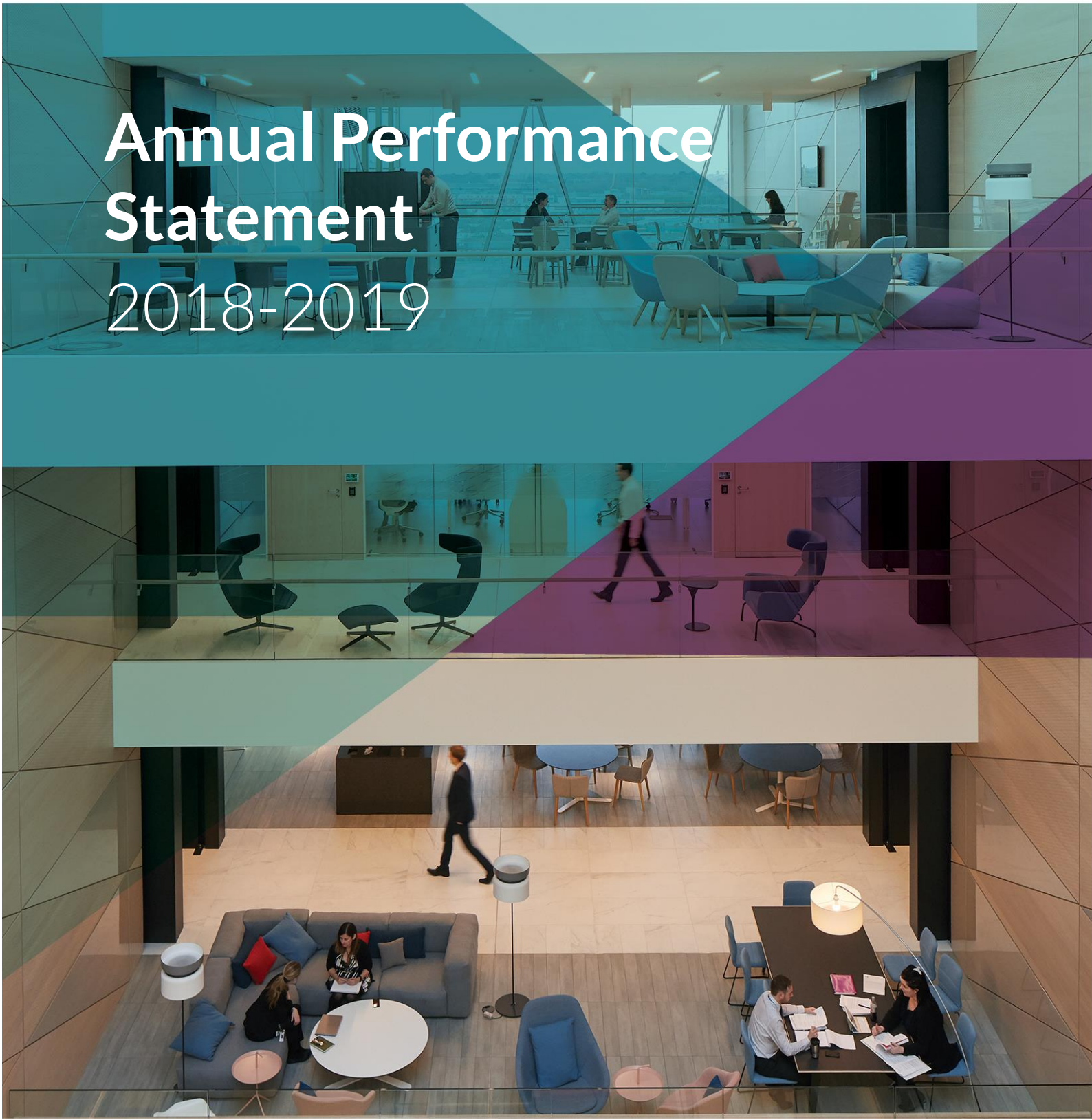




Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Annual Performance Statement 2018-2019



Contents

Governor's Foreword	3
Introduction	5
Chapter 1: Overview of Financial Regulation	13
Legal Framework and Statutory Objectives	13
The Central Bank Commission.....	13
Delegation of Powers and Functions	13
Members of the Commission.....	14
Senior Leadership in Financial Regulation	14
Internal Governance Structures.....	15
Who the Central Bank Regulates.....	17
Organisation Chart – Financial Regulation	20
Funding of Financial Regulation	26
Service Standards for Processing Applications and Contact Management	28
Supporting the Work of the Regulatory Teams	29
Staffing in Financial Regulation	30
Chapter 2: Achievements of Strategic Responsibilities in 2018.....	32
The Departure of the UK from the EU	33
Consumer Protection	39
Supervision and Enforcement	47
Regulatory Policy Development	69
Chapter 3: Strategic Priorities for 2019.....	76
Priorities for 2019	76
Strengthening Resilience.....	77
Brexit.....	78
Strengthening Consumer Protection.....	79
Engaging and Influencing.....	80
Enhancing Organisational Capability	82
Chapter 4: Internal Audit	85
Chapter 5: International Peer Review.....	87
Glossary	89



Governor's Foreword

The Annual Performance Statement of the Central Bank of Ireland reports on the performance of our financial regulatory mandate in 2018 and sets out our key objectives for 2019.

Our work programme in 2018 included: ensuring that firms are prudentially sound and meet robust requirements concerning their conduct and interaction with their customers; the impact of the departure of the UK from the European Union and mitigating the related risks; making significant progress in the tracker mortgage examination; assessing and reporting on the behaviour and culture of the Irish retail banks; and subjecting firms to enforcement actions where they do not meet the appropriate standards.

2018 marked the first full year of the operation of the new Prudential Regulation and Financial Conduct Pillars. This dual pillar format has equipped the Central Bank to meet its twin prudential and conduct mandates, with the joint coordination of the two pillars (in alliance with the rest of the Central Bank) ensuring that an integrated approach to financial regulation and supervision is delivered.

We have adopted a new Strategic Plan for the period 2019-2021. In tandem with our statutory responsibilities, the plan identifies five priority themes that will help guide our work: Strengthening Resilience; Brexit; Strengthening Consumer Protection; Engaging and Influencing; and Enhancing Organisational Capability. The Central Bank is exiting the post-crisis phase and entering a period of consolidation; we will be flexible in the delivery of this strategy through effective prioritisation in order to both safeguard the delivery of our core duties and respond as necessary to shifts in the external environment.

Our regulatory work is undertaken in close collaboration with our Central Banking and Operations Pillars. We function as “One Bank” across the organisation to deal with the risks and challenges we face and deliver our collective mission of serving the public interest by safeguarding monetary and financial stability and working together to ensure that the financial system operates in the best interests of consumers and the wider economy.

I would like to thank all the staff members of the Central Bank for their continued dedication to public service in working to deliver our mission.

Philip R. Lane

Governor

18 April 2019



Introduction

The Central Bank's mission is to serve the public interest by safeguarding monetary and financial stability and by working to ensure that the financial system operates in the best interests of consumers and the wider economy. Our aspiration is for a trustworthy and resilient financial services system that sustainably serves the needs of the wider economy and its customers.

An effective financial regulation framework, underpinned by supervisory and enforcement frameworks, is essential in fostering a resilient financial system. The key elements of these frameworks include comprehensive and enforceable legislation, intrusive risk-based supervision, a credible threat of enforcement and powers of redress when consumers have suffered detriment. Our aim is to deliver a financial system that fosters trust, where consumers and investors are protected, deposits are safe and insurance reserves are adequate to meet their liabilities. This requires a strong culture of compliance where regulated firms¹ and individuals act in the best interests of customers and adhere to a culture of fairness and high standards.

In 2018, the Central Bank continued to progress key supervisory priorities across a broad spectrum of areas. Significant progress was made in the Tracker Mortgage Examination (TME), there was a considerable increase in authorisation activity and Brexit was, and continues to be, a major area of focus.

¹ Regulated firms include all entities and individuals regulated by the Central Bank of Ireland.

In all of this work, our position at the heart of the EU remains essential to the delivery of our mandate. In 2018, the Central Bank continued to strategically influence and shape key decisions at European level and internationally, working to preserve financial stability and to promote confidence in the financial system as a whole in the best interests of the citizens it serves.

Internally, 2018 was the first full year of operation of the Central Bank's restructured financial regulation functions into two distinct but intertwined (prudential regulation and financial conduct) pillars. The current structure supports our strategy of strengthening our approach to conduct supervision and takes account of the rapidly changing nature of an increasingly complex and interconnected financial services system. The Prudential Regulation Pillar centres on ensuring that financial services firms are financially sound, have sustainable business models and have effective risk management and controls in place. The Financial Conduct Pillar focuses on ensuring that the best interests of consumers are protected and that markets operate in a fair, orderly and transparent manner.

The Central Bank's work in 2018 has shown that, notwithstanding Ireland's continued strong economic performance, sustained effort and constant vigilance is essential in order to achieve the aspiration of a resilient and trustworthy financial system, which sustainably serves the needs of the economy and its customers, in which firms and individuals adhere to a culture of fairness and high standards.

Outcomes for 2018

The Central Bank financial regulatory agenda was considerable in 2018. Insights into our work in the areas of ongoing Supervision, Brexit, TME, Behaviour and Culture and Enforcement are summarised below:

Ongoing Supervision

The Central Bank's supervisory objectives are to protect consumers and financial stability by seeking to ensure that regulated firms:

- Act in the best interests of consumers.
- Are financially sound and safely managed with sufficient financial resources.
- Are governed and controlled appropriately, with clear and embedded risk appetites, which drive an appropriate culture within them.
- Have frameworks in place to ensure failed or failing providers go through orderly resolution.

Key sectoral supervisory outcomes in 2018 include:

1. Banks and Credit Unions

The Central Bank continued to press banks to address non-performing loan (NPL) portfolios in a sustainable way that provides strong protections for borrowers. The Central Bank also continued to press banks to improve their resilience to shocks. Support was provided to the ECB's Targeted Review of Internal Models (TRIM) project and the EU-wide stress test.

Banks were at the centre of our TME and the Behaviour and Culture Review – addressed further below.

Credit Union supervisory focus included strengthening governance, risk management and operational capabilities in the sector and facilitating restructuring to improve viability.

2. Insurance

In addition to ongoing supervision, there was a focus on strengthening supervisory responses to cross-border emerging risks, particularly important in an Irish context as the Irish insurance market is one of the most important cross-border markets within the EU.

Emerging issues such as cyber risk, culture and recovery and resolution were also a focus of work throughout the year. Through on-site inspections, on foot of fundamental issues relating to Solvency II reporting requirements, a letter was issued to industry. The Central Bank also acted on deficiencies in relation to Risk Management Frameworks, a key Solvency II obligation.

3. Asset Management and Investment Banking

Activity relating to the departure of the UK from the EU dominated the work programme in 2018, driven by the number and complexity of new entities seeking authorisation or existing entities seeking to expand their operations. The volume and diversity of new firms entering the Irish market resulted in extensive assessment of processes including the implications for client asset protection in the context of these firms.

Supervisory focus continued its emphasis on MiFID II implementation through engagement with regulated firms, and the work programme also included a number of full risk assessments, on-site and thematic inspections. The Central Bank introduced new rules and provided guidance on our expectations of directors of fund management companies.

4. Securities and Markets

Authorisation and approval activity was significant. In addition, through surveillance, the Central Bank identified and took action to address breaches of MiFIR regulations and to assess the extent of algorithmic trading undertaken in Irish venues. A thematic review of UCITS performance fees was undertaken as was an analysis of funds that claim to be actively managed to determine if they are, in reality, index tracking. The Central Bank will be following up with firms using its full suite of supervisory powers.

In addition, the Central Bank invested in its capabilities through the development of a Wholesale Market Conduct Supervision Model, in data analytics and in improved reporting facilities.

5. Low Impact Firms

Pro-active supervision across the broad range of low impact firms continued. Supervisory teams engaged in ongoing reactive and targeted supervision of retail intermediaries, debt management firms, credit servicing firms, retail credit firms, licensed money lenders, home reversion firms and approved professional bodies.

The Departure of the UK from the EU

The Central Bank prioritised dealing with the effects of the UK's departure from the EU, and this work will continue well into and beyond 2019. At European level, the Central Bank was closely involved in developing a common approach to the regulatory and supervisory issues arising from Brexit.

Throughout 2018 our work focused on ensuring that:

1. Risks to the Irish economy and consumers were understood and mitigated.
2. Required policy and legal adjustments were prepared to ensure continuity of services in the event of a no-deal Brexit.
3. Regulated firms took appropriate steps to strengthen resilience and protect their customers.
4. A proportionate, robust, efficient and effective authorisation process was delivered in line with European regulatory norms, for those firms seeking authorisation in Ireland as a result of the UK's departure from the EU.

Tracker Mortgage Examination

In keeping with our mission of protecting consumers, the Central Bank significantly advanced the TME in 2018 to the point where the supervisory and redress and compensation phases are now largely complete, with enforcement investigations running in parallel. 39,800 affected customers had been identified to end-2018, with €647m in redress and compensation

paid. The TME will be concluded in 2019 with enforcement outcomes following.

Behaviour and Culture

The Central Bank, in collaboration with our counterparts at the Dutch Central Bank (De Nederlandsche Bank – DNB) conducted a major assessment of behaviour and culture in the Irish retail banks. The report emphasised the importance of effective consumer and risk-focused culture in the financial services sector. It identified the considerable distance that the five retail banks have to travel to achieve the cultures they espouse. The report set out the reforms that regulated firms can expect in terms of our supervisory and regulatory framework, as the Central Bank continually evolves its system of supervision for the sector. This will be a major area of focus in 2019.

Key Enforcement Outcomes

Following intrusive investigations, the Central Bank achieved a number of notable enforcement outcomes in 2018, sanctioning and completing ten enforcement actions against regulated firms under the Administrative Sanctions Procedure (ASP) and imposed fines totalling €7,441,000.

Under the Fitness & Probity (F&P) regime, the Central Bank prohibited two individuals from holding any role in the financial services sector indefinitely. The Central Bank also revoked the authorisation of one firm which failed to comply with its authorisation requirements in 2018, in circumstances where the firm objected to withdrawal.

Notable enforcement outcomes included a fine of €3.5m imposed on RSA Insurance Ireland following an investigation that found failings in the firm's governance arrangements, accounting procedures and internal control mechanisms; and a fine of €443,000 imposed on Appian Asset Management for serious deficiencies in its risk management, compliance oversight, and systems of internal control, which exposed the firm to cyber-fraud.

Objectives for 2019

In 2019, our approach to regulation is set in the context of the Central Bank's Strategic Plan 2019-2021 which communicates our priorities for the next three years. These are:

- Strengthening Resilience
- Brexit
- Strengthening Consumer Protection
- Engaging and Influencing
- Enhancing Organisational Capability.

Strengthening Resilience activity will include effective supervision of activities that pose a threat to financial stability. Our goal is to ensure that the financial system can continue to support the economy and its customers in good times and in bad. The Central Bank will continue to enhance its view of the resilience of regulated firms and sectors and to invest in its capabilities around crisis preparedness and resolution and recovery planning. To take two sectors as an example, in banking, NPLs will remain an important focus area in 2019 while, in insurance, Solvency II will enhance understanding of capital strength and the resilience of regulated entities. The departure of the UK from the EU, of course, is a key threat under the heading of resilience and is therefore a distinct priority in the next three years.

Brexit focus will include ongoing monitoring and managing of the broad spectrum of risks it poses. The Central Bank will continue to enhance its supervisory approaches to respond to the increased nature, scale and complexity of the Irish financial system, ensuring regulated firms are appropriately prepared to safeguard consumers while ensuring an effective authorisation process for new entrants.

Strengthening Consumer Protection will see sustained focus on elevating the regulation of the behaviour of regulated firms and the operation of financial markets in order to protect consumers and investors. In the coming years, our ambition is to enhance confidence and trust in the financial system through high quality regulation, purposeful engagement, effective gatekeeping, assertive supervision and robust enforcement. The Central Bank will challenge supervised firms and markets by requiring them to have in place high quality and fully embedded Conduct Risk Frameworks. Increased inspections will be targeted towards firms and products that pose greatest harm to consumers and robust enforcement action will continue to underpin the Central Bank's powers to protect consumers of financial services.

Engaging and Influencing will continue to involve dialogue with the public and key domestic stakeholders in an open manner, contributing to policy-making at European level and engaging strategically on the development of regulatory and resolution toolkits.

Enhancing Organisational Capability means ongoing investment in leadership, development and talent management of our most important resource, our people. Investment in data strategy, technology, processes, structures and risk management infrastructure will continue in 2019. The Central Bank will continue to focus on internal culture, taking steps to ensure it is appropriate to its mandate.

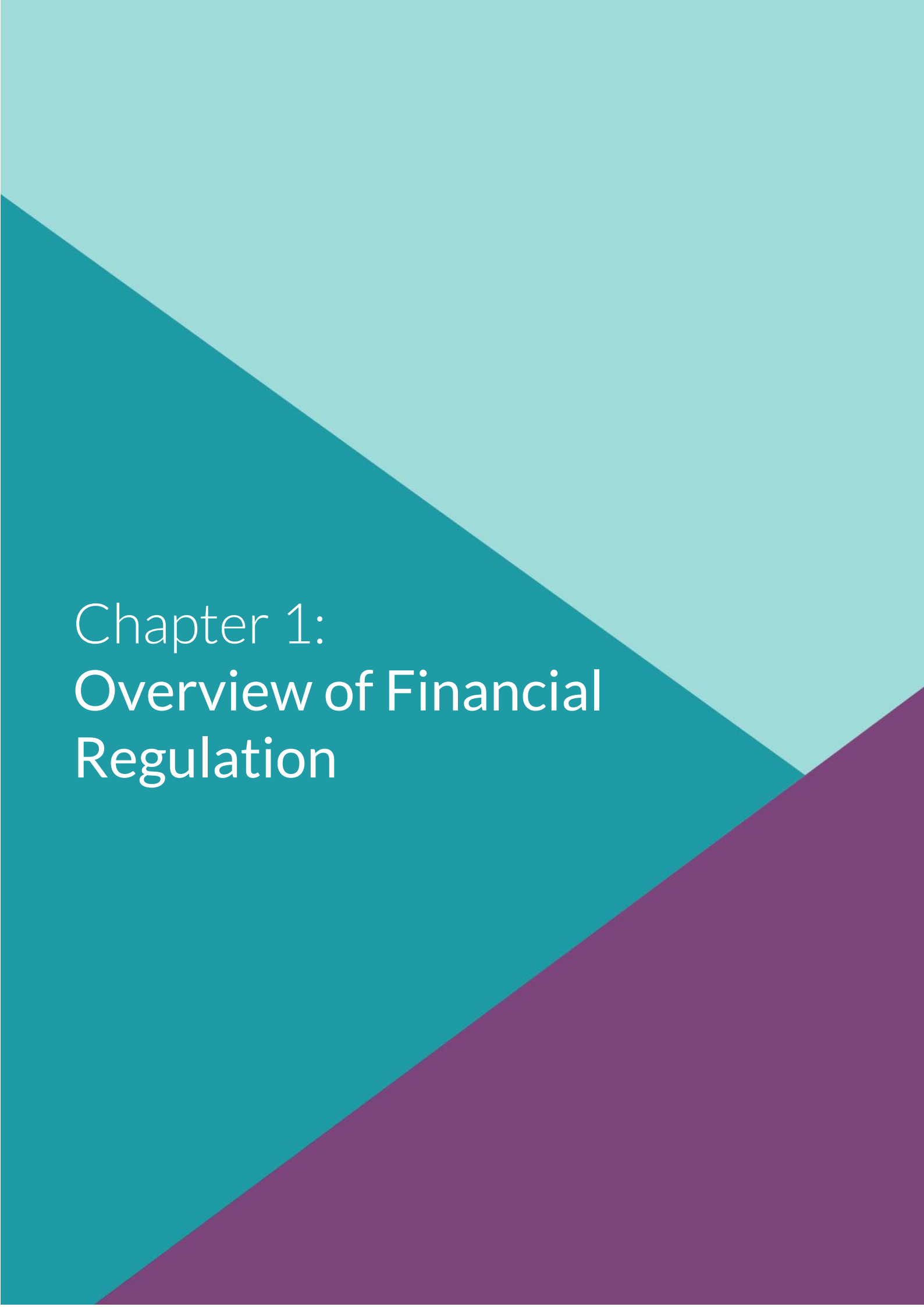
Throughout 2019, all activities will converge on a single goal – a financial system that is well-managed, well-regulated, and serves the needs of the economy and consumers over the long-term.

Dervile Rowland
Director General
Financial Conduct

18 April 2019

Ed Sibley
Deputy Governor
Prudential Regulation

18 April 2019

The background features a light teal gradient at the top, transitioning into a darker teal triangle on the left side. A purple triangle is positioned at the bottom right, overlapping the darker teal area.

Chapter 1: Overview of Financial Regulation

Chapter 1: Overview of Financial Regulation

Legal Framework and Statutory Objectives

The Central Bank was established by the Central Bank Act, 1942 (the Act). The functions of the Central Bank are set out in the Act with the primary objective of the Central Bank being that of price stability. The other statutory objectives of the Central 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.
- Resolution of financial difficulties in credit institutions, certain investment firms and credit unions.

The Central Bank Commission

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

- Management and control of the affairs and activities of the Central Bank for which it is responsible.
- Ensuring that the Central Bank's financial regulation and central banking functions are coordinated and integrated.
- Ensuring that the statutory powers and functions conferred on the Central 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.

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 Central Bank.

Members of the Commission

The Governor is the Chair of the Commission. The other ex-officio members comprise the Deputy Governor, Central Banking, the Deputy Governor, Prudential 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.

Senior Leadership in Financial Regulation

Governor

Philip R. Lane is the 11th Governor of the Central 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 (ECB). The Governor, or an alternate, must attend all meetings of the Governing Council. His roles and responsibilities are set out by the 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 Central 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.

Deputy Governor Prudential Regulation

Ed Sibley was appointed Deputy Governor, Prudential Regulation on 1 September 2017. He is an ex-officio Member of the Commission and is also a member of the Supervisory Board of the Single Supervisory Mechanism (SSM), the Board of Supervisors of the European Banking Authority (EBA) and the Board of Supervisors of the European Insurance and Occupation Pensions Authority (EIOPA).

As Deputy Governor, Prudential Regulation, he is responsible for leading the prudential regulation and supervision of banks, credit unions, insurance undertakings and the asset management industry.

Director General Financial Conduct

Derville Rowland was appointed Director General, Financial Conduct on 1 September 2017. She is a member of the Management Board and the Board of Supervisors of the European Securities and Markets Authority (ESMA) and a member of the Board of the International Organisation of Securities Commissions (IOSCO).

As Director General, Financial Conduct, Derville is responsible for leading the regulation and supervision of firms' consumer and investor protection obligations, securities and markets supervision, enforcement and anti-money laundering supervision and financial regulation policy and risk.

Internal Governance Structures

There are a number of internal committees through which the Central Bank coordinates the development and implementation of policies and decisions relevant to financial regulation, in addition to, advising and informing on major issues.

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

- **The Governor's Committee** is the key executive decision-making body, on matters of an administrative and management nature and that have strategic, bank-wide or external significance. This Committee's role is to advise, assist and support the Governor in fulfilling his or her responsibilities, including those functions delegated by the Commission to the Governor.
- **The Senior Leadership Committee** is responsible for owning the strategic plan and collectively leading its successful implementation, as well as delivering the Central Bank's vision through unified, value driven leadership.
- **The Financial Regulatory Oversight Committee (FROC)** ensures effective coordination of regulatory work and related cross-Central Bank policy initiatives.
- The **Financial Stability Committee (FSC)** advises on issues related to the Central Bank's financial stability mandate. The Committee monitors and assesses domestic and international economic and financial developments, highlights potential areas for concern relevant to the Irish financial system and draws conclusions from the analysis. A key focus of the Committee is to identify potential actions that can be taken to mitigate risks to financial stability and to follow up on previous measures. Formulation of specific actions may be requested by the Governor for completion by management within or outside the Committee. Actions may take the form of consideration and review of macro-prudential policy instruments as well as consideration of recommendations from and to the Central Bank's Macro-Prudential Measures Committee.
- The **Macro-Prudential Measures Committee (MMC)** advises on the regular reviews of relevant national macro-prudential measures

and makes recommendations about maintaining or revising these rules as appropriate. The Central Bank is the designated national macro-prudential authority in Ireland. In recent times, several macro-prudential measures have been activated via the banking system. These include borrower-based measures such as mortgage rules, the counter-cyclical capital buffer, the other systemically important institution buffer and reciprocation of macro-prudential policy measures taken by other member states.

Other high-level committees consider financial regulation matters and are co-chaired by the Deputy Governor, Prudential Regulation and the Director General, Financial Conduct. These are:

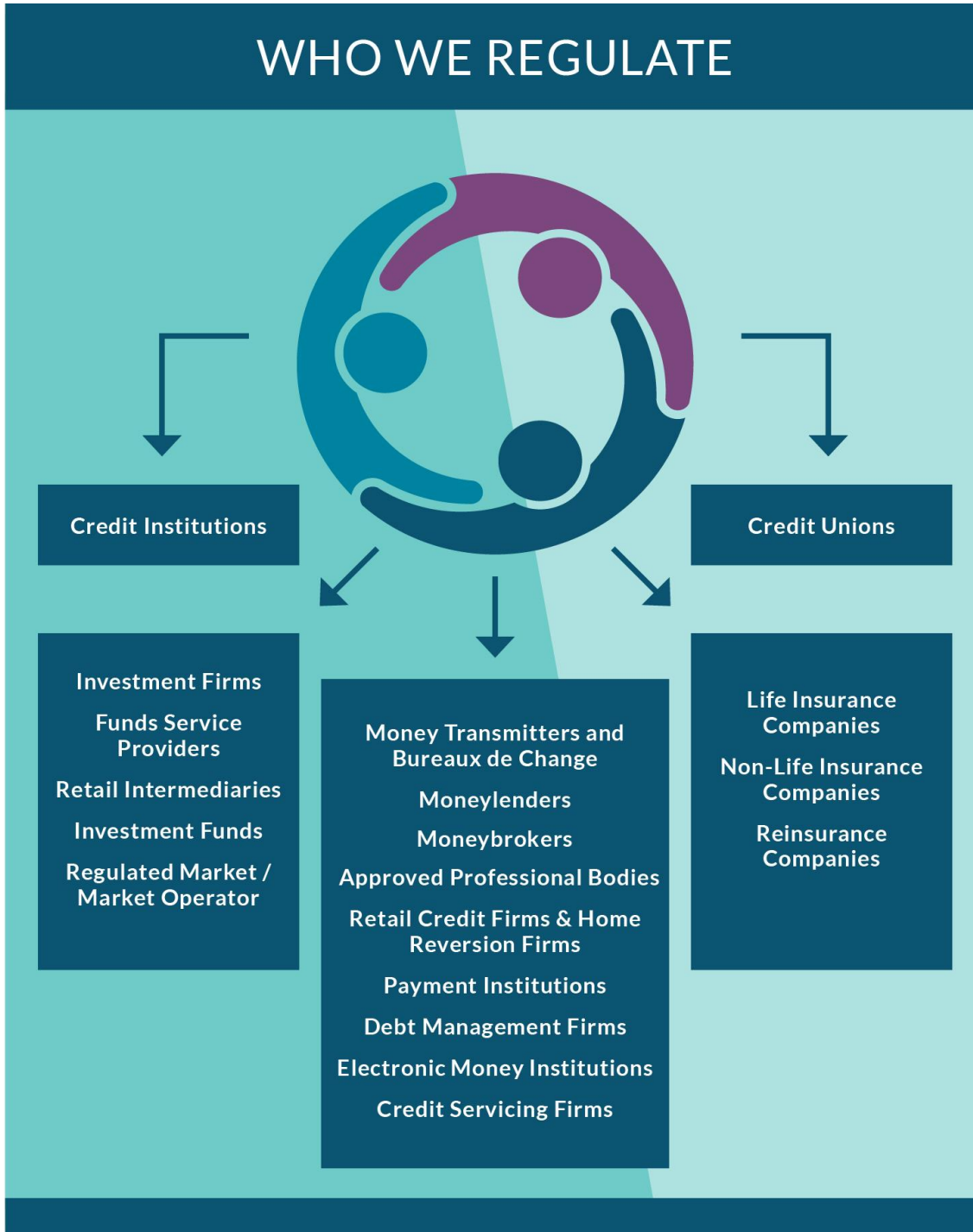
- The **Supervisory Risk Committee** advises on issues central to the management of supervisory risks and also on the development and enhancement of risk-based supervision and supervisory engagement.
- The **Policy Committee** advises on regulatory policy issues and initiatives including consultation papers, feedback statements, codes, guidelines and regulations before their adoption in accordance with relevant delegations.
- The **Authorisation Committee** is convened as necessary to consider the authorisation of certain regulated entities as required.
- The **Financial Regulation Framework Committee** centralises oversight of the F&P regime. The Committee drives the effectiveness of the F&P regime and directs its impact on the financial services industry. The Committee considers Central Bank strategy and policy (to include regulatory, supervisory and enforcement policy, including implementation of regulatory or legislative change) and facilitates coordination, cooperation and consistency in relation to the operation of the F&P regime across the Central Bank.

European System of Financial Supervision

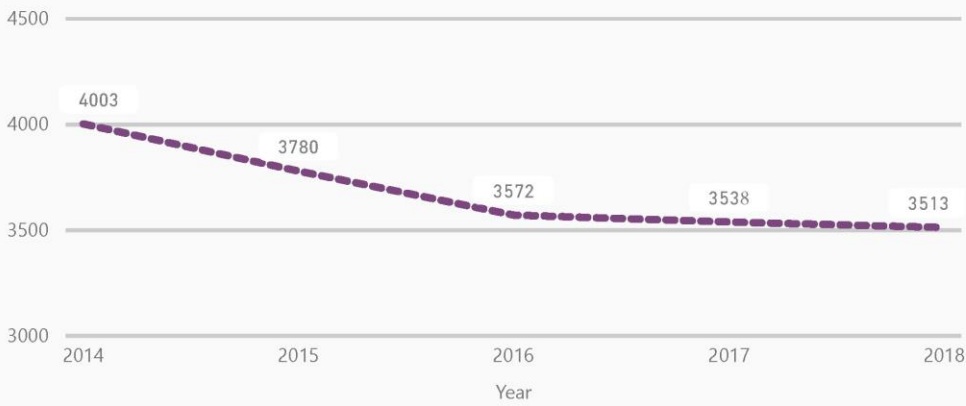
Ireland is part of a wider European system of supervision and regulation for banking, insurance and securities markets. The level of integration depends on the sector, and the institutional architecture. The coordinated European System of Financial Supervision (ESFS) allows Europe to manage the regulatory and supervisory challenges posed by international trade in financial services. A common rule book and a level playing field means that firms cannot engage in regulatory arbitrage across the member countries, while home-host coordination issues can be managed within the institutional framework provided by the European Supervisory Authorities (ESAs). In banking, the successful establishment and operation of the SSM

has proven its value in fostering the development of a unified approach to banking supervision.

Who the Central Bank Regulates



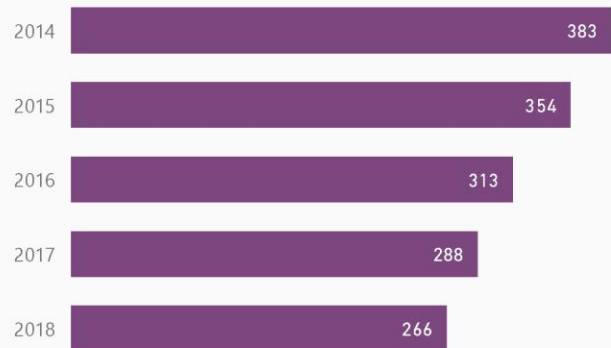
Total Regulated Firms (excl. Funds) 2014-2018



Credit Institutions

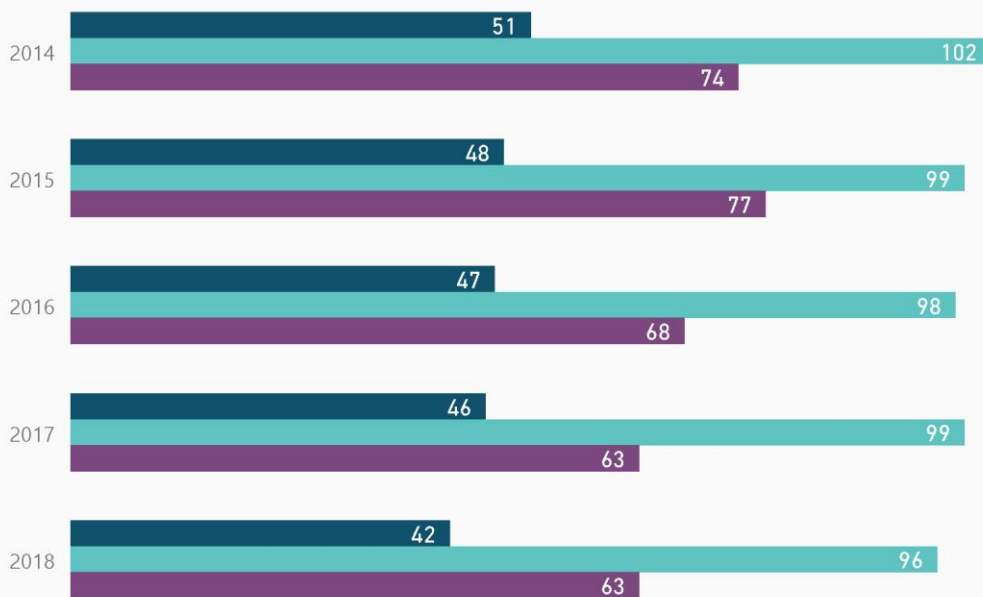


Credit Unions



Insurance

● Life Insurance Companies ● Non-Life Insurance Companies ● Reinsurance Reinsurance Companies



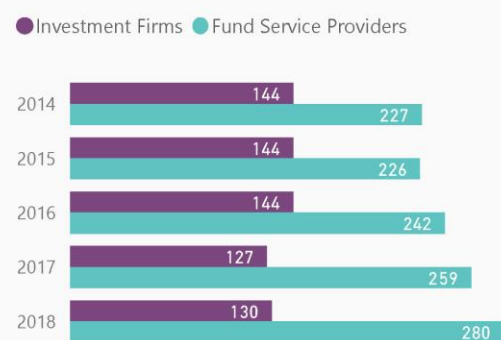
Collective Investment Schemes



Retail Intermediaries



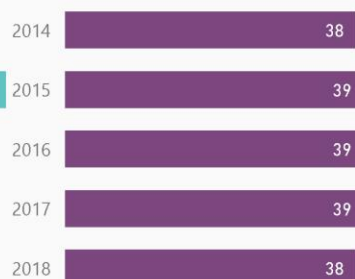
Investment Firms & Fund Service Providers



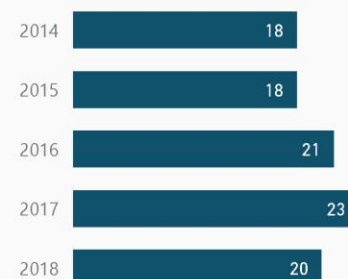
Debt Management Firms



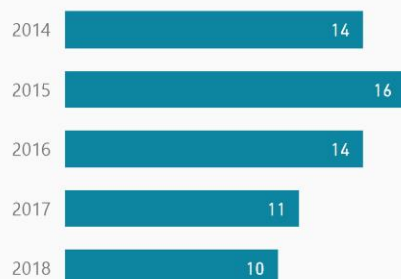
Moneylenders



Retail Credit Firms & Home Reversion Firms



Money Transmitters & Bureaux de Change



Payment Institutions



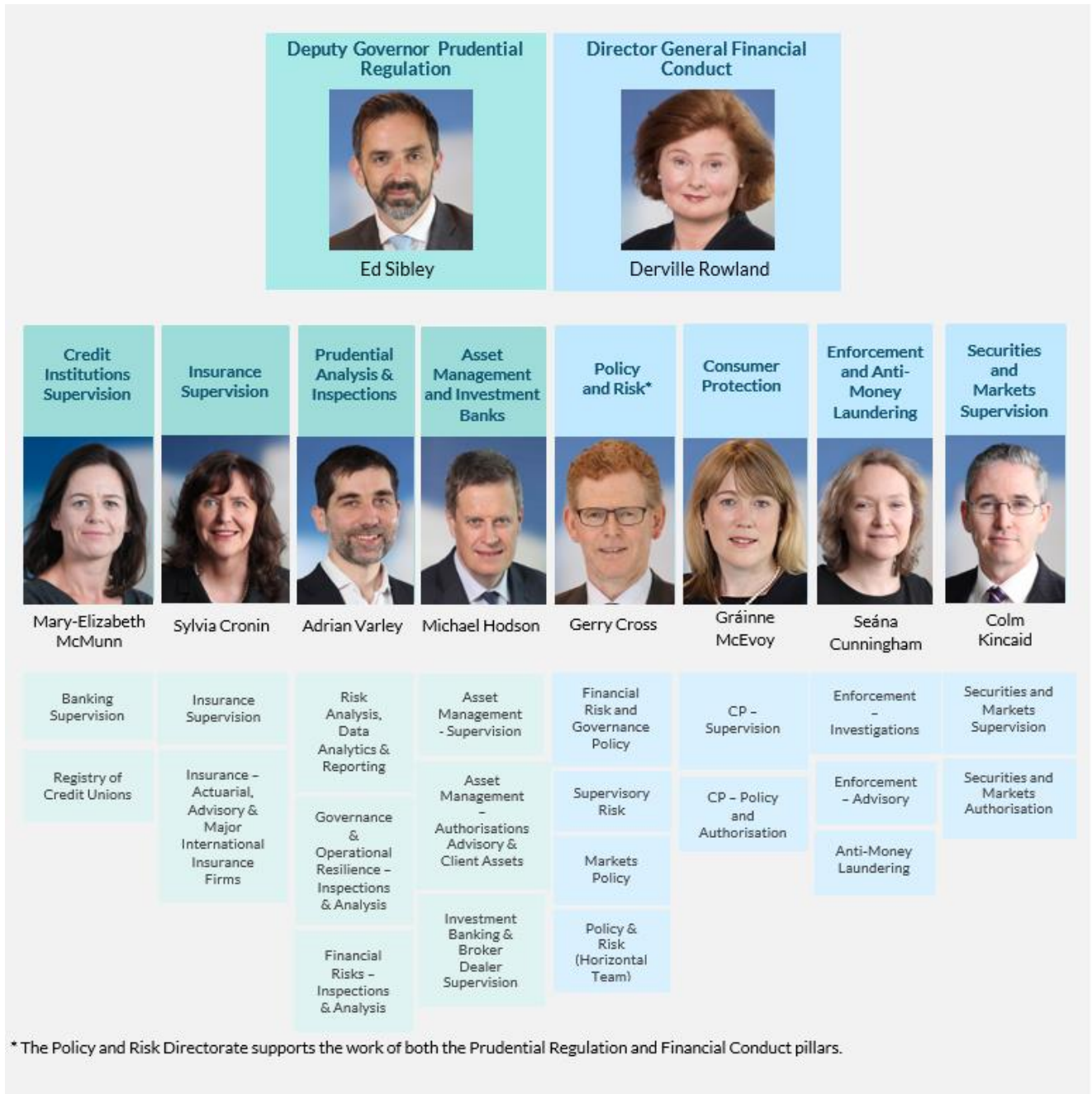
Moneybrokers



Organisation Chart – Financial Regulation

Responsibility for supervision and regulation of financial service providers is allocated over eight directorates within the Central Bank which report to the Deputy Governor Prudential Regulation or Director General Financial Conduct. Figure 1 shows the divisions within each directorate. An overview of the remit of each directorate is set out below.

Figure 1: Financial Regulation Directorates of the Central Bank and their Divisions



Prudential Regulation Pillar

The Prudential Regulation Pillar is responsible for regulatory oversight of the activities of credit institutions, credit unions, asset managers, fund service providers and insurance entities.

The Central Bank's prudential supervision objectives are to protect consumers and financial stability by challenging firms to demonstrate that they:

- Have sufficient financial resources, including under a plausible but severe stress.
- Are well governed, have an appropriate culture, with effective risk management and control arrangements in place, which are commensurate with their nature, scale and complexity.
- Have capitally accretive business models over the long-term; can recover if they get into difficulties, and if they cannot, are resolvable in an orderly manner without significant externalities or taxpayer costs.
- Conduct themselves in a manner that complies with applicable legislation.
- Safeguard the integrity of the market.

Credit Institutions Supervision Directorate

This directorate comprises two divisions: Banking Supervision and the Registry of Credit Unions.

Banking Supervision is responsible for the overall risk assessment of the banks, assessing their financial strength, the effectiveness of their governance and control arrangements and the sustainability of their business models. Staff within the division work closely with counterparts within the SSM, both at the ECB and in other National Competent Authorities (NCAs).

The Registry of Credit Unions is statutorily responsible for regulating and supervising credit unions, with a view to ensuring the protection by each credit union of the funds of its members and the maintenance of the financial stability and well-being of credit unions generally.

Insurance Supervision Directorate

The Insurance Directorate comprises two divisions: Insurance Supervision Division and Insurance Actuarial, Advisory and Major International Firms Division.

The Insurance Supervision Division is responsible for the supervision of more than 200 life, non-life and reinsurance companies including the

supervision of the domestic and international non-life companies authorised by the Central Bank, the reinsurance companies operating globally from Ireland and the captive (re)insurance industry based in Ireland.

The Insurance Actuarial, Advisory and Major International Insurance firms division is responsible for supervision of major international insurance groups based in Ireland and the development of a Supervisory Strategy for the directorate.

Asset Management and Investment Banking Directorate

This directorate comprises three divisions: Asset Management Authorisations Advisory and Client Assets (AMAAC), Asset Management Supervision (AMS) and Investment Banking and Broker Dealers (IBBD).

AMAAC and AMS Divisions are responsible for the authorisation and prudential supervision respectively of investment firms, non-retail business firms and Fund Service Providers².

IBBD, a newly established division, is responsible for the supervision of large complex investment banks, some of which are supervised jointly with the SSM, in addition to investment firms engaged in broker dealer activities.

Prudential Analysis and Inspections Directorate

Prudential Analysis and Inspections Directorate (PAID) is newly established to support and challenge the supervision directorates and collaborate with the Central Banking and Financial Conduct pillars.

The directorate comprises three divisions: Governance and Operational Resilience (GOR), Financial Risk (FRD) and Risk Analysis, Data Analytics and Reporting (RADAR).

The directorate provides technical expertise in the assessment of risks including operational resilience, non-financial risks, governance, behaviour, culture and diversity.

Financial risk focus includes the provision of technical expertise in the areas of credit, market, liquidity, interest rate risk in the banking book, capital, recovery planning and crisis management, stress testing and internal models. The directorate shares its resource pool to assign expertise in specific fields (inspections, advisory, training and secondments) as required. Its work is underpinned by cross-sectoral and specialised expertise and analysis.

² Investment firms authorised under the Markets in Financial Instruments Directive; non-retail investment business firms authorised under the Investment Intermediaries Act 1995; and Fund Service Providers authorised under the UCITS Regulations 2011 and Alternative Investment Fund Managers Regulations 2014.

Horizon scanning activities include identifying emerging issues and risks and proposing strategies to mitigate them.

Financial Conduct Pillar

The Financial Conduct Pillar regulates financial conduct with the aim of ensuring that the best interests of consumers and investors are protected and that markets operate in a fair, orderly and transparent manner. Its vision is for a trustworthy financial system supporting the wider economy, where firms and individuals adhere to a culture of fairness and high standards.

The Financial Conduct pillar's objectives are to protect consumers, investors and financial stability. These objectives are delivered through:

- Rigorous and challenging requirements and standards so that the firms authorised by the Central Bank meet the best interests of consumers.
- Targeted and regular proactive supervision that seeks to prevent identified high impact risks from emerging.
- Financial consumer protection as an integral part of the legal, regulatory and supervisory framework.
- Robust enforcement action aimed at promoting principled and ethical behaviour by and within regulated entities.

The Financial Conduct Pillar is responsible for overseeing Consumer Protection, Securities and Markets Supervision, Financial Regulation - Policy and Risk and Enforcement and Anti-Money Laundering Supervision.

Consumer Protection Directorate

The Consumer Protection Directorate is responsible for ensuring that consumers are protected in line with the Central Bank's mission.

The directorate works to:

- Prevent identified high impact risks from crystallising through targeted proactive supervision and take corrective action where systemic issues arise to ensure detriment to consumers is redressed.
- Ensure that consumers are sold suitable products and services.
- Develop and maintain a fit-for-purpose consumer protection regulatory framework.
- Assess applications for authorisation serving as a robust gatekeeper.

The directorate comprises two divisions: Consumer Protection Policy and Authorisation and Consumer Protection Supervision Division.

The Policy and Authorisation Division is responsible for the Central Bank's regulatory and policy framework underpinning consumer protection and for authorising firms seeking to establish in Ireland. The Supervision Division is a cross-sectoral supervisory division with responsibility for both conduct and prudential supervision of almost 3,000 firms across 13 sectors including banks, non-banks, insurers and investment firms.

Securities and Markets Supervision Directorate

The Securities and Markets Directorate is responsible for the supervision of primary and secondary securities markets and discharges these responsibilities through:

- Authorisation and supervision of investment funds.
- Approval of the prospectus required for issuers of securities making offers to the public and/or seeking admission to trading on a regulated market.
- Ensuring disclosures to the market required by relevant legislation are made.
- Market monitoring and surveillance of market trading.
- Carrying out a range of supervisory activities to ensure compliance with regulatory requirements relating to activity on securities markets.

The directorate is comprised of two divisions: Securities and Markets Authorisation and Securities and Markets Supervision. The Authorisation Division is responsible for the authorisation of funds and prospectus approvals. The Supervision Division is responsible for the supervision of funds and thematic inspections as well as market integrity, market surveillance and market investigations.

Enforcement and Anti-Money Laundering Directorate

The directorate comprises three divisions: Enforcement Investigations, Enforcement Advisory and Anti-Money Laundering.

The directorate is responsible for the conduct of enforcement investigations and enforcement actions across all sectors in respect of both prudential and conduct requirements. The directorate holds regulated firms and individuals to account where their behaviour fails to meet the required standards through the following activities:

- Imposition of sanctions under the ASP on firms and individuals who breach their regulatory requirements.

- Prohibition of persons, who do not meet the applicable F&P standards, from working in the financial services industry.
- Revocation or refusal of firms' authorisations where those firms fail to meet their regulatory or authorisation requirements.
- The public communication of enforcement outcomes.

The Enforcement Investigations Division is responsible for conducting intrusive investigations into suspected misconduct by regulated firms.

The Enforcement Advisory Division advises those carrying out investigations, and engages with internal and external stakeholders to ensure that a robust regulatory and enforcement framework is built and maintained.

The Anti-Money Laundering Division is responsible for the supervision of credit and financial institutions' compliance with their anti-money laundering (AML) and countering the financing of terrorism (CFT) obligations. The division also influences domestic and international regulatory policy development in AML/CFT.

Financial Regulation - Policy and Risk Directorate

This directorate is responsible for the development and implementation of regulatory policy in relation to credit institutions, insurance undertakings, investment firms, investment funds and securities and markets both domestically and internationally. It is also responsible for the maintenance, enhancement and support of the Central Bank's supervisory risk framework (PRISM) and for the quality assurance of its implementation. It discharges these responsibilities through the following activities:

- Development and maintenance of the Central Bank's domestic regulatory and policy framework for prudential and conduct supervision.
- Contribution to the formation and implementation of European and international regulation.
- Leading on the development and maintenance of the Central Bank's risk-based framework for supervision (PRISM).
- Provision of support and assurance for supervisors' implementation of the Central Bank's policy and supervisory frameworks.
- Promotion of a high quality and effective policy environment across the Central Bank.

The directorate comprises three divisions and a function: Financial Risks and Governance Policy Division, Markets Policy Division, Supervisory Risk Division and the Policy and Risk Horizontal Team.

The Financial Risks and Governance Policy Division, the Markets Policy Division and the Policy and Risk Horizontal Team are responsible for banking, insurance and governance policy, markets policy and horizontal policy respectively. The Supervisory Risk Division is responsible for PRISM and the quality assurance of its implementation.

Funding of Financial Regulation

This section sets out how the cost of financial regulation activities is governed and funded.

Background Information

In accordance with Section 32D of the Act, the Commission of the Central Bank makes regulations requiring regulated firms to pay a levy to the Central Bank, subject to approval of the Minister for Finance.

The Central Bank's total funding requirement for financial regulation activity is determined on an annual basis by the resources required to discharge its legal responsibilities under domestic and EU law. The net Annual Funding Requirement (nAFR), reflects the relevant proportion of the cost of regulation adjusted for balances from the prior year to be recouped through the industry funding levy. A substantial disclosure, 'Funding of Financial Regulation Activities', is set out in the notes to the Central Bank Annual Report 2019.

Each year, the Industry Funding Regulations (and accompanying Schedule) are signed into law and take effect upon approval by the Minister for Finance. The Funding Regulations set out the basis on which levies are applied to individual regulated entities within various industry funding categories.

In response to a joint public consultation with the Department of Finance on funding the cost of financial regulation (CP95), the Minister for Finance agreed in 2017 to a phased movement towards 100% industry funding.

Changes in 2018

Changes to the 2018 Funding Regulations are summarised in the publication, "Funding Strategy and Guide to Industry Funding Regulations 2018", which is available on the Central Bank's website.

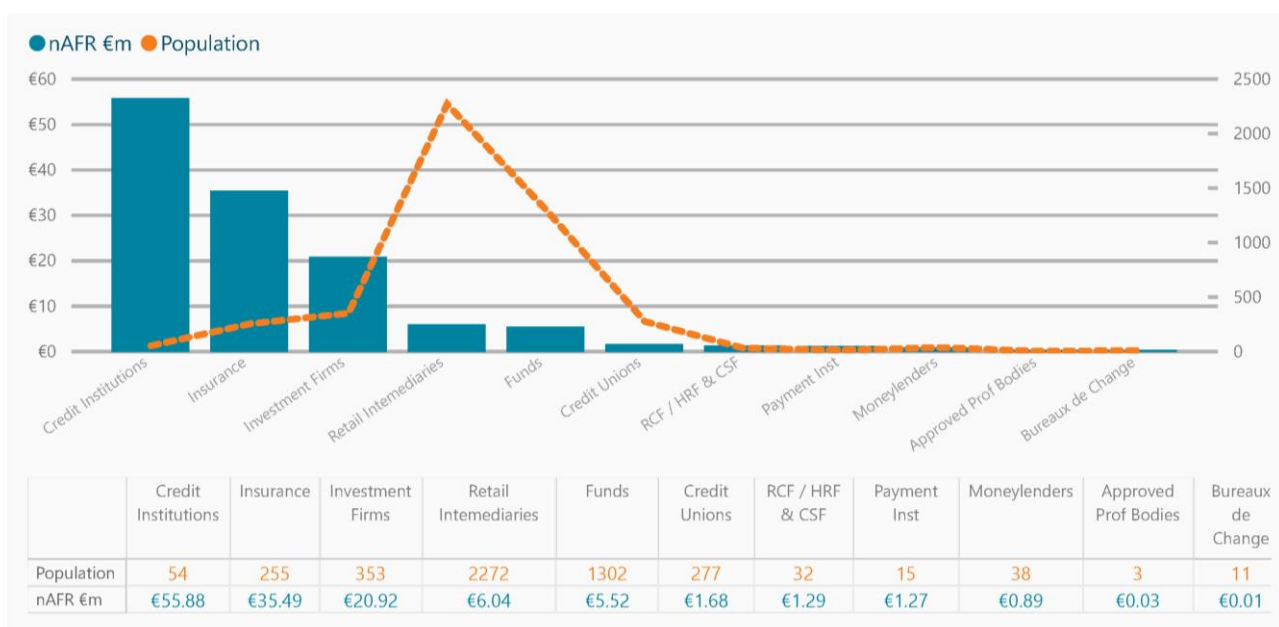
Changes in 2018 reflect:

- An increase in the recovery rate from 65% to 80% funding for credit institutions, insurance undertakings, investment firms and fund service providers.
- Alignment of the recovery rate for retail intermediaries and debt management companies with the 65% rate, introduced in 2017 for most industry funding categories.
- The introduction, following a consultation process, of a new methodology for the calculation of levies payable by moneylenders, similar to that which applies to retail intermediaries.
- Introduction of supplementary levies for credit institutions to recover the cost of professional fees incurred in the consideration of an extension to an existing authorisation to the extent that those fees can be attributed to the entities concerned.

Cost of Financial Regulation

The chart below sets out the funding requirement for each industry funding category in 2018. It illustrates the relationship between the funding requirement and the associated populations for each category. The funding requirement is a consequence of the underlying regulatory cost and appropriate recovery rate. In this regard, banks which participated in the Eligible Liabilities Guarantee Scheme in 2009 have, since then, fully funded the costs associated with their regulated activity. This, along with the underlying cost of their regulation, helps to explain why this category contributes more than other categories. In some instances, high funding values arise from relatively low population counts (e.g. banks) whereas, in other instances, the opposite holds true - some high volume categories represent a relatively low proportion of overall funding (e.g. retail intermediaries).

Chart 1: 2018 nAFR and associated number of firms levied



The Central Bank's strategy is to move substantially towards recovering the full cost of regulation from industry over the life of the Strategic Plan 2019-2021.

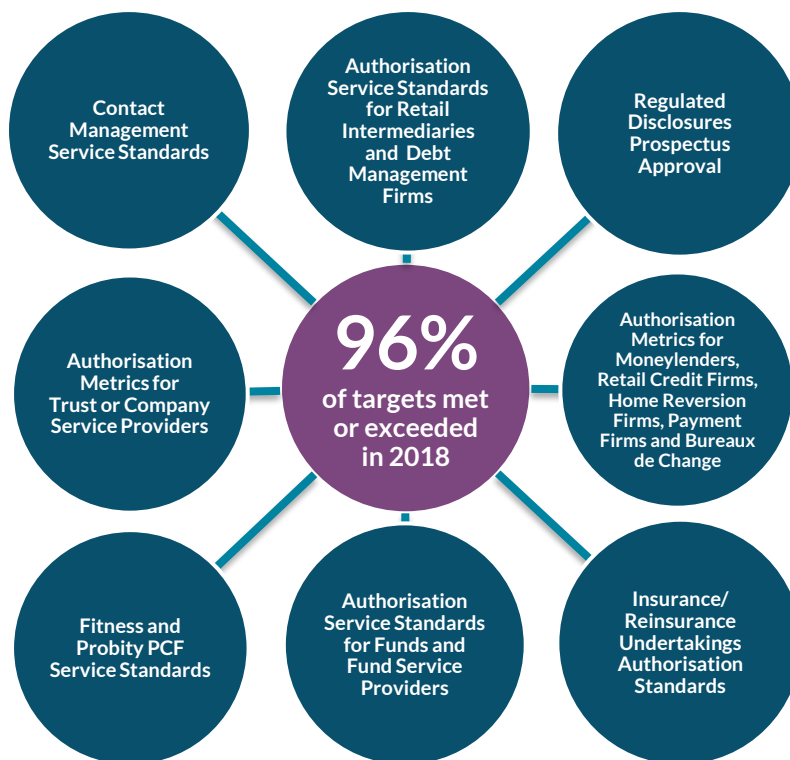
Service Standards for Processing Applications and Contact Management

The Central Bank published two half yearly reports³ in 2018 outlining its performance against service standards that it has committed to in respect of:

- Authorisation of Financial Service Providers and Investment Funds
- Assessment of F&P applications
- Contact Management Services.

The service standards were met or exceeded for 96% of the targets for which applications were received.

Figure 2: Service Standards Achieved in 2018



³ Performance Standards H1 and Performance Standards H2

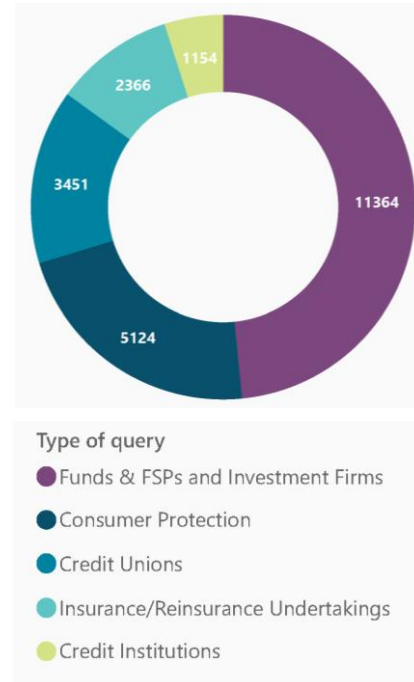
Supporting the Work of the Regulatory Teams

Regulatory Transactions Services

The Regulatory Transaction Division (RTD) is responsible for the centralisation, streamlining and automation of core regulatory transactions, such as F&P applications, funds and fund service provider authorisations, passporting, returns management and contact management processes. This service improves the consistency of decision making for regulatory transactions, reduces regulatory, reputational and operational risk and delivers a clearly measurable and transparent service with improved turnaround times. The Regulatory Transaction service delivered by RTD in 2018 included:

- F&P Gatekeeper applications – assessment of persons seeking approval to hold senior positions in regulated firms (i.e. Pre-Approval Controlled Function (PCF)) under the F&P Regime, in accordance with service standards. As at 31 December 2018, there were 51 separate PCFs relating to over 20 industry sectors.
- Funds and Fund Service Provider Authorisations – assessed online applications for funds and fund service providers in accordance with service standards.
- Passporting – processed Freedom of Services passporting notifications from Fund Service Providers in accordance with statutory timeframes.
- Returns Management- supported regulated firms in submitting existing and new regulatory returns online via the Central Bank's Online Reporting (ONR) System.
- Contact Management Service – Provision of a general contact management/query support service to regulated firms in accordance with service standards. A caller satisfaction survey for the contact centre was conducted in November 2018, with 98% of regulatory callers either satisfied or very satisfied with the service (up from 94% in 2017).

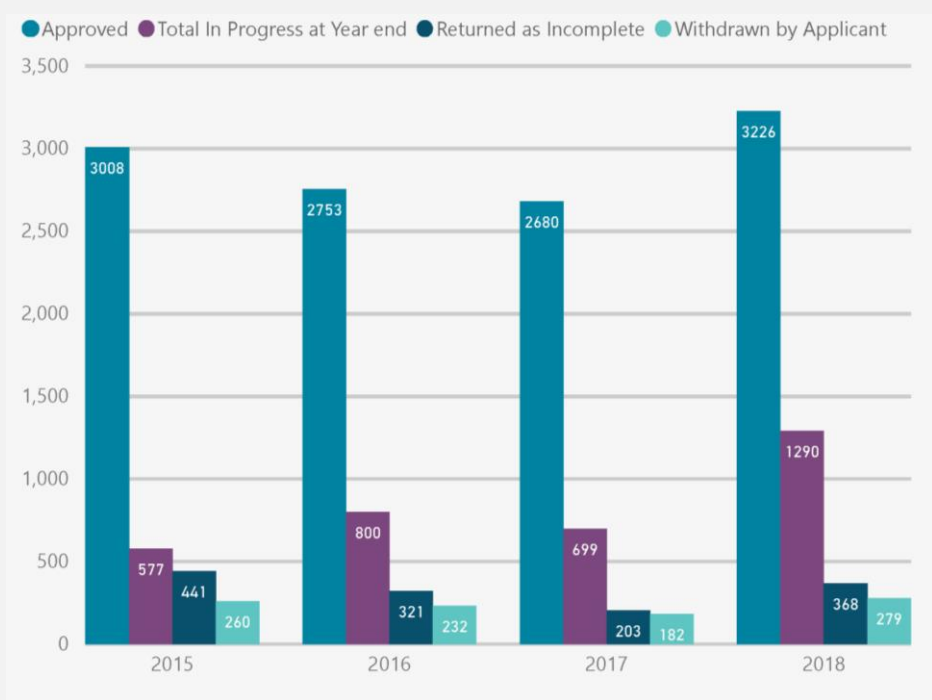
Chart 2: Number of queries dealt with by the Regulatory Transactions Contact Centre



Box 1: F&P Gatekeeper Applications and Assessments

There was a 51% increase in PCF applications submitted during 2018 when compared to 2017. Most of these applications were submitted during H2 and this is reflected in the higher level of in-progress applications at year-end when compared to 2017. Much of this increase was related to the departure of the UK from the EU. Of the applications that were processed during 2018, 83% were approved while 17% were either returned as incomplete or were withdrawn by the applicant (87% and 13% respectively in 2017).


Chart 3: Fitness and Probity Applications by Status



Staffing in Financial Regulation

At end-December 2018, there were 953 full time equivalents (FTEs) involved in regulatory activities, up from 839 in December 2017. The increase in staff in 2018 is principally attributable to:

- Brexit - Additional staff were required to respond to the volume, nature and complexity of new firms seeking authorisation and to process significant changes to business models of existing firms.
- The establishment of a Wholesale Conduct Function in response to the changing profile of credit institutions and investment firms to ensure that wholesale conduct risk is effectively embedded into the Central Bank's frameworks.
- Additional Enforcement staff to enhance our ability to deliver robust enforcement outcomes.

The background consists of three overlapping geometric shapes: a light teal triangle at the top right, a darker teal triangle at the bottom left, and a purple triangle at the bottom right. The text is centered in the white space of the darker teal triangle.

Chapter 2:
Achievements of
Strategic Responsibilities
in 2018

Chapter 2: Achievements of Strategic Responsibilities in 2018

The Central Bank's Strategic Plan 2016-2018 Framework demonstrates the interdependencies between the achievement of the Central Bank's mission and vision and the achievement of the desired outcomes we have specified for our Strategic Enablers and Strategic Responsibilities.

Figure 3: The Central Bank's Strategic Framework 2016-2018



This chapter provides a summary of Central Bank outputs and outcomes in 2018 in relation to the three Financial Regulation Strategic Responsibilities set out above, specifically:

- Consumer Protection
- Supervision and Enforcement
- Regulatory Policy Development.

There is also a section covering Central Bank activity in preparation for the departure of the UK from the EU.

The Departure of the UK from the EU

While at the time of preparation of this Annual Performance Statement, the final nature of the new EU-UK arrangements remained unclear, the departure of the UK from the EU has considerable short-term and long-term implications for the structure of the Irish economy and the financial system. It has induced a significant expansion in the set of firms seeking to use Ireland as a base to serve the EU27 financial system and has forced a rethink of the appropriate framework for regulating trade in financial services between the EU27 and other locations (including the UK). The successful handling of the impact of the departure of the UK from the EU remains a high strategic priority for the Central Bank, with preparations underway since before the UK referendum in 2016.

Throughout 2018 the work of the Central Bank focused primarily on ensuring:

1. Risks to the Irish economy and consumers were understood and mitigated.
2. Required policy and legal adjustments were prepared to ensure continuity of services in the event of a no-deal Brexit.
3. Regulated firms took appropriate steps to strengthen resilience and protect their customers.
4. The Central Bank delivered a proportionate, robust, efficient and effective authorisation process in line with European regulatory norms for those firms seeking authorisation in Ireland as a result of the UK's departure from the EU.

1. Risks to the Irish economy and consumers were understood and mitigated to the greatest extent possible

The interconnectivity of the Irish and UK financial systems means that the departure of the UK from the EU poses significant challenges and risks to consumers, businesses and financial institutions.

The Central Bank's aim has centred on seeking to ensure that financial stability and consumer protection risks were mitigated to the greatest extent possible, particularly in relation to the cliff-edge risks associated with a no-deal Brexit.

The Central Bank worked with European and UK authorities to seek to ensure that those firms providing services to Irish consumers are able to continue to do so in the event of a no-deal Brexit.

The Central Bank worked with the Department of Finance to support the drafting of legislation to create a temporary run-off regime that will ensure service continuity for insurance customers in event of a no-deal Brexit.

2. Required Policy and Legal adjustments were prepared to ensure continuity of services in the event of a no-deal Brexit

(a) Inter-agency cooperation

Throughout 2018, the Central Bank provided views and analysis to wider domestic policy makers, including through participation in the monthly meetings of the Brexit Contact Group (BCG) with the Department of Finance and the NTMA. The BCG discussed contingency planning across parts of the financial sector as well as the latest economic and political developments relating to the departure of the UK from the EU.

The Central Bank also engaged with relevant authorities, including the Department of Finance, Bank of England and ECB on potential solutions for the continuity of access to financial market infrastructures for Irish corporate securities post-Brexit.

(b) Actively engaging in Europe to contribute to Brexit-related policy

The Central Bank engaged at European level to promote a consistent approach across the different Member States in the context of Brexit-related decision-making, contingency planning and communications. The Central Bank has been focused on agreeing European-wide approaches to key policy and supervisory issues that have arisen from the departure of the UK from the EU in order to address the concern of regulatory divergence and the risk of regulatory arbitrage.

3. Regulated firms took appropriate steps to strengthen resilience and protect their customers

Supervision teams across the Central Bank continued to engage with firms to ensure they were appropriately planning for plausible worst-case scenarios. This involved ensuring that existing Irish firms understood and were planning for the impact that the departure of the UK from the EU will have on their businesses and their customers and continuing to engage with those firms that were executing plans to move to Ireland or changing their business models in Ireland.

4. Delivering a proportionate, robust, efficient and effective authorisation process in line with European regulatory norms for those firms seeking authorisation in Ireland

Significant authorisation activity arose due to the departure of the UK from the EU, involving high volumes of applications and complex cases. The Central Bank continued to act as gatekeeper by rigorously assessing

applications from all firms seeking to provide financial services in Ireland. Firms were required to clearly demonstrate that they met the required standards for authorisation. The authorisation teams continued to assess applications in line with statutory and service standard timeframes, operating a clear, straightforward and facilitative process for applicants seeking authorisation.

Financial Stability and Consumer Protection

In 2018, the Central Bank continued to prepare for plausible worst-case scenarios, including a no-deal Brexit. The Central Bank identified a number of cliff-edge risks, which had the potential to negatively affect consumers and investors, and cause significant disruption to the Irish financial system.

Box 2: Consumer and Investor Protection Related to the Departure of the UK from the EU

Lack of service continuity was identified as the most serious threat to consumers. As a result, the following key actions were taken to address this and other Brexit-related consumer and investor protection risks:

- **Reinforcing firm level preparedness** – The Central Bank, through active supervisory engagement with firms (including banks, insurers, investment firms, intermediary firms, payment and e-money institutions) required evidence of effective Brexit contingency planning. Furthermore, the Central Bank emphasised the need to adhere to the guidance issued by the ESAs to inform customers and investors about the impact of the departure of the UK from the EU on their financial products and services.
- **Engaging with Department of Finance** – The Central Bank provided technical advice on the required legislative change to protect insurance policyholders. Legislation was required to deliver a temporary run-off regime to mitigate the risk of lack of service continuity for insurance contracts.
- **Issuing communications relating to the departure of the UK from the EU** – The Central Bank's communications to industry included direct engagement with firms, publication of the ESA Opinions and speeches, while communications to consumers and investors included detailed Consumer FAQ on the Central Bank's consumer hub website.

- **Publishing reports** - The Central Bank published four reports relating to the departure of the UK from the EU in 2018 providing expert assessments of the related risks.

The Central Bank is seeking to ensure consistent and predictable consumer and investor protections and will continue to work with financial institutions and at EU level to guide firms toward preparedness so that consumers and investors are protected regardless of the outcome of the UK/EU negotiations regarding the departure of the UK from the EU.

Supervision

The Central Bank was closely involved in developing a common European approach to the regulatory and supervisory issues arising from the UK's departure from the EU.

The Central Bank's focus included seeking to mitigate against regulatory and supervisory arbitrage to ensure continued supervisory cooperation and information sharing with UK authorities and consideration of possible regulatory solutions to mitigate against potential cliff-edge risks.

Authorisation activity increased significantly including large and complex authorisations and changes to business plans of existing firms seeking to materially expand the scale of their existing operations.

Teams were mobilised to respond proactively to the demands of new authorisations, underpinned by rigorous authorisation processes. In addition, supervisory emphasis centred on ensuring that existing firms made the necessary improvements to be more resilient against current and emerging risks. The Central Bank continued to monitor firms' contingency planning to ensure effective plans were established to serve the needs of the economy and consumers in the longer-term.

The Central Bank was closely involved in developing a common European approach to the regulatory and supervisory issues arising from the UK's departure from the EU.

Box 3: Preparing for and Managing the Impacts of the Departure of the UK from the EU – Deeper Insights

Insurance

Authorisation activity related to the departure of the UK from the EU increased significantly and included the processing of a number of large and complex authorisations and a significant number of changes to business plans of authorised firms. During 2018, 23 applications were reviewed during 2018, six firms were authorised and the remaining applications completed the authorisation process in early 2019. In addition, there was a significant increase in regulatory transactions

arising from changes to business plans, acquiring transactions and portfolio transfers.

A new authorisation process was implemented with a pre-application phase, enabling more exploratory dialogue with firms. Supervisors challenged firms on macro risks, business models and policyholder impacts such as contract continuity. Examples of risks mitigated through this process include the lack of substantive presence, risk retention, counter-party risk, outsourcing risks and risks to policyholder protection such as recovery and resolution.

Asset Management and Investment Banking

Driven by the impact of a number of new complex entities seeking authorisations to establish in Ireland, a new division was established in November 2018, the Investment Banks and Broker Dealers Division (IBBD), sitting alongside the supervision of asset management firms in the re-named Asset Management and Investment Banking Directorate (AMIB).

The impact of the UK's departure from the EU on the asset management sector has resulted in a significant increase in authorisations activity. In 2018, 56 authorisations, including five extensions to existing authorised firms were completed (this compares to an average of 18 in the previous two years) and significant authorisation activity is ongoing in the first quarter of 2019.

IBBD will supervise approximately ten banks and investment firms by end-June 2019 and its resources will be supplemented by supervisors who have worked on the authorisation or expansion of activity of existing firms to retain knowledge of firms' business models and conditions of authorisation. Three significant credit institutions will be supervised by joint supervision teams resourced by Central Bank and ECB staff.

Central Securities Depository

At present, all Irish equity and many Exchanged Traded Fund (ETF) transactions are settled through a UK-based Central Securities Depository (CSD). If the UK becomes a "third country", there could be a legal restriction around passporting of CSD services into the Irish market and a risk that Irish transactions would be unable to settle.

To mitigate this risk, the Central Bank in conjunction with relevant Irish authorities engaged and continues to engage with key domestic market stakeholders and European authorities on this issue. Focus has centred on identifying a suitable long-term CSD provider following the departure

of the UK from the EU and in establishing a UK equivalence arrangement in the short-term.

In December 2018, the European Commission issued a statement that a 24-month temporary equivalence period for UK CSDs would be provided for in the event of a no-deal Brexit. This means that the proposed long-term arrangement must be in place once this 24-month period comes to an end on 29 March 2021. The Central Bank and the relevant Irish authorities are now engaged closely with the market operator and other market stakeholders to move towards the implementation of the long-term CSD model.

Consumer Protection

The Central Bank aims to ensure the best interests of consumers and investors are protected. Amongst the Central Bank's desired outcomes are that regulated firms develop a consumer-focused culture that delivers fair outcomes for consumers, that consumers understand the products and services being offered to them and that vulnerable consumers are protected.

The Central Bank aims to achieve these outcomes through high quality regulation, purposeful engagement, effective gatekeeping, assertive supervision and robust enforcement.

Consumer protection is embedded in every area of the Central Bank's work across our financial conduct, prudential regulation and central banking mandates, recognising the importance of statutory codes of conduct, that firms are financially sound and that the stability of the financial system is upheld.

Strengthening consumer protection continued to be central to the Central Bank's work in 2018, with a specific and strategic focus on the conduct of firms. The Central Bank's strategic commitment is to elevate the regulation of the behaviour of firms. This is essential given the wide range of financial misconduct scandals internationally and domestically, including the Tracker Mortgage scandal and is why the Central Bank has evolved its supervisory approach in recent years to strengthen its focus on conduct and cultural issues. The Behaviour and Culture report of the Irish Retail Banks was another important step in that process in 2018.

Beyond the retail banking sector, the Central Bank expects to see a consumer-focused culture embedded in all regulated firms. Effective organisational culture builds on shared purpose and standards such as professionalism, honesty, integrity and accountability to deliver fair outcomes that have the interests of consumers at heart. The increased emphasis on culture has informed how the Central Bank regulates firms, ensuring such firms act in the best interests of consumers.

The Central Bank intervenes where it sees widespread consumer detriment. During 2018, the Central Bank continued to progress the TME. By end-December, lenders had paid out €647m in redress and compensation to customers denied a tracker mortgage or put on an incorrect rate. Enforcement investigations are being conducted in parallel with supervisory work.

In 2018, the Central Bank further reviewed the effectiveness of the Code of Conduct on Mortgage Arrears (CCMA) - another important step in ensuring that lenders are fair and transparent in how they deal with



borrowers or those facing mortgage arrears. The main finding from this review (which is covered in more detail in Box 5) is that for borrowers who engage in the process, the report concluded that the CCMA is working effectively.

More generally, the Central Bank continued to press banks to reduce NPLs in a sustainable way that provided strong protections for borrowers. Considerable progress has been made in this regard. The approach taken by the Central Bank and other parts of the national consumer protection framework have ensured that the reduction in the level of non-performing mortgages has been primarily achieved through the restructuring of loans rather than repossessions.

The Central Bank has undertaken a number of initiatives to highlight and address potential risks to consumers. Extensive work has been undertaken in directing regulated firms to make contingency plans for the departure of the UK from the EU. The ongoing programme of thematic inspections continues to identify risks to consumers across sectors and financial products. Industry engagement ensures that regulated firms are kept abreast of regulatory issues and developments. All of this work is underpinned by consumer protection research, ensuring the consumer's voice is kept at the heart of supervisory activities.

Consumer protection is a cornerstone of the Central Bank's mission and continuing to strengthen its capability in this area is one of the five strategic themes for the 2019-2021 period.

Approach to Conduct Supervision

The Central Bank adopts a systemic, risk-based approach to supervising regulated firms' conduct. Consumer conduct supervision is primarily undertaken at sectoral and/or cross-sectoral level. The Central Bank focuses its resources on the areas which pose the most risk to consumers systemically while taking corrective action where necessary to ensure detriment to customers is redressed. Key areas of focus in 2018 included the Behaviour and Culture Report and the themed inspection of the CCMA.

Box 4: Behaviour and Culture Review

The Behaviour and Culture Review was another important step in the process of ensuring that banks embed a consumer-focused culture.

In July 2018, the Central Bank published the findings from the review, which assessed the current culture at the five retail banks. The review focused on the leadership behaviour of the executive committee of these banks, specifically their group dynamics and mind-set; and the interplay

between the executive committee and relevant internal stakeholders in the context of strategic decision-making.

The review found that while all five banks are working to embed a consumer-focused organisational culture, some are more advanced than others and all have some distance to travel. A consumer focus was not always embedded in the banks' structures, processes and systems. Specifically, there was not always a collective understanding of what consumer focus means or what behaviour it requires.

Some banks continued to display remnants of the crisis-era mindset resulting in occasional reversal to directive leadership styles when the emphasis should be on collaborative approaches. The review also found over-optimism about the successful transition to a consumer focused culture meaning banks underestimated the work required to deliver on the change agenda.

On foot of the review, the Central Bank required the board of each bank to create an action plan to address the concerns identified and mitigate the associated risks. These actions plans have been received by the Central Bank and will be an important component in our ongoing supervision of these retail banks.

The Behaviour and Culture Review was another important step in the process of ensuring that banks embed a consumer-focused culture.

Box 5: CCMA Report and Protections for Borrowers in Arrears

The CCMA is a statutory Code, put in place to ensure that lenders have fair and transparent processes in place for dealing with borrowers in, or facing mortgage arrears. Each case of mortgage arrears is unique and needs to be considered on its own merits. All cases must be handled sympathetically and positively, with the objective at all times of assisting the borrower to meet his or her mortgage obligations. Regulated firms must comply with the CCMA as a matter of law.

In March 2018, the Minister for Finance requested the Central Bank to review the CCMA to ensure it remains effective in the context of the increasing use of loan sales by lenders to reduce levels of NPLs. In this regard, the Central Bank sought the views of stakeholders, conducted inspections of firms involved in credit servicing activities, assessed recent issues raised with the CCMA and gathered and analysed data relating to restructuring arrangements.

The Central Bank published the Report on the Effectiveness of the CCMA in the context of the Sale of Loans by Regulated Lenders in

November 2018. Based on a point in time review, the Report found that, for borrowers who engage with the process, the CCMA is working effectively and as intended, in the context of the sale of loans by regulated lenders. There was no evidence that borrowers whose circumstances have not changed are being moved off existing arrangements during the term of the arrangement after their loan is sold.

Tracker Mortgage Examination

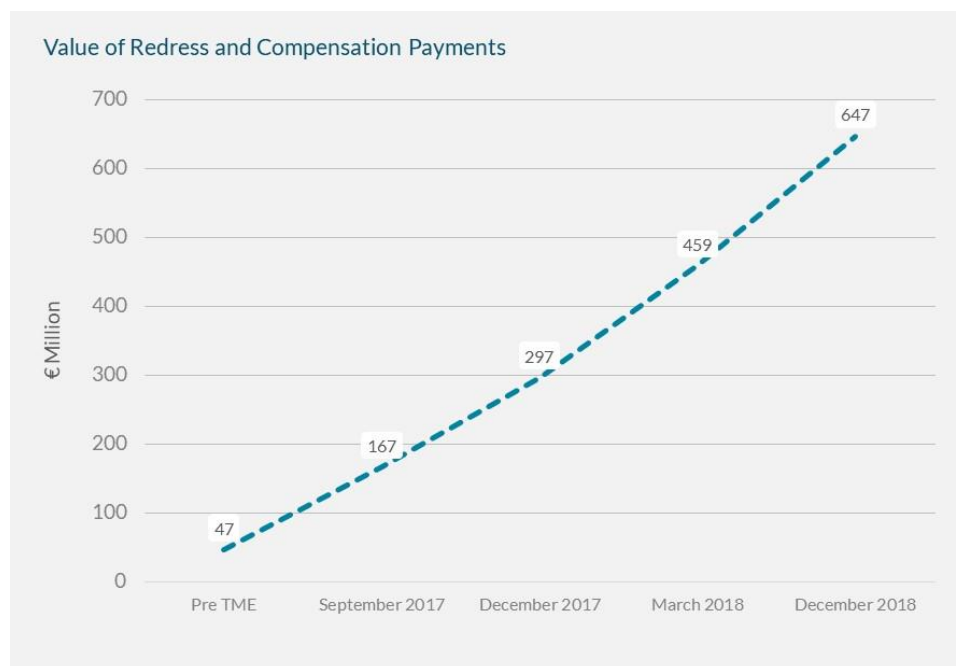
The TME is the largest, most complex and significant supervisory review the Central Bank has undertaken in respect of its consumer protection mandate. The TME covers all mortgage lenders that sold tracker mortgages in Ireland at any time in the past.

The overriding objective of the TME is to ensure the fair treatment of tracker mortgage customers by ensuring that lenders conduct a complete review of their mortgage loan books to assess compliance with both contractual and regulatory requirements relating to tracker mortgages. In situations where customer detriment is identified, the Central Bank requires lenders to provide the appropriate redress and compensation in line with the Principles for Redress it developed.

Key outcomes of the TME in 2018 included:

- Rigorous supervisory work to ensure lenders identified all groups of impacted customers. By end-December 2018, lenders had identified 39,800 affected customers.
- Driving lenders to complete redress and compensation programmes as swiftly as possible. By end-2018, 97% of customers identified and verified as impacted had been remediated.
- €647m in redress and compensation paid by lenders to end-December 2018.

The supervisory work has now entered in its final phases and enforcement investigations are being progressed in parallel. The Central Bank expects to publish a final report on the TME in 2019.

Chart 4: Value of Redress and Compensation Payments

Thematic Inspections

To identify high-level risk issues, the Central Bank builds business intelligence through a variety of sources including consumer research, risk analytics, horizon scanning and feedback from supervisors, enforcement and authorisation officers. This enables the Central Bank to detect and understand where potential consumer detriment can arise and helps supervisors to compile conduct risk reports on which its actions to mitigate risk will be based.

Thematic inspections are key in this process. Thematic reviews are used to identify adverse practices, trends and to facilitate the issue of further guidance or direction to industry in addition to initial remedial action against non-compliant firms.

A series of thematic inspections undertaken during 2018 included reviews of gadget insurance, managing general agents (MGAs) and a review of mortgage advertising.

Box 6: Thematic Inspections and Reviews

Sale of Gadget Insurance

The Central Bank identified a number of key consumer protection risks during this thematic inspection. The inspection highlighted that a consumer-centric approach was not adopted in relation to certain aspects of product design, specifically in making sure that the product sold meets the needs of consumers and in how the cost of the insurance is presented at the point of sale. The inspection found that, in certain

circumstances, product information provided to consumers was inadequate at both the point of sale and during the life of the policy. The Central Bank instructed manufacturers and distributors of gadget insurance to do more to ensure that consumers are made aware of the key features of their policy, benefits, exclusions, how to make a claim and the total cost of the product. Firms were also instructed to provide additional information on the price of insurance to empower consumers to make informed choices. The Central Bank's view is that the additional information required is both fair to consumers and increases the likelihood of positive consumer outcomes.

Mortgage-Related Advertising

This review of mortgage-related advertising, with a specific focus on cash back incentives, assessed whether lenders were advertising mortgages with cashback offers in a clear and unambiguous way. The Central Bank reviewed 183 advertisements for compliance with the advertising requirements in the Consumer Protection Code 2012 and the EU (Consumer Mortgage Credit Agreements) Regulations 2016 (S.I. No. 142/2016). Findings included that key information and qualifying criteria were not always included in the main body or in the small print of the advertisements, the content of some web pages was not accurate and/or up-to-date and the content of some advertisements was unclear (for example, how the cashback incentive was calculated). As a result, the Central Bank instructed lenders to withdraw or amend circa 75% of the advertisements reviewed.

Retail Intermediaries which Act as Managing General Agents

This thematic inspection of retail intermediaries which act as MGAs on behalf of motor insurers focused on ensuring that all policy and associated documentation make it clear to consumers who their insurer is and where their insurer is located. The inspection highlighted a number of key issues, noting that MGAs did not make consumers sufficiently aware of the name of their insurer and its country of incorporation. Furthermore, in a majority of cases, plans to deal with an insurer exiting the market were not formally documented by the MGA. As a result of the thematic inspection, formal supervisory requirements with specific timelines for remediation were imposed on those MGAs where the Central Bank identified areas of concern.

Other Regulated Activities

Supervisory teams engaged in ongoing reactive and targeted supervision of retail intermediaries, debt management firms, credit servicing firms, retail credit firms, licenced money lenders and home reversion firms. Key activities included engaging with firms in respect of F&P issues identified, targeted inspections and contributing to policy and legislative developments.

Most notably, meaningful engagement was undertaken with European colleagues on the implementation of the Insurance Distribution Directive (IDD) for the retail intermediary sector in a post-Brexit scenario.

Influencing at EU/International Level and Domestic Policy

Consumer protection works to strengthen the regulatory framework and shape and influence domestic, European and international policy in ensuring fair outcomes for consumers. In 2018, the Central Bank continued to actively contribute at an international level on consumer protection matters across the individual ESAs, the ESA Joint Committee, Sub Committee on Consumer Protection and Financial Innovation, FinCoNet and the Organisation for Economic Cooperation and Development (OECD).

Significant areas of activity in 2018 related to the development and implementation of key legislative frameworks including Payment Services Directive (PSD2), MiFID II, IDD, Packaged Retail and Insurance-based Investment Products and Pan-European Personal Pension Fund, analysis of the potential implications of the UK's departure from the EU and the consideration of developments in FinTech. In particular, there was a strong focus on supervisory convergence, the development of various Q&As under the directives, strong customer authentication matters in relation to PSD2 and product intervention matters at ESMA. The Central Bank also provided technical support to the Department of Finance on a new EU proposal for a directive on credit servicing firms.

At a domestic level, technical support was provided to the Department of Finance on the transposition of a number of EU directives. There was also significant engagement with the Department of Finance on the Consumer Protection (Regulation of Credit Servicing Firms) Bill 2018, the Consumer Insurance Contracts Bill 2017 and on the Department of Finance commissioned report on Personal Contract Plans (PCPs).

Non-life Insurance (Provision of Information) (Renewal of Policy of Insurance) (Amendment) Regulations 2018 were published on 21 December 2018 and will come into effect on 1 November 2019, ensuring greater consumer awareness and choice at the policy renewal stage.

The Central Bank also issued an addendum to the Consumer Protection Code 2012, which introduced new and enhanced requirements to provide additional transparency and facilitate mortgage switching in June 2018 which came into effect on 1 January 2019.

Research

The Central Bank continued to develop and review the consumer protection framework to enhance the protections in place for consumers, informed by the findings of its consumer-focused research.

Key projects included:

Product Oversight and Governance

The Central Bank commissioned an exploratory review of international behavioural economics literature and examples of potential detriment to consumers arising from the design and sale of particular products. The review, published in October 2018, identified and evaluated research from multiple methods and disciplines in three broad areas: credit products (credit cards, personal loans, and mortgages), investment products (retail and structured investments) and insurance (in particular add-on insurance). The insights from this will inform future consumer protection policy work and add to the supervisory toolkit, particularly in the area of product oversight and governance.

Consumer Research on Motor Insurance

The Central Bank published its report on Consumer Attitudes and Behaviours in Motor Insurance. The purpose of this research was to gain an insight into consumer understanding of the identity and location of their motor insurer (including where motor insurance may have been bought through a retail intermediary acting on behalf of the MGA). The research also looked at the key influences on choice of motor insurance providers, as well as information on consumer satisfaction with the service received. This work was undertaken to support and inform the work of the thematic inspection of retail intermediaries acting as MGAs. As a result of the thematic inspection, formal supervisory requirements with specific timelines for remediation have been imposed.

Supervision and Enforcement

The Central Bank continued its programme of risk-based, intrusive, outcome focused and analytical supervision anchored in the PRISM (and Information Management System for the banks in the SSM) supervisory methodologies and underpinned by enforcement action where necessary and appropriate. This included day-to-day supervisory engagement with regulated firms, and inspections and analysis to support and challenge the supervisory work, with particular focus on key risks such as the departure of the UK from the EU, financial resilience and consumer protection.

Key actions and activities undertaken in 2018 to achieve the desired outcome of financially sound and safely managed regulated firms, included:

Ongoing Supervision to Assess and Challenge Firms on Key Risk Areas

Ongoing supervision involved assessing and challenging firms in relation to capital adequacy, business models and governance. Resolution of NPLs remained a key priority in banking. On-site inspection activity on the insurance side increased in 2018 and the Central Bank noted and acted on deficiencies in relation to Solvency II obligations around Risk Management Frameworks. Asset management supervision focused on MiFID II implementation, compliance with Investor Money Regulations, cyber risk, governance and internal controls.

Strong regulatory and supervisory frameworks play a vital role in delivering a resilient financial system that fosters trust, where investors and consumers are protected, deposits are safe and insurance reserves are adequate to meet liabilities. The Central Bank's work in 2018 has shown that ongoing focus is required to achieve the aspiration of a resilient and trustworthy financial system, which sustainably serves the needs of the economy and its customers, in which firms and individuals adhere to a culture of fairness and high standards.

Deeper sectoral insights into the work programme in 2018 are set out in the following sections:

Credit Institution Supervision

The Central Bank made substantive progress against its supervisory objectives, providing core supervision, responding to the departure of the UK from the EU, enhancing its view of banks' resilience, driving to improve banks' culture, progressing recovery and resolution planning of banks and ensuring banks identified relevant customers affected by tracker mortgages. This progress was achieved through regular intensive and intrusive supervision of, and engagement with, the banks, on-site



SUPERVISION AND ENFORCEMENT

Desired outcome:

Regulated firms are financially sound and safely managed

inspections and comprehensive supervisory risk assessments covering all key risks.

Key areas of focus included:

- Building Resilience (see below)
- Resolution of NPLs (see box 7)
- The departure of the UK from the EU (see earlier section)
- Consumer Protection Collaboration (see Tracker Mortgage Examination under Consumer Protection section).

Building Resilience

In 2018, there was a significant supervisory emphasis on ensuring that regulated firms make the necessary improvements to be more resilient against current and emerging risks. Profitability continues to recover in most Irish banks, although elevated cost bases and low interest rates remain a drag on earnings. Many banks are implementing change programmes to manage their cost base, support revenue generation, improve information technology (IT) and FinTech capabilities (including implementation of PSD2), and strengthen their overall business models.

Work involved assessing the adequacy of capital and liquidity ratios, supporting the ECB's TRIM project, participating in the 2018 EU-wide stress test and assessing the strength of recovery and resolution plans.

The following measures provide insights into the resilience of the banking sector in Ireland:

- **Capital Ratios:** The aggregate transitional common equity tier 1 (CET1) ratio for retail banks decreased by 0.7% from 19.3% at end-Q3 2017 to 18.6% at end-Q3 2018. The fully loaded ratio also deteriorated by 0.6% to 16.4%, for the same period. The reduction in CET1 is due to IFRS9, TRIM adjustments and dividends paid during the year. While the CET 1 ratio for the retail banks has decreased during the year, the level of capital required is still above that of their European peers. The fully loaded CET1 ratio of the international banks operating in Ireland increased from 27.5% in Q3 2017 to 32.2% at end-Q3 2018. Their aggregate capital ratio increased by 4.7% to 32.2%. This increase was mainly due to a reduction in balance sheet assets. As shown in the charts below, they remain well above European averages.

In 2018, there was a significant supervisory emphasis on ensuring that regulated firms make the necessary improvements to be more resilient against current and emerging risks.

Chart 5: Irish Capital Ratios vs European Average

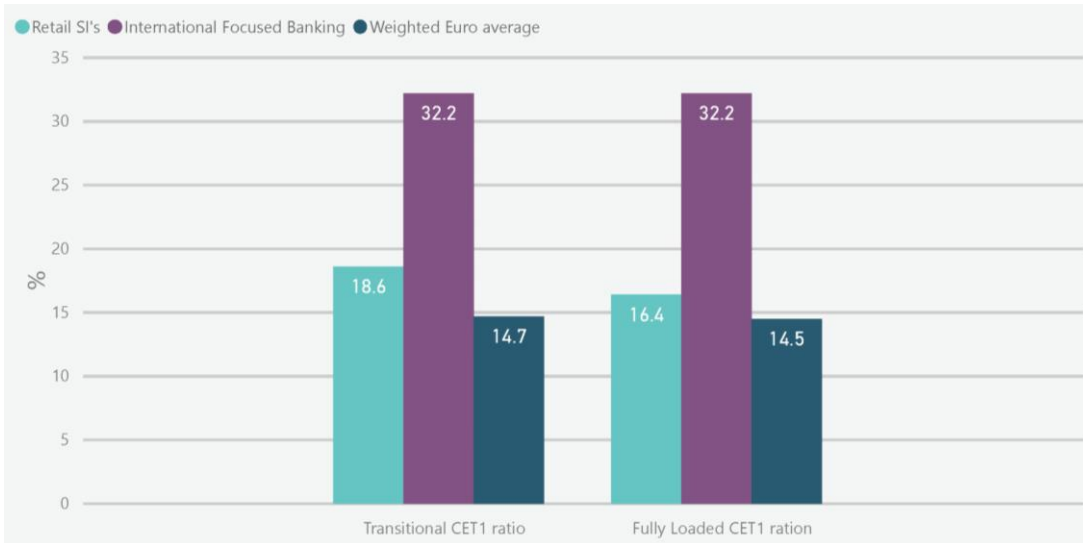
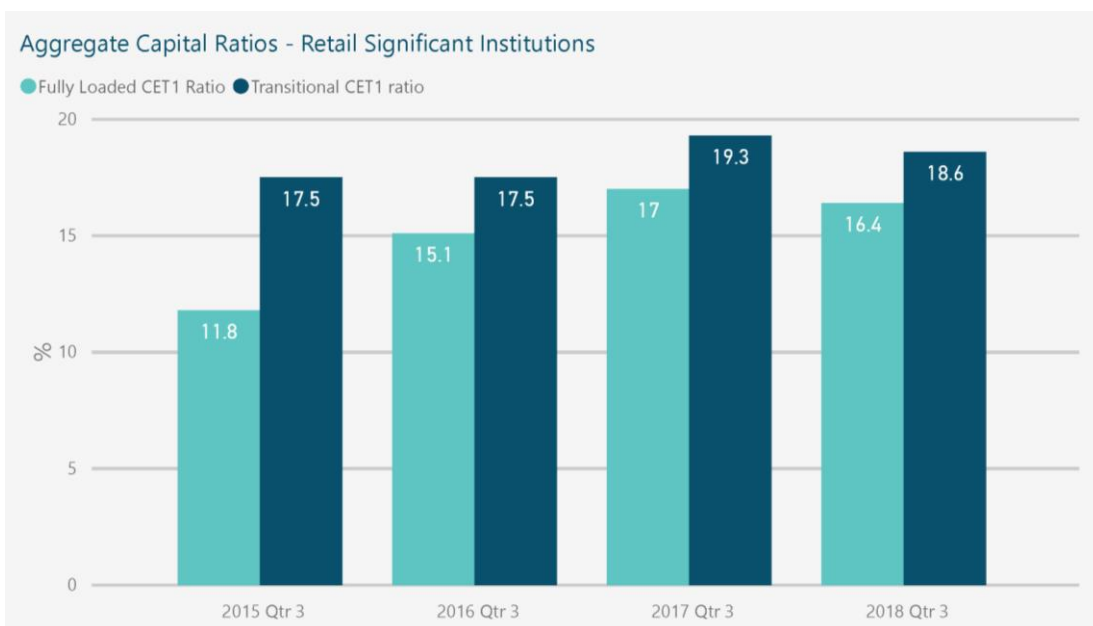


Chart 6: Aggregate Capital Ratios - Internationally Focused Banks



Chart 7: Aggregate Capital Ratios - Retail Significant Institutions



- **Liquidity:** The Liquidity Coverage Ratio (LCR) is a key regulatory measure designed to ensure banks have an adequate stock of quality liquid assets such as cash, treasury bonds or high quality corporate debt, in order to meet contractual payment obligations over a short period of stress. The LCR measure is a ratio of banks' quality liquid assets to their net cash outflows. This ratio should be greater than 100%. For the year, all banks' LCR ratios were above the 100% requirement. For retail banks, LCR was approximately 139%, as of September 2018 (140% 2017). For internationally focused banks, LCR was 190% (200% 2017), for the same period. Asset encumbrance⁴ for retail banks decreased from 17.3% in Q3 2017 to 15.0% at the end of Q3 2018 (due to an increase in household deposits). For non-retail banks, encumbrance has decreased from 23.6% in Q3 2017 to 21.5% in Q3 2018. Both retail and non-retail are below the European average of 28.2%.
- **Targeted Review of Internal Models:** A key deliverable for the Central Bank throughout 2018 was the support of the ECB's Targeted Review of Internal Models (TRIM) project. This work ensures that banks' internal risk models are in line with European best practice and that banks' capital requirements are reflective of their risk. Phase one of the TRIM reviews focused largely on mortgages and was completed in 2018. These reviews found that banks have generally addressed the weaknesses identified in earlier reviews. Where issues remain, measures have been put in place via mitigation plans or where a risk of underestimation was identified, increased capital requirements were applied. In addition, phase two of the TRIM project commenced during the year. This covers the review of non-mortgage models (primarily models for large corporate loans) and will continue throughout 2019.
- **2018 EU-wide Stress Test:** In November 2018, the EBA published the results of the 2018 EU-wide stress test. The exercise assessed the financial resilience of 48 of the largest European banks by applying a common adverse shock to each. The stress test was coordinated by the EBA and was carried out in cooperation with the ECB, the ESRB, the European Commission and relevant Competent Authorities. AIB and Bank of Ireland were the only Irish banks included in the exercise. While challenges for both banks remain, the results showed that both AIB and Bank of Ireland have sufficient capital in the adverse scenario, with end-point capital

⁴ Asset encumbrance ratio as defined in Commission Implementing Regulation (EU) No 2015/79 Paragraphs 9-11 of Annex III. An asset is treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

positions remaining above the minimum regulatory requirements. Furthermore, the capital ratios of both banks were higher when compared to the last EU-wide stress test performed in 2016.

- **Recovery Planning:** In general, banks continued to take measures to enhance their recovery plans in 2018. This included the introduction of “playbooks” (descriptions of what a bank will do in the first hours, days and weeks of a crisis) and dry run (simulation) exercises. In July 2018, the ECB published its report on recovery plans. This document sets out the ECB’s lessons learned and best practices observed after three successive cycles of recovery plan assessments. The report aims to assist banks to further improve their plans, making the plans more operational.

Box 7: Supervisory Focus on Non-Performing Loans

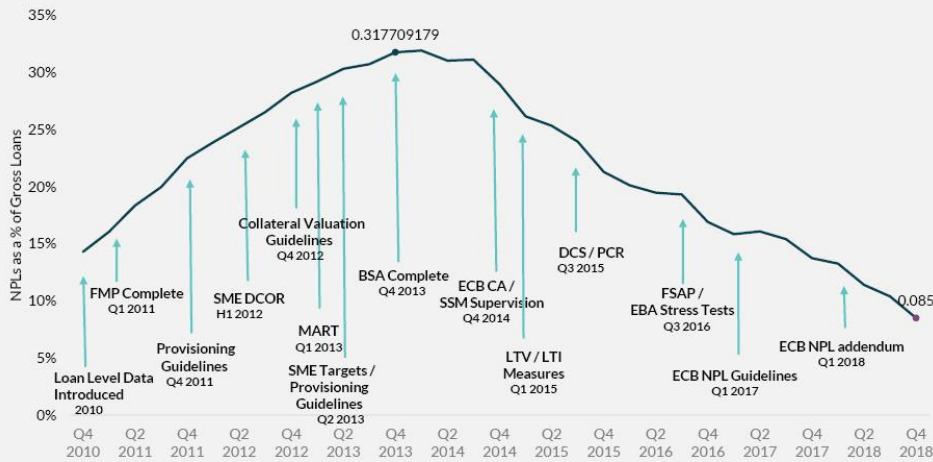
From both a financial stability and a consumer protection perspective, the Central Bank must take a full spectrum view of financial distress. Elevated levels of NPLs impinge on the capacity of both lenders and debtors to weather future downturns. Reducing NPLs in a sustainable way that provides strong protections for borrowers is therefore essential.

During 2018, resolution of the large stock of NPLs remained a key supervisory priority for the Central Bank and, more broadly, the ECB. The large stock of NPLs on Irish financial institutions’ balance sheets heightens the susceptibility of these institutions to future shocks to the Irish economy. Therefore, continued momentum in resolving these loans builds resilience into the financial system in Ireland. More immediately, from a consumer perspective, these NPLs represent borrowers who are in, or who have been in, financial difficulties and the fair treatment of these borrowers is a key concern for the Central Bank.

The Central Bank has adopted a deliberate and phased approach to tackling the issue of NPLs, with significant progress made to date. The chart plots the NPL ratio over time and highlights some of the important milestones during Ireland’s NPL resolution journey. At every stage of the process, the Central Bank communicated supervisory expectations (via publication of relevant guidelines such as Provisioning Guidelines, Collateral Valuation Guidelines etc.) challenged institutions on progress and conducted detailed on-site inspections. Prudential activity was supported by the development and implementation of a robust consumer protection framework. The publication of the CCMA in 2009 established protections for borrowers in relation to their primary residence to

ensure they were treated fairly and positioned to remain in their family home in the vast majority of cases.

Chart 8: Retail Banks – NPL Ratio and Important Milestones



Source: Central Bank regulatory returns based on data provided by AIB, Bol, PTSB, UBI and KBCI.

In 2018, the pace of NPL resolution varied for different asset classes, with mortgage NPLs reducing at the slowest pace, consistent with trends over the last number of years. This reflects a greater propensity to restructure mortgage NPLs and the relatively slower legal process for mortgage NPLs. Consequently, mortgage NPLs now represent 71% of all NPLs held by retail banks in Ireland.

Against this backdrop, in 2018 a number of retail banks engaged in the sale of mortgage NPL portfolios as a resolution strategy. In response to this development, the Minister for Finance and Public Expenditure and Reform requested a review of the CCMA to ensure its effectiveness in the context of the sale of loans by regulated lenders. In October 2018, the Central Bank published a Report of the Effectiveness of the CCMA in the context of the Sale of Loans by Regulated Lenders (See Box 5).

To ensure institutions continue to progress towards a minimal level of NPLs, the Central Bank maintained intensive supervisory engagement throughout 2018, ensuring ambitious and realistic NPL resolution strategies were in place for 2018, and beyond. The Central Bank continues to monitor individual institution's performance and raise challenges where necessary. The Central Bank completed two intrusive on-site inspections in 2018 relating to NPLs and identified instances of supervisory expectations not being met, imposing risk mitigation plans as a result.

The stock of NPLs across retail credit institutions stands at €22.5bn, a reduction of €11.9bn year-on-year resulting in an aggregate NPL ratio of 10.4% which remains unacceptably high. Reducing NPLs, while continuing to ensure borrowers are treated fairly, and improving the

resilience of financial institutions' balance sheets to future shocks will remain a key priority for the Central Bank in 2019.

Credit Union Supervision

The Central Bank regulates and supervises credit unions to ensure that they are financially sound, have sustainable business models which serve the needs of their members (and the wider financial system) over the long-term, are well governed and safely managed and can recover if they get into difficulty and, if not, are resolvable in an orderly manner.

The Central Bank's risk-based supervision in 2018 focused on continuing to strengthen credit union core foundations across governance, risk management and operational capabilities. On-site inspection activity focused on ensuring minimum standards are met by credit unions and that risk mitigation plans are in place to address key risk vulnerabilities. In 2018, the Central Bank continued to facilitate sectoral restructuring in line with its objective of placing weaker and non-viable credit unions on a financially and operationally sound basis, with 16 transfers of engagement completed during the year, four of which required private sector financial support to restore their reserves prior to completion of the transfer.

In light of sectoral restructuring, emergent sector risks and viability challenges, the Central Bank has continued to adapt and evolve its inspection and supervisory strategy. As part of its continued stakeholder engagement, the first series of credit union workshops was delivered, aimed at board members. These workshops, underpinned by a clear articulation of supervisory expectations, aim to support improved risk understanding by boards, and by extension to strengthen core foundations and compliance standards across the sector.

The Central Bank's overall focus is to ensure that the credit union regulatory framework remains appropriate, up-to-date and evolves where prudentially justified. Multi-channel interaction with the sector includes engagement on evolving an already tailored and proportionate regulatory framework for credit unions, where prudentially justified, through regulatory responsiveness. The Central Bank continued to enhance the credit union regulatory framework, taking account of credit union risks and capabilities – issuing updated regulations (investments), guidance (provisioning) and a consultation paper (lending framework).

During 2018, the Central Bank noted a discernible focus by credit unions on developing inter-credit union collaboration systems, including credit union owned shared services business models. The development by credit unions of a collaborative infrastructure is considered important.

In 2018, the Central Bank initiated a new CEO Forum on Business Model Development, representing all credit unions. The Credit Union Regulatory Forum, which is CEO led, under the independent chairmanship of Professor Donal McKillop, is designed to help CEOs address the need for business model change by facilitating increased collaboration on new initiatives to support sector sustainability. This is an important initiative to support credit unions as they focus on addressing their sustainability.

Box 8: Progress Made on Improving the Credit Union Sector Through Joined Up Regulation

In 2018, there were a number of important developments for the credit union sector across supervision, evolution of the regulatory framework and communications and engagement.

Strengthening credit union core foundations across governance, risk and operational capabilities continued to be a key focus of the Central Bank's supervisory strategy. PRISM inspection activity focused on ensuring minimum standards are achieved by credit unions. Calibrating the approach through supervisory proportionality, expectations are highest for credit unions with more complex business models. Greater intensity and deeper engagement are applied to medium and larger credit unions with elevated risk profiles.

Where concerns are identified regarding the commitment of board and management to meet minimum standards, the Central Bank uses the powers available to it (including direction and enforcement powers) to ensure that required changes are implemented. Effective use of enforcement powers serves to hold credit unions and individuals to account for non-compliance with regulatory requirements and minimum standards. The Central Bank completed two enforcement actions against large credit unions in 2018, arising from governance and risk management failures and breaches of F&P requirements.

Against a backdrop of regulatory responsiveness which is prudentially justified, regulations to amend the Investment Framework and F&P regime for credit unions took effect in March and July 2018 respectively and the Central Bank published "Provision Guidelines for Credit Unions" in July 2018. A public consultation, "Potential Changes to the Lending Framework for Credit Unions" (CP125) was published in October, setting out proposals to support diversification in credit union loan portfolios. Following consideration of feedback and statutory consultation, the Central Bank will publish a feedback statement and amending regulations in 2019.

The Central Bank is committed to constructive and transparent engagement with all credit unions and sector stakeholders. During 2018, the Central Bank continued to develop and enhance its engagement with the sector. Examples of regular interactions and updates include a range of sector publications, including the publication of two editions of Financial Conditions of Credit Unions, Credit Union PRISM Supervisory Commentary, Thematic Review Findings on IT Risk, House Loans and Prize Draws in Credit Unions, Information Seminars as well as regular presentations and speeches at sector events. The Central Bank also introduced a number of new engagement initiatives during 2018, including Credit Union Workshops for Directors and the CEO Forum, to complement existing sector engagements.

Insurance Supervision

Delivering on core supervisory activities against the backdrop of the departure of the UK from the EU brought new challenges to insurance supervision throughout 2018. Risk-based supervisory prioritisation brought focus to key risks within the cross-border market and core domestic risks.

Intensive supervision was targeted on specific firms such as CBL Insurance Europe DAC (CBLIE) and RSA Insurance Ireland DAC. In order to avoid a disorderly failure, the Central Bank issued a direction to CBLIE instructing it to cease writing business with immediate effect and made an application to the High Court to have a provisional administrator appointed to CBLIE. The Central Bank took this action to protect CBLIE policyholders. Also in 2018, RSA Insurance Ireland DAC was fined €3.5m in respect of serious breaches relating to the failure to have sound and adequate reserves, internal control mechanisms and governance arrangements.

Alongside delivering on core supervisory activities, supervisors responded proactively to an increase in new authorisations and changes in firms' strategies and structures brought about by firms responding to the challenges from the departure of the UK from the EU.

The Central Bank engaged on wider international themes through EIOPA and international supervisory colleges and strongly supported the coordination of cross-border supervisory responses to emerging risks. The Central Bank led a number of cross-border platform meetings between national supervisory authorities and collaborated with EIOPA to improve supervisory outcomes. The Central Bank also led one, and participated in three other, peer reviews of supervisory practices including internal

Supervisors responded proactively to an increase in new authorisations and changes in firms' strategies and structures.

models, authorisations, key function holders, and propriety of AMSB⁵ members. All reviews noted a comprehensive approach by the Central Bank and highlighted best practices in Ireland and some other national supervisory authorities.

The Irish insurance market is one of the most important cross-border markets within the EU. In 2018, the Central Bank revised its engagement model for medium-low risk firms to increase the effectiveness of cross-border supervision.

Branch on-site inspections were utilised to assess the strength of firms' systems and controls with specific focus on risks:

- In relation to risk management frameworks, a core pillar required under Solvency II, the Central Bank's work highlighted deficiencies three years post Solvency II implementation. These included instances where there was a disconnect between the front line of the business and the risk function, as well as inconsistent practices across business units.
- On regulatory reporting, inspections highlighted fundamental issues relating to regulatory reporting requirements under Solvency II including issues such as basic reporting policies not being in place and deficiencies relating to the responsibilities of the risk function and internal audit function. Arising from concerns in this area, the Central Bank published a statement on its website and issued a letter to industry.

Solvency II reporting requirements increased supervisors' capabilities to monitor firms' financial resilience and capital strength. A new consolidated data series based on Solvency II public disclosures was published in 2018. The Central Bank leverages such data with analytics capabilities to support more effective risk assessment, to benchmark with domestic and international peers and to support publication of aggregate insights across the market. The data also provides insights into new risks entering the Irish market through newly authorised firms arising from the nature and complexity of firms with new speciality lines of business, characterised by low frequency, high severity insured events.

Asset Management and Investment Banking Supervision

Work in 2018 was dominated by preparations for the departure of the UK from the EU. Driven by the impact of a number of new complex entities seeking authorisation to establish in Ireland, in addition to existing

⁵ Administrative, management or supervisory body (AMSB) members is a term relating to Solvency II regulations. They are persons who effectively run the undertaking, typically from the Central Bank's perspective it would relate to Boards of undertakings.

incumbent entities seeking to materially expand their activities, the Asset Management Supervision Directorate was restructured and expanded to become the Asset Management and Investment Banking (AMIB) Directorate.

The restructure involved the creation of a new division with responsibility for supervision of large complex investment banks, some of which are supervised jointly with the SSM, in addition to investment firms engaged in broker dealer activities.

The departure of the UK from the EU has resulted in large volumes of applications, requiring changes, both completed and ongoing, in a number of areas, including:

- Improvements to application and authorisation processes.
- The development of a new client asset regime for large complex investment banks.
- Work on a new authorisation and supervision framework for CSDs.

Box 9: The Changing Face of the Asset Management Sector

Authorisations

In addition to the entry of wholesale firms into Ireland, 2018 saw an unprecedented level of authorisation activity in the broader asset management sector, both in terms of the number of applications and in the breadth and scope of firms seeking authorisation. A core element of authorisation work involves conducting rigorous authorisation processes using skilled supervisory staff and drawing on additional specialist skills across the Central Bank. As these firms progress through authorisation to supervision, staff will transfer from authorisations into supervisory roles to ensure continuity.

Client Assets

The newly authorised/expanded wholesale investment firms and credit institutions bring additional complex products and services, such as prime brokerage, with implications for client asset protection. The Client Asset Specialist Team continues to collaborate with colleagues across the Central Bank to enhance the Central Bank's existing client asset requirements and to develop a supervisory approach for wholesale client assets and credit institutions. This supervisory framework will include on-site inspections and ongoing reporting requirements.

Market Infrastructure

The Market Infrastructure area, which includes electronic proprietary traders, regulates markets. The Market Operator will materially increase in size as new Multilateral Trading Facilities (MTFs), Organised Trading Facilities (OTFs) and an increased number of proprietary trading firms come on stream.

Enhanced Analytics

The significant increase in the number of firms being supervised and the complexity of business models will result in a sizeable increase in information being reported to the Central Bank. This gives rise to an opportunity to work with the newly established cross-pillar Prudential Analytics and Inspections Directorate (PAID) to leverage available data to develop and use analytical tools and specialist risk input (including thematic reviews and deep dive on-site inspections) to supplement and inform supervisory activity.

Ongoing supervisory focus on MiFID II implementation continued throughout 2018. This involved proactive engagement with regulated firms on the status of their implementation of the new requirements and with other key stakeholders. The core elements of MiFID II, namely the improvement of consumer outcomes and increased transparency in market trading, were areas of focus with targeted firm engagements and the commencement of two thematic reviews in this area.

The 2018 supervisory work programme included a number of full risk assessments, on-site and thematic inspections. The work programme focused specifically on compliance with Investor Money Regulations and cyber risk, in addition to strengthening governance and internal controls within supervised entities. There was an increased level of consolidation in the investment firm sector. This was, in part, due to the elevated focus by supervisors on the efficacy of firms business models. As part of these assessments, further analysis was conducted on the recovery and resolution plans of medium-high impact firms.

Driven by the expansion of the asset management sector, a new Operational/Thematic Risk inspections unit was established in 2018 and an inspection framework and methodology was developed. This team formed part of a centralised inspection unit under the remit of the Prudential Analysis and Inspections Directorate in Q1 2019.

In relation to the Central Bank's goal to enhance the effectiveness of fund management companies, the Central Bank introduced new rules and guidance (see CP86) on its expectations of the Directors of Fund Management Companies.

Box 10: Fund Management Company Guidance

CP86 sets out the Central Bank's requirements and guidance in relation to the organisation of fund management companies. CP86 came into full effect on 1 July 2018 as Fund Management Company Guidance, with the purpose of enhancing fund management company effectiveness. The guidance introduced important changes to how fund management companies should structure themselves, with a heavy emphasis on the critical managerial roles (designated persons).

In H1 of 2018, a project group was established within the Central Bank to manage the implementation of the guidance. This included the development of a comprehensive supervisory handbook to support supervisors, and to facilitate a consistent approach to assessing compliance. The launch of this handbook coincided with the rolling out of a training programme to Central Bank supervisory staff and to other internal stakeholders on the guidance. Supervisors also engaged extensively with industry in advance of the implementation on 1 July. This engagement began with an industry preparedness questionnaire, which issued to all fund management companies. The results of this questionnaire allowed supervisors to assess the level of engagement at industry level, while identifying those of most concern and addressing these areas through firm specific engagement.

Increasing volumes of applications for authorisation driven by the departure of the UK from the EU have led to the Central Bank gaining a deeper understanding of how firms are implementing the guidance and has resulted in an increased focus on the amount of time required to effectively carry out the designated person role.

Looking to 2019, the Central Bank plans to include the guidance in its thematic review programme with the aim of identifying and publicising observed standards of industry compliance. Supervisory engagement in relation to the guidance over the next 12 months will be aimed at promoting the highest possible standards for how fund management companies operate in Ireland.

Securities and Markets Supervision

Against an objective of ensuring an effectively supervised securities market and fostering a trusted financial system which supports the wider economy, key activities in 2018 included:

Funds Authorisation and Prospectus Approvals

Being an effective gatekeeper is an important safeguard to ensure that the securities markets and market participants are operating in a transparent and accountable manner. In 2018, the Central Bank continued its focus on ensuring that the processes in place for assessing applications for the authorisation of investment funds, the registration of Irish Collective Asset Management Vehicles and the approval of prospectuses for public offering meet the highest standards. This included the authorisation of 1,117 investment funds, in addition to 2,650 related assessments of the F&P of individuals running such funds and the approval of 1,052 equity and bond prospectus documents.

Securities Market Surveillance

In the field of market surveillance and integrity, the Central Bank's focus in 2018 included the development of an approach to increase surveillance of market activity in accordance with its obligations under MiFID II⁶. The Central Bank also sought to make optimal use of the rich dataset provided under MiFIR⁷, EMIR⁸ and AIFMD⁹ to assist in meeting the challenges of authorising, supervising and inspecting a portfolio of diverse business models and sectors. Supervisory outcomes in 2018 included the suspension of the use of pre-trade transparency waivers by relevant trading venues where breaches of double volume caps introduced by MiFIR were identified, an analysis of the extent of algorithmic trading undertaken on Irish venues and the introduction of a notification regime for systematic internalisers¹⁰. A new transaction reporting regime under MiFIR was introduced on 3 January 2018, as well as the launch of a new machine-to-machine reporting facility for transaction reporting on 10 December 2018.

⁶ Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU

⁷ Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation

⁸ Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories

⁹ Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010

¹⁰ 'systematic internaliser' as defined under MiFID II means an investment firm which, on an organised, frequent systematic and substantial basis, deals on own account when executing client orders outside a regulated market, a multilateral trading facility ('MTF') or an organised trading facility ('OTF') without operating a multilateral system.

Supervision of the Funds Sector

In addition to day-to-day supervision of the sector where some 600 separate supervisory issues were triaged and followed up as appropriate, the Central Bank carried out a thematic review of UCITS performance fees in 2018 and commenced an engagement with all UCITS Fund Management Companies where instances of supervisory concern were identified on foot of the thematic review. In Q4 2018, the Central Bank commenced a review of all Irish domiciled UCITS funds that report to be actively managed to determine if they are potentially index tracking. The analysis is being conducted on over 2,000 Irish domiciled UCITS funds, and the review will include follow up with funds identified as potential “closet indexing” funds, up to and including the use of the Central Bank’s full suite of supervisory powers depending on the nature of the findings.

Development of a Wholesale Market Conduct Supervision Model

As the nature, scale and complexity of securities markets continues to grow, it is essential that the Central Bank advances its supervisory approach and capabilities to meet the risks and challenges presented by the evolving securities market activity carried on in and from Ireland, particularly in a post-Brexit landscape. In 2018, the Central Bank embarked upon the development of a proportionate risk-based supervisory framework, consistent with PRISM that focuses on supervising conduct risk in wholesale market firms. The supervisory model focuses on a structural assessment of the conduct risk management framework at firms undertaking a diverse range of MiFID activities and is supported by a comprehensive assessment of primary controls. In 2018, this model was primarily deployed in the assessment of applications for authorisation by a number of large and complex investment firms and credit institutions, resulting in the early identification and mitigation of potential market conduct risks.

Use of Data Analytics

The Central Bank continued its work in 2018 to build the technological capacity to harness increasingly large quantities of reported data to improve supervisory outcomes, using investigative data analysis to interrogate the information received and to support supervisory engagement. The increased visibility yielded by computer-based analysis of the millions of daily transaction reports submitted has, for example, allowed the Central Bank to focus more sharply on the use of algorithmic trading models in the Irish market. It was also used to identify target funds in the ongoing “closet indexing” review and the Central Bank continues to build up the systematic use of data analytics as a supporting supervisory tool in day-to-day work.

New Legislation

The Central Bank operates within a large and complex legislative portfolio governing conduct regulation and investor protection in the field of securities and markets supervision. In 2018, the Central Bank continued its work to embed the detailed requirements of a suite of legislative measures and their related technical requirements, including MiFID II and the Money Market Funds Regulation¹¹, and to progress the implementation of the Prospectus Regulation¹². In addition to inputting into and influencing the continued development of EU requirements and standards in these fields, through work at ESMA, the Central Bank contributed to the development of new supervisory policies, procedures and reporting, engaged with industry as well as developing knowledge and skills within its teams.

Box 11: Thematic Review of UCITS Performance Fees

The area of performance related fees has been the subject of increased attention from European bodies and global regulators. A performance fee is a payment made, usually to an investment manager, for generating positive returns for funds and their investors.

The Central Bank carried out a thematic review of UCITS performance fees in 2018 to establish whether the procedures used to calculate and pay performance fees in UCITS ensure that investors' interests are protected at all times. The review examined the methodologies used to calculate performance fees to ascertain if they are in line with the Central Bank's UCITS Performance Fees Guidance. Of the 3,420 UCITS sub-funds reporting to the Central Bank in 2017, 350 indicated that they had accrued a performance fee during 2017. Of these, a random selection of 100 sub-funds (circa 30%) formed the sample for the thematic review.

The review was undertaken in parallel with the Central Bank's Consultation Paper CP119, which proposed to incorporate existing guidance into the Central Bank UCITS Regulations.

Review Findings

While the review identified a number of good practices across the majority of UCITS reviewed, it also identified instances of non-compliance with the guidance including:

¹¹ Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds

¹² Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market

- Cases where performance fees were calculated based on Gross Asset Value contrary to the guidance to pay UCITS performance fees based on Net Asset Value.
- Instances of UCITS calculating performance fees based on the outperformance of a benchmark or index, which did not appear to be relevant in the context of the UCITS policy, as set out in the guidance.
- Instances where UCITS calculating performance fees on the basis of the High Water Mark approach were not using the initial offer price as the starting price for calculations, as set out in the guidance.
- Performance fees where underperformance of an index was only clawed back for a limited period i.e. where the UCITS underperformed the index, it set a limited period in which it must recoup this underperformance instead of applying it for the life of the UCITS.

In respect of poor practices at fund service providers, the review identified:

- Depositories verifying UCITS performance fees post payment.
- Depositories verifying a sample of UCITS performance fee payments, rather than all payments.

Industry Letter

The Central Bank published an Industry Letter which highlighted the key supervisory issues identified. UCITS fund management companies were required to carry out a review of their performance fee methodologies to ensure that performance fees charged comply with the guidance and to report their findings to the Central Bank. UCITS fund management companies were required to report any changes to existing performance fee methodologies that were identified, any changes to prospectus disclosure that were identified and actions being taken to remedy these. More than 200 responses were received from UCITS fund management companies. The Central Bank has commenced supervisory engagement with those UCITS fund management companies where instances of supervisory concern have been identified. At the time of writing, 11 risk mitigation programmes have issued across UCITS, UCITS fund management companies and fund service providers and over €1.245m is in the process of being refunded to impacted investors.

Anti-Money Laundering and Countering the Financing of Terrorism Risk-Based Supervision

In order to meet the key objective of protecting the integrity of the financial system and preventing its illicit use by criminals and terrorist organisations, the Anti Money Laundering Division is responsible for the effective risk-based supervision of AML/CFT and financial sanctions (FS) compliance and contribution and input into domestic and international AML/CFT legislative and policy development.

Legislative Changes

In November 2018, the Oireachtas transposed the Fourth EU Anti-Money Laundering Directive (4AMLD) into Irish law thereby strengthening Ireland's AML/CFT legal framework. In December 2018, the Central Bank published draft Guidelines for industry which reflect the updated legal requirements and commenced a consultation process to seek industry's views on the content of the guidelines. The aim of the guidelines is to assist firms to comply with their legal obligations with a view to preventing criminals and terrorists from using the financial system for illicit purposes. The consultation period ended in April 2019, and it is expected that the finalised guidelines will be published in the second half of 2019.

Risk-Based Approach to Supervision

The Central Bank continued to apply a graduated risk-based approach to AML/CFT supervision throughout 2018. This risk-based approach ensures that firms with a higher level of risk of being exposed to money laundering or terrorist financing activity are subject to more frequent and comprehensive supervision, while also providing for responsive inspections based on specific intelligence. In 2018, the Central Bank carried out 72 on-site inspections, held 59 review meetings and issued 259 Risk Evaluation Questionnaires to firms for completion. A bespoke AML/CFT risk assessment module within PRISM is used, in which AML/CFT supervisory engagement and risk rating on PRISM is separate and distinct from prudential and consumer supervisory engagements and risk ratings.

Outreach to Industry

A key component of the Central Bank's AML/CFT supervision strategy is communications and outreach to industry. During 2018, the Central Bank published bulletins highlighting AML/CFT risks for certain sectors as well as participating in 16 speaking engagements throughout Ireland and internationally. In these engagements, the Central Bank highlighted the obligations on the financial services industry across all sectors to play its part in the fight against money laundering and terrorist financing.

AML/CFT Policy Developments

During 2018, the Central Bank provided significant input into AML/CFT policy development at European and international level as well as participating in national AML/CFT committees and providing technical assistance to the Department of Finance and government departments.

Box 12: AML/CFT Supervision – Focus on IT

Firms are required under AML/CFT rules to know their customers and be able to monitor customer activity in order to detect any suspicious activity that may be related to money laundering or terrorist financing. IT systems typically have a very important role to play in terms of the ability of firms to prevent and detect money laundering and terrorist financing.

In line with the Central Bank's risk-based approach to AML/CFT supervision, a number of IT inspections were conducted on higher risk firms during 2018. The inspections focused on transaction monitoring and customer due diligence IT systems, given the critical role these IT systems play in supporting firms' AML/CFT control frameworks. Arising from these inspections, firms were required to make a number of enhancements in order to improve the governance and control frameworks for both transaction monitoring and customer due diligence IT systems.

The Central Bank expects all firms to have considered their obligations under the Criminal Justice Act 2010 (as amended) and have appropriate IT systems in place to meet these obligations. Given the critical role of IT systems in supporting firms' AML/CFT control frameworks, the Central Bank expects that these IT systems are regularly reviewed and maintained to ensure they remain fit for purpose. Over the past number of years, these expectations have been set out in sectoral reports/bulletins and are regularly communicated to industry through events and presentations.

Enforcement Powers to Achieve Strong Outcomes and Credible Deterrence

Effective Use of Enforcement Powers to Achieve Credible Deterrence and Promote Compliance

The Central Bank uses its suite of enforcement tools to hold firms and individuals to account, achieve the highest regulatory standards of compliance, promote the behaviours the Central Bank expects of firms and

individuals and change the culture in firms from the top down. Following intrusive investigations that involved numerous interviews and complex data analysis, the Central Bank achieved a number of notable enforcement outcomes in 2018; sanctioning and completing ten enforcement actions against regulated firms under the ASP and imposing fines totalling €7.441m. Under the F&P regime, the Central Bank prohibited two individuals from holding any role in the financial services system indefinitely. The Central Bank also revoked the authorisation of one firm which failed to comply with its authorisation requirements, in circumstances where the firm objected to withdrawal.

Other notable enforcement outcomes include a fine of €3.5m imposed on RSA Insurance Ireland following an investigation that found failings in the firm's governance arrangements, accounting procedures and internal control mechanisms; and a fine of €443,000 imposed on Appian Asset Management for serious deficiencies in its risk management, compliance oversight, and systems of internal control, which exposed the firm to cyber-fraud.

The Central Bank issues public statements at the conclusion of enforcement actions, including those mentioned above. These statements are an integral part of the enforcement mission and play a crucial role in promoting compliance and increasing public trust in the system of regulation.

In 2018, the Central Bank also engaged with domestic and international partners in its efforts to strengthen the enforcement framework. Most notably, the Central Bank proposed an Individual Accountability Framework, which will set out what are reasonable and expected standards of behaviour of individuals working in financial services and oblige firms to clearly delineate responsibilities. If implemented, the proposals will also serve to increase the Central Bank's ability to hold individuals to account and deter misconduct.

Protected Disclosures

The receipt of confidential protected disclosure reports is an important supervisory tool. These reports assist the Central Bank in discharging its supervision and enforcement mandate and, in particular, the protected disclosures regime plays a unique role in the promotion of high standards within regulated entities by extending the Central Bank's supervisory reach and positively influencing behaviours. The Central Bank received 128 protected disclosures in 2018 compared to 93 in the previous year.

Each protected disclosure report received by the Central Bank is thoroughly assessed. Various actions followed the receipt of protected

disclosures reports during 2018 including assisting an enforcement action, on-site inspections, and risk mitigation programmes.

Cases at Inquiry

The oral hearings into the first of four modules of the Inquiry into INBS and five persons formerly concerned in its management continued in 2018. In January and December 2018, the Central Bank concluded enforcement actions against two of the five persons, Dr Michael P. Walsh and Mr Tom McMenamin. Following admissions in January 2018, the Central Bank disqualified Dr Walsh, a former non-executive Chairman of INBS, from being concerned in the management of a regulated financial service provider for three years, reprimanded him and imposed a fine of €20,000. In December 2018, following admissions by Mr McMenamin, the Central Bank disqualified him for 18 years, reprimanded him and imposed a fine of €23,000. The breaches admitted by Mr McMenamin merited a monetary penalty of €250,000. However, the monetary penalty was reduced to €23,000 based on an assessment of Mr McMenamin's financial circumstances pursuant to section 33AS(2) of the Act, which does not permit the Central Bank to impose a monetary penalty on an individual that would be likely to cause the person to be adjudicated bankrupt. The Central Bank's Inquiry into the three other persons formerly concerned in the management of INBS (Mr Michael Fingleton, Mr Stan Purcell, and Mr Gary McCollum) is continuing.

The Inquiry into various alleged regulatory breaches by Quinn Insurance Limited and two persons formerly concerned in its management continued throughout 2018, with two inquiry management meetings being held in private during 2018.

Box 13: Protected Disclosure

In one case, a senior individual working in a regulated firm contacted the Central Bank with concerns about the operation of the firm's board. As part of their assessment of these concerns, supervisors met with the senior individual and conducted a focused inspection of the entity. The Central Bank reviewed numerous documents and interviewed a number of employees. Following their assessment, supervisors issued a risk mitigation programme, which was implemented in full by the firm.

Box 14: Gatekeeper Process and Fitness and Probity Regime Outcomes

The key objective of the Central Bank's cross-sectoral F&P regime is to ensure that regulated firms and individuals who work in these firms are committed to high standards of competence, integrity and honesty, and are held to account when they fall below these standards. This helps to build trust and confidence in the industry. As part of the Central Bank's gatekeeper function, it assesses the F&P of individuals seeking to work in senior positions in firms. In addition, the Central Bank's Enforcement Directorate has responsibility to ensure consistency in F&P assessments of senior management within Irish authorised credit institutions under the SSM. The Enforcement Directorate participated in 74 F&P assessments in 2018; this entailed attendance at 71 interviews with applicants. In 18 cases, the applicants withdrew their application during the process, typically before, during or after an interview.

Regulatory Policy Development

A high quality and effective regulatory framework is essential in ensuring that firms operate to high standards. It provides the basis for supervising and enforcing the key principles of organisational and financial soundness, consumer protection, and effectively functioning markets.

Actively Contributing to the Development of Relevant Laws, Regulations and Technical Standards in Europe

Box 15: Influencing at the European Level

Ireland is part of the broader ESFS. This includes the ECB, the SSM, the ESRB, the ESAs, including the EBA, EIOPA, ESMA and NCAs, including the Central Bank. This wider European framework is playing an ever-increasingly significant role and it is important that the Central Bank is effectively influencing and shaping the agenda to support the delivery of its mandate.

To that end, the Central Bank engages actively in the European regulatory policy process, contributing to the development of regulatory frameworks and supporting the work to transpose those rules into Irish law. Central Bank staff play an active role in networks and working groups to share knowledge and experience with the aim of delivering high quality regulation both from a prudential and consumer perspective.

Notably in 2018, the Director General, Financial Conduct, was elected to the ESMA Management Board and the Director of Policy and Risk, was elected as Co-Chair of the EBA Standing Committee on Regulation and Policy.

The Financial Regulation - Policy and Risk Directorate leads and coordinates engagement with the ESAs and plays an important role in monitoring and analysing developments at EU level and ensuring there is an effective flow of information across the Central Bank.

In addition to the focus on the departure of the UK from the EU, the Central Bank was actively involved with other ESAs as follows:

- Contributing to deliverables related to the revised PSD2.
- Participating in EIOPA Peer Reviews on the supervisory practices and application of proportionality in assessing key functions and on propriety of administrative, management or supervisory body members and qualifying shareholders.



REGULATORY POLICY DEVELOPMENT

Desired outcome:

Regulatory frameworks are appropriate and effective.

- Contributing to the development, at ESMA, of Level 2 and 3 measures under MiFID II and monitoring of changes to market structure.
- Contributing to the development of the Joint Committee of the ESAs' policy outputs on AML/CTF.

The Deputy Governor, Central Banking, served as Chair of the ECB High Level Group on NPLs, which led to the achievement of several deliverables in the action plan on NPLs such as the addendum to the ECB guidance to banks on NPLs and found agreement on further measures to address the stock of NPLs by setting bank-specific supervisory expectations for the provisioning of NPLs.

The Central Bank also contributed to the development of European policy on FinTech and sustainable finance and provided technical advice and assistance to the Department of Finance during Council and trilogue negotiations on a number of EU legislative proposals, including, for example, on the Investment Firms' Review¹³.

The Central Bank continued its extensive engagement on shadow banking (or non-bank financial intermediation as it is now more commonly referred to) in 2018. This included participation in relevant work in ESMA, IOSCO, ESRB and the FSB, taking leadership positions in several of these fora. Issues addressed include investment fund stress testing, the interconnectedness of banks, non-banks and financial markets, contagion risk, as well as leverage and liquidity management in investment funds.

A further priority in 2018 was progression of the European Commission's legislative proposals to strengthen the ESAs and ESRB. In September 2018, the European Commission extended the scope of its legislative proposals to include increased EBA responsibility for AML/CFT issues. During Council negotiations, the Central Bank provided advice to the Department of Finance as the Council developed a compromise text in respect of these legislative proposals. As the file is not finalised, the Central Bank's contribution in relation to the legislative proposals is expected to continue throughout 2019.

The Central Bank also seeks to influence at an international level and to that end, has leadership roles at relevant international fora, including

¹³ COM(2017)790: Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the prudential requirements of investment firms and amending Regulations (EU) No 575/2013, (EU) No 600/2014 and (EU) No 1093/2010 and COM(2017)791: Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the prudential supervision of investment firms and amending Directives 2013/36/EU and 2014/65/EU.

membership of the IOSCO Board (the Director General, Financial Conduct) and membership of the IAIS Executive Committee (the Director of Insurance is the Western European member).

In addition to taking leadership roles, the Central Bank also acts as a leading contributor to international regulatory discourse. For example, as Ireland is the largest European ETFs domicile and since publishing an ETF Discussion Paper in May 2017¹⁴, the Central Bank has been a leading contributor to international regulatory discourse in this area¹⁵.

Develop and Maintain the Central Bank's Regulation, Standards and Guidance for Regulated Firms and Markets

The Central Bank ensures that prudential and conduct regulation is maintained and implemented on an ongoing basis, having regard to the changing environment and new activities and products developed by firms and markets. It provides and maintains the policy framework to support effective supervision of regulated firms and markets, including the issuance of guidance and policy positions. The two financial regulation pillars of the Central Bank also contribute to the development and maintenance of macro-prudential policy, including, for example, the review of the mortgage rules.

Due to the changing profile of credit institutions and investment firms, the Central Bank has been reviewing policy and rulebooks to assess the extent to which wholesale conduct risk is effectively embedded into the Central Bank's policy framework. The output of this review will require enhancements to be formulated and implemented, which in turn will support developments in the authorisation and supervisory frameworks.

Further, in order to ensure the protection of With-Profits fund members and improve the risk management of With-Profits funds in light of the expected increase in the volume of this business in Ireland because of Brexit, the Central Bank published amendments to the Domestic Actuarial Regime and Related Governance Requirements under Solvency II (following a consultation process), introducing new requirements for the governance of With-Profits funds.

¹⁴ The Central Bank published its feedback statement in September 2018, summarising its findings following the publication of its Discussion Paper in May 2017. As well as making the policy pronouncements, the feedback statement is intended to provide a focus for future international regulatory engagement.

¹⁵ In February 2018, the Central Bank hosted a two-day IOSCO roundtable in relation to ETFs and has also provided ETFs training to other regulatory bodies by supporting training seminars organised by IOSCO.

In recent years, the Central Bank has observed an increasing reliance by regulated firms on outsourcing. In light of the evolving financial services landscape, growing international focus on outsourcing and increasing concerns in relation to outsourcing practices, the Central Bank undertook a review of outsourcing across the financial system and published a discussion paper entitled “Outsourcing – Findings and Issues for Discussion”. The paper assesses industry practice, emphasises the most obvious and minimum supervisory expectations around the management of outsourcing risk and highlights some of the key risks and evolving trends associated with outsourcing. The Central Bank will hold an outsourcing industry event in 2019. The event, together with feedback sought on the discussion paper, will inform the ongoing discussions around outsourcing trends, key issues and the appropriate regulatory response.

The Central Bank provides and maintains the policy framework to support effective supervision of regulated firms and markets, including, where appropriate, the issuance of guidance and policy positions.

In May 2018, the Central Bank published its Policy Notice on Branches of Third-Country Insurance Undertakings, outlining the Central Bank’s risk appetite and providing clarity on the criteria it will use to assess whether an operation is deemed suitable for establishment as a Third-Country Branch.

The Central Bank engaged with industry representative bodies during 2018 to identify MiFID II post-implementation issues arising for firms and venues in Ireland. The Central Bank published its supplementary deferral regime for trading in non-equity instruments under MiFIR, which allows for an extended period of deferral of the publication of transactions in certain circumstances. On 6 November 2018, the Central Bank published the final Corporate Requirements for Investment Firms and Market Operators 2018, which supplement and support the MiFID regime, provide clarity to industry and promote high standards of corporate governance within regulated firms.

The new Securitisation Framework, effective 1 January 2019, is the result of an EU drive to foster a safer and more transparent securitisation market. The Central Bank is the designated competent authority for most aspects of the Securitisation Regulation and is required to supervise entities compliance with the new framework be they issuing or investing in securitisations. The new framework seeks to introduce the new Basel Committee standards which modify the prudential capital treatment that applies to securitisations for in-scope Capital Requirements Regulation institutions; to bring greater market consistency regarding various securitisation requirements such as risk retention, investor due diligence and transparency; and to revitalise the EU securitisation market by

establishing the new simple, transparent and standardised regulatory label for qualifying securitisations.

In maintaining the policy framework, the Central Bank reviews, updates/enhances and consolidates the policy framework (where appropriate).

The Central Bank UCITS Regulations form the basis for the Irish regulatory UCITS framework and are reviewed on an ongoing basis. On 29 March 2018, the Central Bank published a consultation paper (CP119), with proposals to amend and consolidate the Central Bank UCITS Regulations, including incorporating requirements in relation to how a UCITS may charge performance fees. The Central Bank will finalise these amendments and publish revised Regulations in 2019.

The Central Bank (Investment Market Conduct) Rules will consolidate into a single statutory instrument the Central Bank's Transparency Rules, Market Abuse Rules and Prospectus Rules. During 2018, the Central Bank issued two Consultation Papers (CP121 and CP127) on the proposed Rules, including certain amendments designed to ensure that the Central Bank's Prospectus Rules are aligned with the Prospectus Regulation (applicable from 21 July 2019). The Central Bank will issue Feedback Statements on both of these Consultation Papers and will finalise and publish Central Bank (Investment Market Conduct) Rules in 2019.

Provide and Maintain the Policy Framework to Support Effective Supervision of Regulated Firms and Markets

In 2018, the Central Bank continued to develop and enhance its risk-based supervisory framework and related IT tools (PRISM) for the supervision of regulated firms, by rolling out a series of enhancements to maintain and improve PRISM. This work ensures the Central Bank's supervisory framework and PRISM are kept up-to-date and relevant in the context of regulated firms' business models and risk profile, which continue to evolve in an ever-changing financial landscape. As required in the PRISM framework, the Central Bank performed regular quality assurance reviews to assess its supervisory engagement with regulated firms. The quality assurance work seeks to ensure that risks within firms are properly identified, understood and mitigated in a timely manner, and that consistency and quality of supervisory decisions and judgements are maintained.

A dedicated PRISM IT support team dealt with over 387 queries from supervisors in 2018. The Financial Regulation - Policy and Risk Directorate also responded to 1,240 queries from both internal and external stakeholders on policy issues.

The Directive on Security of Network and Information Systems was successfully transposed on 18 September 2018, wherein the Central Bank was designated as the Competent Authority responsible for aspects of the directive applicable to the Irish financial system. Operators of essential services in the financial system were identified by the Central Bank ahead of the deadline on 9 November 2018.

Box 16: FinTech - Innovation Hub

On 20 April 2018, the Central Bank launched its Innovation Hub, a direct point of contact for innovative firms. It provides an opportunity for innovative firms to engage with the Central Bank on a one-to-one basis outside of the existing channels, while allowing the Central Bank to learn about new innovations/technologies in financial services.

The Innovation Hub facilitated over 79 engagements, including 58 enquiries.

The majority of contacts were from payments and regulatory technology (RegTech) firms. Firms contacting the Innovation Hub were generally earlier stage start-ups or more developed unauthorised FinTech/RegTech firms. Questions regarding authorisations were the most frequent, including a number of authorisation-related enquiries from firms authorised in other jurisdictions.

In Q3 2018, the Central Bank launched its FinTech industry engagement initiative, building on the Innovation Hub by facilitating engagement with stakeholders more broadly.

The Central Bank hosted its first FinTech information seminar on 22 October, with a presentation on issues relevant to smaller FinTech firms. The event's target audience was FinTech firms that are considering seeking authorisation from the Central Bank, and those who support them. Over 43 individuals attended the event including 17 FinTech firms.

The Innovation Hub hosted a half-day RegTech firm event on 8 November, with three Irish RegTech firms each separately presenting on their business model to Central Bank staff. As RegTech firms are typically outside of the regulatory perimeter, the event gave the Central Bank a broader understanding of the Irish RegTech landscape.



Chapter 3:
Strategic Priorities
for 2019

Chapter 3: Strategic Priorities for 2019

Priorities for 2019

The Central Bank's Strategic Plan 2019-2021 sets out the strategic priorities for the three-year period ahead. Specifically, these are:

- Strengthening Resilience
- Brexit
- Strengthening Consumer Protection
- Engaging and Influencing
- Enhancing Organisational Capability.

Figure 4: Central Bank's Five Strategic Themes



Regulatory Focus in 2019

The Central Bank's ambition is to achieve a resilient and trustworthy financial system, which sustainably serves the needs of the economy and its customers, in which firms and individuals adhere to a culture of fairness and high standards. In order to achieve this, in 2019, key aspects of our work in the regulatory areas will include:

1. Addressing legacy issues and building resilience in the financial system through excellence in delivery of supervision.
2. Strengthening the effectiveness of financial conduct regulation.

3. Enhancing the regulatory and supervisory framework and approach.
4. Delivering robust enforcement outcomes, shaping the enforcement landscape, and supporting the fight against financial crime.
5. Anticipating, mitigating the risks and harnessing the benefits of disruptive change.
6. Targeting effective and influential engagement domestically, in Europe and internationally.

The following sections set out the Central Bank's strategic priorities and related work planned in the regulatory areas to deliver on each of the priorities.

Strengthening Resilience

The economy, financial system and domestic banking sector are all now in a stronger position of recovery and growth. Notwithstanding these positive developments in recent years, challenges remain. In addition, Ireland is exposed to risks emerging both in the domestic economy and in the external environment. It is important to further strengthen resilience and mitigate risks in the financial system so that it can better withstand future shocks and crises and that the impact of these events is mitigated. On the financial regulation side, this will be done by:

- Delivering effective supervision of firms and markets that can pose a threat to financial stability to ensure they are well managed and financially sound.
- Continuing to address existing vulnerabilities and weaknesses remaining from the financial crisis, particularly relating to mortgage arrears and NPLs. Elevated levels of NPLs impinge on the capacity of both lenders and debtors to weather future downturns. Reducing NPLs in a sustainable way that provides strong protections for borrowers is therefore essential.
- Enhancing its financial crisis preparedness and management capability.
- Preparing for and managing the failure of relevant regulated firms in an orderly fashion to ensure minimum disruption to financial stability, the economy and consumers, while working closely with the Single Resolution Board for firms within their remit.

The regulatory focus will employ multi-year supervisory strategies by firm or by cohort (for lower impact firms) to ensure that firms:

- Have sufficient financial resources, including under plausible but severe stress scenarios.
- Have sustainable business models over the long-term.
- Address the remaining issues from the financial crisis with finality, including the high level of NPLs.
- Are well governed, have appropriate cultures and diversity, with effective risk management and control arrangements so they are better able to demonstrate capability to identify, manage and mitigate the risks that they face.
- Drive enhancements in IT risk management and resilience across all firms.
- Can recover if they get into difficulty, and if they cannot, are resolvable in an orderly manner without significant externalities or taxpayer costs.

In relation to emerging risk, the Central Bank will identify and act upon opportunities and challenges presented by innovation (FinTech) and the rapidly evolving technological landscape within which the Central Bank, and the regulated firms, operate.

Brexit

The Central Bank will seek to continue to mitigate the risks posed to the economy, financial system, regulatory environment and consumer protection by the impact of the departure of the UK from the EU. In addition to dealing with the significant challenges posed by the immediate and longer-term impacts, the Central Bank will continue to engage in the ongoing development of the single market in financial services post-Brexit. On the financial regulation side, this will include:

- Enhancing regulatory tools and supervisory approaches to ensure that the wider financial stability, market and conduct risks associated with the increased nature, scale and complexity of the Irish financial system are understood and effectively mitigated.
- Ensuring that regulated firms are appropriately prepared for the full range of impacts and are safeguarding the interests of their customers.
- Ensuring a robust and effective authorisation process of all firms seeking authorisation, including those as a result of Brexit.

In relation to Brexit, regulatory focus will seek to:

- Work closely across all pillars of the Central Bank and within the European System of Financial Supervision to monitor and manage the broad spectrum of risks posed by the UK's departure from the EU.
- Drive regulated firms to be prepared for plausible outcomes (short and longer-term).
- Openly, predictably and robustly deliver our gatekeeping role for new authorisations.
- Ensure appropriate systems and processes are in place to deal effectively with the impact of changes and risks associated with Brexit.

Strengthening Consumer Protection

Embedding a consumer-focused culture within firms is essential to ensuring they serve the interests and needs of consumers. It is important that consumers have trust and confidence that regulated firms are acting in their best interests. The Central Bank recognises the detriment to consumers that can occur if such firms do not behave appropriately. The Central Bank also recognises the importance of firms being well governed and financially sound in order to mitigate the risks posed to consumers. There will be a continued focus on strengthening consumer and investor protection by:

- Strengthening our approach to conduct risk regulation, setting our expectations, and challenging the firms and markets that we supervise by requiring them to have in place a high quality and fully embedded Conduct Risk Framework. Robust enforcement action will continue to underpin our powers to protect consumers of financial services.
- Continuing to develop our approach to consumer protection supervision, conducting more intrusive and targeted assessments of those firms and products that pose the greatest potential harm to consumers.
- Focusing on the culture of firms and individual accountability of the people who run the firms we regulate, to embed high standards of conduct that deliver fair outcomes for consumers, advocating for further strengthening of standards and individual accountability, and taking action where these standards are not being met. We will complete supervisory reviews of governance and risk management

cultures in regulated firms through day-to-day supervision and inspection work.

- Enhancing confidence and trust in the financial system through high quality regulation, purposeful engagement, effective gatekeeping, assertive supervision and robust enforcement.
- Supporting the fight against money laundering, terrorist financing, market abuse and the unauthorised provision of financial services.

In order to achieve its strategic commitment, the Central Bank's regulatory focus for 2019 will include:

- Undertaking more frequent, targeted Consumer Protection Risk Assessments (CPRA) of the highest impact firms. Targeted CPRAs seek to ensure that regulated firms understand the risks faced by their consumers, not only from the products and services they offer, but also from the culture and behaviour of the firms themselves and that of the wider market.
- Developing and shaping our approach to the supervision of securities markets. A wholesale market conduct supervisory function will be operationalised based on a proportionate risk-based conduct supervisory framework.
- Continuing to pursue a robust, risk-based approach to supervision of the investment funds sector that seeks to achieve concrete sustainable improvements and protection for investors.
- Commencing the authorisation of previously unregulated loan owners as credit servicing firms will commence in 2019, involving the rigorous assessment of each application to determine whether the firm has demonstrated that it meets these authorisation requirements and standards.
- Enhancing the protection of consumers in arrears by developing a supervision strategy for consumers in arrears, in line with the Central Bank's risk appetite.

Engaging and Influencing

In order to effectively deliver on its mandate, the Central Bank works closely with other bodies, as well as engaging with and listening to the wider public and other stakeholders in Ireland. The Central Bank aims to be an open and transparent organisation and to be accountable for its actions. This helps the public and other stakeholders to understand what it does and to have confidence that the Central Bank is delivering on its mandate. As a national central bank and Ireland's competent authority, the Central Bank works as part of the wider European framework including the ESCB

and the ESFS. This wider European framework is playing an increasingly significant role and it is important that the Central Bank is effectively influencing and shaping the agenda to support the delivery of its mandate. Over the next three years, a key focus will be to enhance its strategic engagement with the public and relevant stakeholders at home and abroad. This will be done by:

- Engaging with the public directly and online, in an open and transparent manner through its communications strategy, outreach campaigns and when providing services directly to the public.
- Engaging with its key domestic stakeholders in an open and transparent way.
- Actively contributing to ESCB/Eurosystem policy-making through strategic engagement at key European System of Central Banks/ Eurosystem Committees.
- Engaging strategically with the SSM and the ESAs, ESRB and the SRM in the development of regulatory and resolution guidelines, standards, methods and risk analysis as well as with EU and international legislative frameworks in relation to sectors regulated by the Central Bank.

The Central Bank will take a strategic and outcomes focused approach to engaging within the European and international regulatory and supervisory system to:

- Ensure that the Central Bank is operating to and influencing European supervisory norms.
- Support the development of supervisory guidelines, standards and methodologies that are proportionate and effective in the context of the domestic and internationally focused Irish financial services system.
- Prioritise the Central Bank's engagement across the European bodies and internationally to maintain and build its credibility and to influence developments where it most matters.
- Enhance its reputation by maintaining and growing key leadership positions in committees and working groups.
- Progress the Capital Markets Union, recognising that a genuine single market - where investors are able to invest their funds, without hindrance, across borders - will improve the economic welfare of European citizens.

- Focus on sustainable finance and harnessing FinTech in ways that make European financial markets more integrated, safer and easier to access, while being alert to the challenges such as cybersecurity risks, data, consumer and investor protection and market integrity issues.

Enhancing Organisational Capability

The Central Bank's mandate is broad and complex and it operates in a dynamic and challenging environment where effective delivery of the strategy requires the necessary internal capabilities, systems and processes. The Central Bank staff is its most important resource and it is important that they are supported and enabled to have the necessary skills and expertise to deliver to the highest standards. Culture, resources and capabilities must support the effective and efficient delivery of the Central Bank mandate whilst maintaining the highest standards of governance and risk management.

This will be done by:

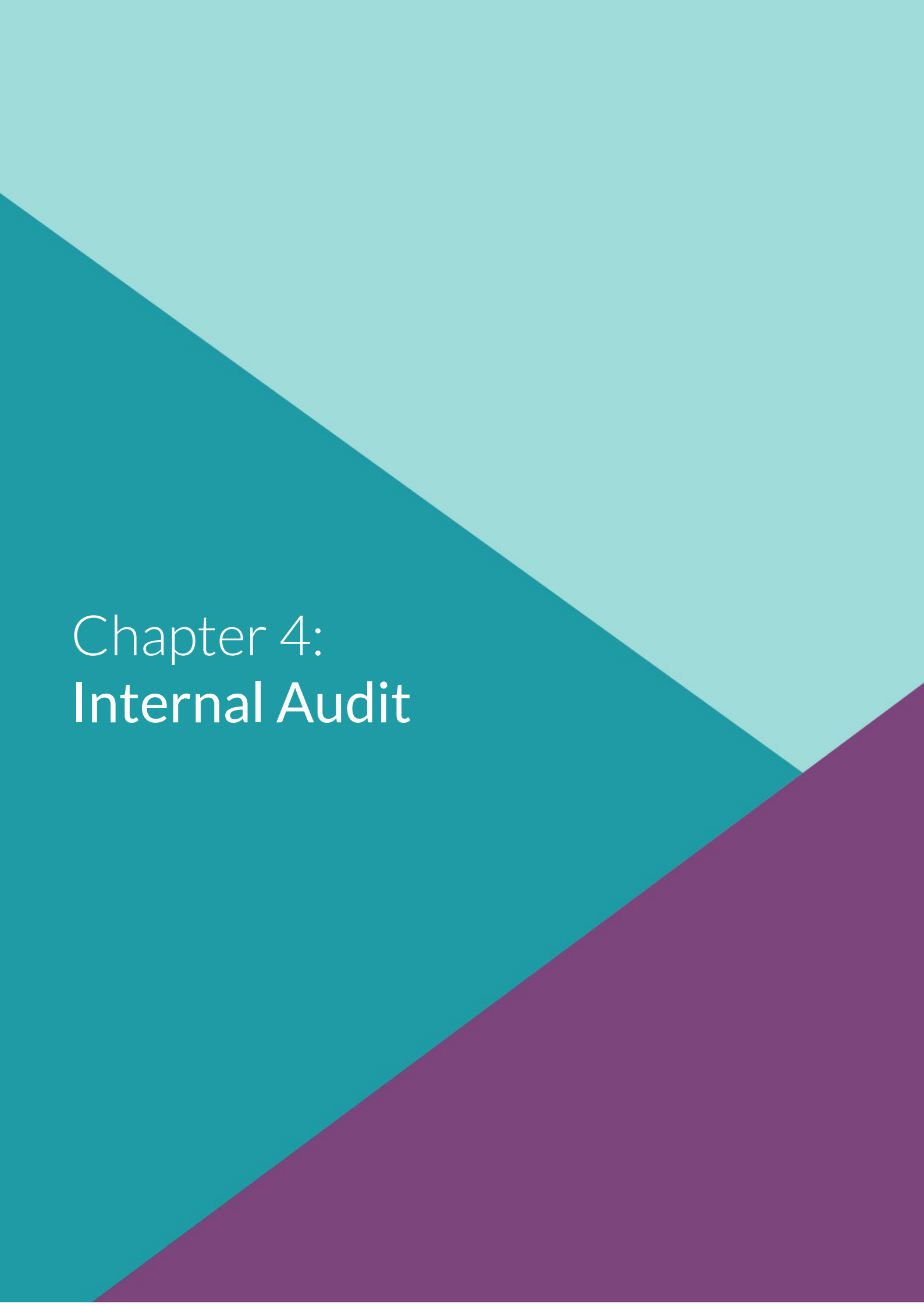
- Implementing our People Strategy, which includes our approach to resourcing, learning and development, leadership development and talent management, enabling staff to deliver in an environment that supports and promotes diversity and inclusion and strengthens capability and agility.
- Significantly investing in the delivery of our Data Strategy, which will support enhanced data analytics and data management across the organisation, and by rolling out an electronic document and record management system across the Central Bank.
- Ensuring that appropriate structures, facilities, processes, competencies and technologies are in place to support the successful delivery of our organisational priorities.
- Continuing to strengthen internal governance and risk management, information and cyber security along with security systems and our ability to recover from a business continuity perspective.
- Ensuring the delivery of our accountability obligations by applying the highest standards of transparency and clarity in statutory reporting.
- Reviewing our principles and priority behaviours (which articulate our desired culture) and embedding these to ensure a positive culture reflecting our One Bank ethos, commitment to public service, diversity and inclusion.

Into 2019, the Central Bank will work to:

- Harness the benefits of increased data and analytical capability, risk specialists and the use of targeted inspections to enhance its supervisory approach.
- Enhance the level of support of and challenge to the day-to-day supervision of regulated firms.
- Ensure that the wider financial stability, market and conduct risks associated with the increased nature, scale and complexity of the Irish financial system are understood and effectively mitigated.
- Enhance the supervisory model to facilitate more flexible prioritisation and facilitate event driven supervision and crisis management.

In addition, the Central Bank will work to:

- Enhance the regulatory and policy framework to address gaps (e.g. resolution of insurance firms) and improve its functioning (e.g. senior executive accountability).
- Ensure regulatory and supervisory approaches are sufficiently forward looking and fit for purpose to deal with transformational technological changes.
- Continue to advance its strategy to move towards fully recovering the cost of financial regulation from industry while evolving levy methodologies against principles to ensure the levy process is proportionate, predictable and appropriately transparent.

The background features a light teal gradient at the top, transitioning into a darker teal shape on the left side, and a purple shape at the bottom right. The text is white and positioned on the dark teal area.

Chapter 4: Internal Audit

Chapter 4: Internal Audit

The objective of Internal Audit is to act as the independent “third line of defence” function within the Central Bank’s governance framework. It is the responsibility of the Central 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 Central Bank’s tasks and activities. In doing so, it assists the Central Bank in accomplishing its objectives by bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, control and governance processes.

During 2018, Internal Audit conducted audits across a number of Financial Regulatory areas including a Functional Review of Banking Inspections, a Review of the Policy Framework for Investment Funds, Investment Firms and Markets and an audit of the Anti-Money Laundering Supervision Framework & Inspection Model. All issues identified are routinely followed up by the Internal Audit Division (IAD) to ensure that approved action plans are implemented. In 2018, IAD received a fully compliant rating with regard to an external quality assessment of IAD’s compliance with the Chartered Institute of Internal Auditors (IIA) Standards.

As part of its intelligence gathering, IAD attended a number of senior executive committee meetings and meetings with divisional representatives from across the Central Bank in order to keep abreast of developments and risks within the organisation. The Head of IAD also met with the Governor regularly to discuss audit-related issues.

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 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. There were no audits relating to the SSM completed in 2018.

The background features a light teal gradient at the top, transitioning into a darker teal shape on the left side, and a purple shape at the bottom right. The text is positioned on the dark teal area.

Chapter 5: International Peer Review

Chapter 5: International Peer Review

Section 32M of the Central Bank Act 1942 provides that the performance of the Central Bank's regulatory functions be reviewed at least every four years by another national central bank or another person or body certified by the Governor of the Central Bank after consultation with the Minister for Finance.

In March 2018, the IOSCO invited all IOSCO Members to participate in a Thematic Review on Suitability Requirements with respect to the Distribution of Complex Products. The review focuses on the nine principles contained in IOSCO's 2013 report on this topic, which address a number of consumer protection areas including suitability, provision of information, conflicts of interest and remuneration. The assessment allows IOSCO to present an international perspective on the consistency of legislative, regulatory and policy measures taken by IOSCO members in implementing the obligation on investment firms to comply with the 2013 principles. The Central Bank's response to the review sets out its compliance with those principles, by means of requirements on firms contained in various domestic and European consumer protection legislation. IOSCO will review and analyse the responses from each participating jurisdiction and expects to publish a report on the outcomes in 2019.

The Governor, after consulting with the Minister, certified the IOSCO thematic review of suitability requirements for the purposes of compliance with Section 32M of the Central Bank Act 1942 for the 2015-2018 period, for the Central Bank's consumer protection function.



Glossary

Glossary

AIFMD – Alternative Investment Funds Managers Directive

An EU directive that looks to place hedge funds, private equity and any other alternative investment firms into a regulated framework, in order to monitor and regulate their activity.

AML/CFT - Anti Money Laundering / Countering the Financing of Terrorism.

BRRD – Bank Recovery and Resolution Directive

This establishes a common approach within the EU to the recovery and resolution of banks and investment firms.

CCMA – Code of Conduct on Mortgage Arrears

This code sets out the framework that lenders must use when dealing with borrowers in mortgage arrears or in pre-arrears.

CMU - Capital Markets Union

This is a plan of the European Commission to mobilise capital in Europe. It will channel it to all companies, including SMEs, and infrastructure projects that need it to expand and create jobs.

CRD – Capital Requirements Directive

A supervisory framework in the EU which reflects the Basel II and Basel III rules on capital measurement and capital standards.

EBA – European Banking Authority

The European Banking Authority is an independent EU Authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector. Its overall objectives are to maintain financial stability in the EU and to safeguard the integrity, efficiency and orderly functioning of the banking sector.

EDIS - European Deposit Insurance Scheme

In November 2015 the Commission proposed to set up a European Deposit Insurance Scheme for bank deposits in the euro area. EDIS is the third pillar of the banking union.

EIOPA – European Insurance Occupational and Pensions Authority

This is part of the European System of Financial Supervisors that comprises three European Supervisory authorities, one for the banking sector, one for

the securities sector and one for the insurance and occupational pensions sector, as well as the European Systemic Risk Board. EIOPA was established to support the stability of the financial system, transparency of markets and financial products as well as the protection of policyholders, pension scheme members and beneficiaries.

EMIR – European Market Infrastructure Regulation

EMIR implements increased transparency in respect of derivatives, by way of reporting of all derivative contracts (including exchange traded derivatives to trade repositories). It provides for a specific clearing system of derivatives, which breach certain thresholds, provides risk mitigation techniques and sets out requirements for both central counterparties and trade repositories.

ESA – European Supervisory Authorities

These Authorities work together in a network, interacting with the existing national supervisory authorities in order to ensure the financial soundness of the financial institutions themselves and to protect users of financial services.

ESFS - European System of Financial Supervision

The European System of Financial Supervision is the framework for financial supervision in the EU in operation since 2011. The system consists of the European Supervisory Authorities, the European Systemic Risk Board, the Joint Committee of the European Supervisory Authorities, and the national supervisory authorities of EU member states.

ESMA – European Securities and Markets Authority

ESMA is an independent EU Authority that contributes to safeguarding the stability of the EU's financial system by enhancing the protection of investors and promoting stable and orderly financial markets.

ESRB – European Systemic Risk Board

The ESRB is responsible for the macroprudential oversight of the EU financial system and the prevention and mitigation of systemic risk. The ESRB therefore has a broad remit, covering banks, insurers, asset managers, shadow banks, financial market infrastructures and markets. In pursuit of its macroprudential mandate, the ESRB monitors and assesses systemic risks and, where appropriate, issues warnings and recommendations.

IDD – Insurance Distribution Directive

The IDD is designed to improve EU regulation in the insurance market by ensuring a level playing field for all participants involved in the sale of insurance products.

IOSCO – International Organisation of Security Commissions

The International Organisation of Securities Commissions (IOSCO) is the international body that brings together the world's securities regulators and is recognised as the global standard setter for the securities sector.

MiFID II - Markets in Financial Instruments Directive

This legislative framework was instituted by the EU to regulate financial markets and strengthen investor protection with the aim of improving the functioning of financial markets making them more efficient, resilient and transparent.

MiFIR – Markets in Financial Instruments Regulation

The MiFIR Regulation encompasses the rules and guidelines on execution venues, transaction execution as well as pre- and post-trade transparency.

NCA – National Competent Authority

The NCA is the legally delegated or invested authority that has the power to perform a designated function. National competent authorities are organisations that have the legally delegated or invested authority, or power to perform a designated function, normally monitoring compliance with the national statutes and regulations.

NPL – Non-Performing Loans

A bank loan is considered non-performing when more than 90 days pass without the borrower paying the agreed instalments or interest. NPLs are also called 'bad debts'.

PCF - Pre-Approval Controlled Function

These are positions whereby prior approval must be sought from the Bank prior to appointing an individual to that role or function.

PSD2 – Payment Services Directive 2

PSD2 reflects developments in payment services and ensures that these new services and providers are required to be authorised and regulated.

SSM – Single Supervisory Mechanism

The Single Supervisory Mechanism (SSM) refers to the system of banking supervision in Europe. It comprises the ECB and the national supervisory authorities of the participating countries.

Trilogue negotiations

The trilogue is an informal type of meeting used in the EU's ordinary legislative procedure. It involves representatives of the European Parliament (EP), the Council of the EU and the European Commission.

UCITS – Undertakings for Collective Investment in Transferable Securities

UCITS are open-ended investment funds and may be established as: Unit trusts; Common contractual funds; Variable or fixed capital companies; or Irish Collective Asset-management Vehicles (ICAVs). UCITS established in Ireland are authorised under the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011.

Public Consultations

Name	Date (opened)	Date (closed)
CP117 New Methodology to Calculate Funding Levies payable by Moneylenders	22/03/2018	17/05/2018
CP 118 Review of the Consumer Protection Code for Licensed Moneylenders	27/03/2018	27/06/2018
CP119 Consultation on amendments (and consolidation) to the Central Bank UCITS Regulations	29/03/2018	29/06/2018
CP120 Second Consultation Paper on the Corporate Governance Requirements for Investment Firms and Market Operators	10/05/2018	31/07/2018
CP122 Consultation on Changes to the Domestic Actuarial Regime and Related Governance Requirements under Solvency II	22/06/2018	14/09/2018
CP121 Consultation on amendments to Central Bank Market Abuse and Transparency Rules and consolidation into Central Bank (Investment Market Conduct) Rules	22/06/2018	22/09/2018
CP123 Consultation on Implementation of Commission Delegated Regulations (EU) 2018/171 of 19 October 2017 – Materiality thresholds for credit obligations past due	04/07/2018	15/08/2018
CP124 Second Consultation on Non-Life Insurance Amendments to the Non-Life Insurance (Provision of Information) Renewal of Insurance Regulations 2007	03/08/2018	14/09/2018
CP125 Consultation on Potential Changes to the Lending Framework for Credit Unions	24/10/2018	09/01/2019
CP126 Consultation Paper on the Central Bank's Approach to Resolution for Banks and Investment Firms (First Edition)	06/12/2018	17/01/2019
CP127 Consultation on amendments to Prospectus Rules and consolidation into Central Bank (Investment Market Conduct) Rules	10/12/2018	11/03/2019
CP128 Consultation on Anti-Money Laundering and Countering the Financing of Terrorism Guidelines for the Financial Sector	21/12/2018	05/04/2019

SME Market Report

Name	Date
SME Market Report 2017H2	30/01/2018
SME Market Report 2018	01/08/2018

Discussion Papers

Name	Date (opened)	Date (closed)
Discussion Paper 8 - Outsourcing - Findings and Issues for Discussion	19/11/2018	18/01/2019

