



Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Gabriel Makhlouf
Gobharnóir / Governor

Mr Paschal Donohoe T.D.
Minister for Finance
Department of Finance
Government Buildings
Merrion Street Upper
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12 February 2025

Dear Minister,

FINANCIAL REGULATION PRIORITIES 2025

As I have done in previous years, this letter sets out my views on the macro-financial environment, the financial services landscape and the Central Bank's regulatory and supervisory priorities for the year ahead. (I have also set out in an appendix an overview of the delivery of last year's priorities.) Overall our objective remains to serve the public interest by maintaining monetary and financial stability, and by working to ensure that the financial system operates in the best interests of consumers and the wider economy.

Risk Environment

My letter of 5 February set out my views of the prevailing economic outlook. The financial landscape itself is changing rapidly, driven in particular by advances in technology but also by geopolitical change and by significant (and familiar) economic and societal transitions. These changes are reshaping the risk context of the sectors we supervise and the consumers we protect.

While the Irish financial sector has been buffeted by a series of shocks in recent years, it has nevertheless demonstrated resilience. It is important this resilience is maintained, and strengthened where necessary, during what is likely to be an uncertain macroeconomic environment. Although financial markets have been performing strongly, the growing geopolitical risk environment does not seem to have been priced-in by global markets, leaving them vulnerable to sudden price adjustments.

We have seen recently how sentiment is fragile and market volatility can rise quickly. It remains our view that liquidity and leverage vulnerabilities in parts of the non-bank financial sector could amplify the market impact of any economic or financial shocks (as has been demonstrated on a number of occasions globally in recent years). Given the potential for new vulnerabilities in this sector which are not yet fully understood, nor captured comprehensively under current frameworks, it is important our approach here remains adaptable to its growing systemic importance.

As I have said before, innovation in the financial sector is bringing clear benefits, as well as potential risks. It is leading to the development of new capabilities, such as utilising blockchain functionality to replace operational processes and to facilitate new products and services based on distributed ledger technology. It is important that the financial sector in Ireland leverages these new capabilities to ensure the benefits of technology for consumers of financial services are realised fully. At the same time, risks need to be managed carefully. For example, technological innovation has led to an increase in the risk of fraud and financial crime (and AI itself – although it has the potential to revolutionise a broad range of financial services – introduces new risks such as algorithmic transparency). Moreover, the resilience of the sector may be challenged as these emerging technologies create further risk, in particular to operational resilience, a growing risk in view of society's increasing reliance on technology, firms' increasing reliance on third-party ICT providers, and the growing number and sophistication of cyber attacks (including by state actors).

Financial Regulation Priorities for 2025

Our financial regulation priorities continue to be set in the context of our statutory mandate, our domestic and international responsibilities, and Ireland's large and increasingly complex

financial sector as well as the prevailing risk environment. These priorities reflect six key outcomes we aim to achieve, namely:

- Proactive and consumer-centric leadership of firms;
- Firms which are resilient;
- Firms which address operating framework deficiencies;
- Firms which manage change effectively;
- Climate change and net zero transition which is addressed; and
- That we continue to enhance how we regulate and supervise.

Our objective is focused on delivering on our four interrelated and often interdependent safeguarding outcomes: protection of consumer and investor interests, safety and soundness of regulated entities, integrity of the financial system, and financial stability.

Our specific priorities for 2025 include:

- Finalisation of the revised Consumer Protection Code to ensure consumers are protected in a more digitalised financial services sector. This will include continuing to engage with stakeholders ahead of the Code being finalised and published this year;
- Embedding the recommendations of the Enria review of the Fitness and Probity Regime;
- Implementation of the Markets in Crypto Assets Regulation (MiCAR), including engaging with firms seeking authorisation and furthering our work to raise awareness of the risks related to crypto for consumers;
- Delivering our first thematic Innovation Sandbox Programme focussing on combatting financial crime, and expanding the Programme to continue to support innovation while safeguarding the integrity of the financial sector;
- Ensuring firms have effective governance underpinned by strong ethical culture and robust systems of delivery. This will include continuing to embed the Individual Accountability Framework for in-scope firms (including the extension of the Senior

Executive Accountability Regime to (independent) non-executive directors) and supporting external stakeholders through ongoing engagement;

- Progressing changes to the credit union lending regulations including our proposed changes to concentration limits for house and business lending and lending practices for specific categories of lending;
- Contributing to the successful establishment of the EU's new Anti-Money Laundering Agency (AMLA) and preparation for changing how anti-money laundering supervision is carried out;
- Ensuring that regulated firms' risk management capabilities and practices, including stress and scenario modelling, are forward-looking and commensurate with the heightened risk environment; and
- Enhancing operational resilience, including cyber-related resilience, across the financial sector.

We will also be implementing our new integrated supervisory framework (which brings together conduct, integrity and prudential supervision), seeking to position us better as an organisation to deliver on our mandate both now and into the future.

Simplification (and Productivity)

In fact our new supervisory framework is an important contribution to simplifying supervisory and regulatory processes in Ireland. As Europe looks to ensure its economy is productive and competitive into the future, there has already been a lot of focus on the simplification of regulation, including financial regulation. While regulation is only one aspect of the necessary response to Europe's economic and productivity challenges that does not mean seeking to simplify our regulatory framework is not a worthwhile endeavour. Accordingly, one of our priorities that we will be engaging proactively with, domestically and internationally, will be the regulatory simplification agenda.

I note your predecessor's letter (with other Finance Ministers) to the (then) European Commissioner-designate of 14 November 2024 on building a Capital Markets Union in support of European competitiveness. In particular, I welcome the focus on reviewing the regulatory framework with the aim of identifying areas for simplification and reducing complexity “without undermining core policy objectives such as financial stability and investor protection”. The Central Bank's regulatory philosophy is fully consistent with these objectives.

Our six principles of regulation – forward-looking, connected, proportionate, predictable, transparent and agile – look to balance the importance of protecting consumers and investors in an orderly and properly-functioning market with enabling and supporting innovation and improved productivity. These principles formed part of the foundations for our refreshed macroprudential framework, the new Individual Accountability Framework and our forthcoming updated Consumer Protection Code. We will continue to bear them in mind in engaging on the simplification called for in the Budapest Declaration and in the European Commission's Competitiveness Compass and forthcoming Omnibus proposal, alongside our ongoing engagement with other Supervisory Authorities.

The effectiveness of regulations also depends on a clear understanding of its purpose by those affected by it. This is why consultation and stakeholder engagement is a necessary part of both good regulatory design and framework evaluation (which should happen regularly not least to ensure regulations remain fit-for-purpose into the future). As a rule, effective cost-benefit analysis – whether by regulators or primary legislators – should also form part of the discipline of developing new policy as well as designing new regulations and making them operational (and not just for financial services). We want to work with your officials on our collective effectiveness here.

Finally, the Central Bank remains open to hearing views from all stakeholders in how regulations are working and how they could be improved. In any drive to simplify, we will identify the risks should the legitimate aims of simplifying frameworks go too far, and we will ensure that we do not compromise on delivering the stability, resilience and protections that consumers and the wider economy need and indeed that the public expects.

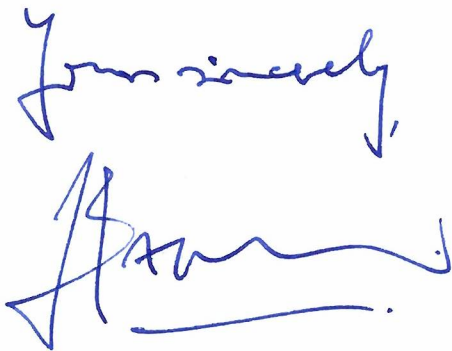
Working with the Department of Finance

There are a number of areas of financial regulation where we will be working with the Department over the coming year. Domestically these include the implementation of the National Payments and Financial Literacy strategies and of the framework related to access to cash and the resilience of the cash system. We will also support the Department in implementing relevant parts of the recommendations from its 2030 Funds Review as well as the AI Act.

On the international side, we will continue to support the Department in EU financial services files, in particular in the areas of banking, payments and asset management. This includes progressing proposals related to the Savings and Investments and Banking Unions, both of which remain important for Europe's long-term economic resilience and success. We will also be working with the Department at the G20, and in other international fora, continuing to promote – among other things – the importance of open, resilient and integrated international financial markets.

Conclusion

In this increasingly complex and uncertain external environment, in addition to maintaining broad resilience, engagement and collaboration – domestically and internationally – are becoming all the more important. I very much look forward to discussing these priorities with you, and continuing the positive and important working relationship with the Department over the course of the coming year.

A handwritten signature in blue ink, appearing to read 'Gabriel Makhoul', with a stylized flourish at the end.

Gabriel Makhoul