relationships with key stakeholders** continued to be developed, particularly in the context of communicating expectations and priority work areas and in working in a consultative way in the development of policy.

High Level Goal 8 - Strategic Plan 2013-2015

Operational Efficiency and Cost Effectiveness

Implement Regulatory Transactions Strategy

Key Actions:

- Process quality was improved through the introduction of an automated online authorisations application process for Qualifying Investor Alternative Investment Funds (QIAIFs) which was introduced in May 2015. In addition, progress was been made in delivering an automated application process for Funds, Fund Service Providers and Retail Intermediaries.
- A new Contact Management service provider was secured for managing queries from Regulated Financial Service Providers (RFSPs) and it has been operational since July 2015.
- In July 2015, the Bank published details of how it performed against Service Standards that it had committed to in respect of:
  - Authorisation of Financial Service Providers and Funds; and
  - Processing of Fitness and Probity applications.
- An online portal with improved information, guidance and media content was published on the Bank's website.
- The Bank intended to outline an implementation date for post-authorisation information management in Q3 2015, but this was deferred pending delivery of the authorisations projects for QIAIFs.

Chapter 7: Internal Audit

The objective of Internal Audit is to act as the independent 'third line of defence' within the Bank's governance framework. It is the responsibility of the Bank's operational management to establish appropriate systems of internal controls. Thus, operational management acts as the first line of defence. The risk management, control, compliance and oversight functions established and deployed by management represent the second line of defence. Internal Audit provides independent, objective assurance and consulting activities designed to add value and to improve the performance of the Bank's tasks and activities. In doing so, it assists the Bank in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

During 2015, Internal Audit conducted audits across a number of Financial Regulatory areas including: the Online Returns Process and the Online Reporting System; and the Authorisation of Payment Institutions. A number of pieces of consultancy work were also performed in the Banking Supervision Divisions. All issues identified are routinely followed up by the Internal Audit Division to ensure that approved action plans are implemented.

As part of its intelligence gathering and to ensure that Internal Audit keeps abreast of developments and risks within the organisation, Internal Audit regularly attended a number of executive committee meetings and also held meetings with a large number of divisions across the organisation.

Internal Audit submitted regular reports to the Audit Committee on the outcome of all audits including progress in implementing recommendations from previous audits. A three year plan is prepared on a rolling basis which is approved by the Audit Committee annually.

The Internal Audit Committee (IAC) is the internal audit function for the SSM. One of the responsibilities of the IAC is to conduct audit assurance work as stipulated by the audit plan and as a result, the Bank will be participating in various SSM audits throughout 2016.

Chapter 8: International Peer Review

Section 32M of the 2010 Act requires the Bank to carry out an international peer review of its regulatory performance at least every four years.

Credit Union Peer Review

The first credit union peer review was carried out by the International Credit Union Regulators' Network (ICURN) in 2015. The Bank's[18] participation in this review represented an opportunity to invite external scrutiny of the performance of its functions in relation to credit unions for the purposes of ensuring that we measure up to international standards and attain the appropriate supervisory outcomes which protect members' savings. In view of the substantial changes in the regulatory regime and operating environment for credit unions in Ireland since 2012, including the introduction of a strengthened regulatory framework for credit unions and the voluntary restructuring of the credit union sector that is currently underway, the peer review report provides a timely examination of Ireland's legislative, regulatory and supervisory framework in relation to credit unions.

The ICURN peer review team was made up of four regulatory representatives from the United States, United Kingdom and Ontario, Canada. The basis for the peer review was the 'ICURN Guiding Principles for Effective Prudential Supervision of Cooperative Financial Institutions (2011)', which were developed using the Basel Committee on Banking Supervision's Core Principles for Effective Banking Supervision as a guide.

Following off-site and on-site engagement with the ICURN peer review team, the Peer Review Report was published in September 2015. The overall finding in the report is that the Bank effectively performs its functions in the regulation and supervision of the credit union sector in Ireland and has effectively undertaken the demanding task of introducing a comprehensive regulatory structure for credit unions. The report states that this has required gaining a sound understanding of the true health of the sector, bringing about essential restructuring as provided in legislation, delivering on requirements to protect members' funds and maintaining the financial stability and well-being of credit unions generally.

The peer review assesses the Bank's performance against 23 Guiding Principles. The report provided a rating of 'Compliant' for 20 Guiding Principles and 'Largely Compliant' for three Guiding Principles. The report also made recommendations that the Bank can consider to enhance its performance as an effective regulator in the following three areas:

- Supervisory Approach;
- Communications and Guidance; and
- Resourcing.

The overall findings in the report are welcome and detailed consideration is being given to how they may be implemented to enhance current practices in the areas referred to above.

18 ICURN is an independent international network of credit union regulators formed in 2007, with members drawn from over 30 countries and jurisdictions, including Ireland, other EU countries (e.g. UK, Poland and Lithuania), USA, Canada and Australia. ICURN facilitates the sharing of information and positions of common interest among financial cooperatives, initiates research on financial cooperatives and their oversight, identifies best practices and provides direct access to an exclusive forum for issues critical to sound credit union regulation.

EIOPA Supervisory Oversight Team (SPOT) Review - April 2015

An EIOPA SPOT Review of the Insurance Supervision Directorate was undertaken in April 2015. The key objective of the review was to oversee the tasks carried out by the various National Supervisory Authorities in order to enhance a common supervisory culture – i.e. heightening convergence and consistency of supervisory practices throughout the European Union. The two day meeting focused on the following topics:

- An overview of the top priorities and major concerns of the Bank including the current major perceived risks;
- Current supervisory practices; and
- Preparation for Solvency II.

Following the review a number of observations on our supervisory processes was provided by EIOPA to the Bank. The Bank has considered EIOPA's comments and has responded by implementing the necessary changes to our supervisory processes. These changes include the appointment of four market specific advisors, the creation of sector specific supervision teams, increased supervisory engagement with Low Impact firms and increased supervision of insurance groups.

Composite Report - Promontory Financial Group

In accordance with section 32M of the Central Bank Act 1942 (as amended), the Bank must provide the Minister for Finance with an external review of the performance of its regulatory functions at least every four years. Five peer reviews were undertaken in respect of the performance of the Bank's functions in relation to the banking, insurance, securities, consumer protection and credit union sectors in that period. On consulting the Minister for Finance on the five peer reviews, the Minister requested that the Governor appoint an independent third party to provide a composite report summarising and presenting the main conclusions of these five peer reviews in regard to the discharge by the Bank of its regulatory functions.

Promontory Financial Group compiled a composite report, highlighting the most significant findings and themes across the five reviews. Governor Honohan issued the report to Minister Noonan on 25 November 2015. The report was published on our website on 22 January 2016.

Abbreviations

AA	Auditor Assurance
ACOI	Association of Compliance Officers in Ireland
AFM	Netherlands Authority for the Financial Markets
AIFMD	Alternative Investment Fund Manager Directive
AIFMs	Alternative Investment Fund Managers
AIFs	Alternative Investment Funds
AML	Anti-Money Laundering
AMLD	Anti-Money Laundering Division
ASP	Administrative Sanctions Procedure
ATC	Advisory Technical Committee of the ESRB
BRRD	Bank Recovery and Resolution Directive
BSAD	Banking Supervision - Analysis Division
BSSD	Banking Supervision - Supervision Division
BSID	Banking Supervision - Inspections Division
BTL	Buy to Let (Mortgage)
CAG	Consumer Advisory Group
CCMA	Code of Conduct on Mortgage Arrears
CDS	Credit Default Swaps
CSDs	Central Securities Depositories
CET	Common Equity Tier
CFDs	Contracts for Difference
CFO	Chief Financial Officer
CFT	Counter Financing of Terrorism
CPD	Consumer Protection Directorate
CPOR	Consumer Protection Outlook Report
CRD IV	Capital Requirements Directive IV
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CUAC	Credit Union Advisory Committee
DAC	Designated Activity Company
DCS	Distressed Credit Strategy
EBA	European Banking Authority
ECB	European Central Bank
EDIS	European Deposit Insurance Scheme
EIOPA	European Insurance & Occupational Pensions Authority
ELTIFs	European Long-Term Investment Funds
EMIR	European Market Infrastructure Regulation
ENF	Enforcement Division
ESAs	European Supervisory Authorities

ESCB	European System of Central Banks
ESMA	The European Securities and Markets Authority
ESRB	The European Systemic Risk Board
EU	European Union
FRA	Full Risk Assessment
FRR	Financial Risk Review
FS	Financial Sanctions
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
HRD	Human Resources Directorate
IAASA	Irish Auditing and Accounting Standards Authority
ICAAP	Internal Capital Adequacy Assessment Process
ICAVs	Irish Collective Asset-Management Vehicle
ICURN	International Credit Union Regulators' Network
IDD	Insurance Distribution Directive
IFRS	International Financial Reporting Standards
IMD	Insurance Mediation Directive
IMF	International Monetary Fund
IMTD	Information Management and Technology Division
INED	Independent Non-Executive Directors
IOSCO	International Organisation of Securities Commissions
IPR	Impairment Provisioning
IQ	Individual Questionnaire
ISE	Irish Stock Exchange
JSTs	Joint Supervisory Teams
LEG	Legal Division
LSIs	Less Significant Institutions
LTI	Loan-To-Income
LTV	Loan-To-Value
MAD	Market Abuse Directive
MARS	Mortgage Arrears Resolution Strategies
MCD	Mortgage Credit Directive
MDRWG	ESMA's Market Data Reporting Working Group
MiFID	Markets in Financial Instruments Directive
MREL	Minimum Realisable Eligible Liabilities
MRP	Mortgage Redress Programme
NAV	Net Asset Values
NCAs	National Competent Authorities
NED	Non-Executive Directors
NPL	Non-Performing Loans
NRA	National Resolution Authority
NSFR	Net Stable Funding Requirements
ONR	Online Reporting System

ORSA	Own Risk and Solvency Assessment
OTC	Over-the-Counter Derivatives
PAD	Payment Accounts Directive
PCF	Pre-Approval Controlled Function
PDH	Private Dwelling Home (Mortgage)
PII	Professional Indemnity Insurance
PPG	Prudential Policy and Governance Division
PPI	Payment Protection Insurance
PRD	Policy and Risk Directorate
PRISM	Probability Risk and Impact System
PSDII	Payment Services Directive 2
QIAIFs	Qualifying Investor Alternative Investment Fund
RCU	Registry of Credit Unions
ReBo	Credit Union Restructuring Board
RFSPs	Regulated Financial Service Providers
RIAIF	Retail Investor Alternative Investment Fund
RISK	Risk Division
SCR	Solvency Capital Requirement
SIs	Significant Institutions
SME	Small and Medium-Sized Enterprises
SME Code	The Code of Conduct for Business Lending to SMEs
SPOT	Supervisory Oversight Team
SREP	Supervisory Review and Evaluation Process
SSM	Single Supervisory Mechanism
STS	Transparent and Standardised Securitisation
TEM	Temporary Engagement Model
The Bank	The Central Bank of Ireland
TLAC	Total Loss Absorbing Capacity
UCITS	Undertakings for Collective Investment in Transferable Securities
UTIs	Unique Trade Indentifier

Appendix 1 - Charts

Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

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