

**MINUTES¹ OF MEETING NO. 76 OF
THE CENTRAL BANK COMMISSION
OF 30 JANUARY 2017**

In attendance: Governor, Alan Ahearne, Patricia Byron, Blanaid Clarke, Sharon Donnery, John FitzGerald, Des Geraghty, Derek Moran, Cyril Roux, Michael Soden, Neil Whoriskey (Secretary).

Also present²: Gerry Quinn (Chief Operations Officer – Items 1-5, 7, 11-21), Mark Cassidy (Head of Financial Stability Division – Item 8), Ed Sibley (Director of Credit Institutions Supervision – Item 9), Adrian Varley (Head of Banking Supervision – Analysis Division – Item 9), Fiona McMahon (Head of Banking Supervision – Inspections Division – Item 9), Claire Lanigan (Head of Function Banking Supervision – Inspections Division – Item 9), Daniel Lawlor (Markets Policy Division – Item 10), Paula Hennigan (Markets Policy Division – Item 10), Bernie Keppel (Head of Function General Secretariat Division – Item 11), Derval McDonagh (Head of Human Resources Division – Item 12), John Flynn (Head of Irish Economic Analysis Division – Item 19), Helen Daly (Banking Supervision Analysis Division – Item 19), Graeme Walsh (Irish Economic Analysis Division – Item 19).

1. Procedural Items

The Governor opened the meeting and noted it was quorate. He asked if members had any interests to declare. There were no declarations of interest.

The Commission adopted the agenda, with some re-ordering of items to facilitate those attending.

¹ These minutes are published as a record of the meeting. The Commission may decide to omit information from the published record that is legally or commercially confidential, where it contains confidential supervisory information, relates to matters under deliberation or where it is in the public interest to do so.

² Those members of management and staff presenting specific proposals for decision are only present when the item is being discussed by the Commission, and are not present when the decision is taken.

2. Minutes of Commission Meeting No. 75 (12 December 2016)

The Commission approved the minutes of its meeting held on 12 December 2016 (Meeting No. 75 of 2016).

3. Matters Arising

Mr Whoriskey noted that the Commission had, on 20 January 2017, approved by written procedure the proposal to apply the 2009 Code of Practice for the Governance of State Bodies for the period to end-December 2016, for the purposes of the Bank's annual accounts and reporting period, as per guidelines issued by the Department of Public Expenditure and Reform.

The follow-up items from the December 2016 meeting were noted.

4. Governor's Report

The Governor introduced this item. He noted recent international developments, particularly around new policy regimes emerging in different countries. There were currently different narratives around this in the debates that were taking place internationally. On one hand there was some optimism; investors were taking a more positive view and rising yields were translating into new investments. On the other hand, this optimism could be short lived; for now, most were in observing mode.

The Governor paid tribute to the late TK Whitaker, former Governor, who passed away in January 2017. He was a very important figure for the Bank and more widely for the State. The Commission recorded its regrets at his passing.

The Commission noted the Governor's Report.

5. Deputy Governor's Report (Central Banking)

Ms Donnery introduced this item. Following on from a disposal on 10 November 2016, a further disposal of €500m of the Floating Rate Notes from the Special Portfolio to the NTMA took place on 20 December 2016, bringing total disposals for 2016 to €3bn. This compared with a figure of €2.9bn for 2015.

Ms Donnery noted recent media reporting concerning the Bank's whistleblowing contact telephone line. An internal review had taken place and some issues with the phone line were identified which had since been rectified. The email address was working and the individual who had made contact via email would have received an automated reply in the first instance. Procedures were being reviewed. Some members expressed concerns around the issue and noted the importance of the Bank having appropriate contact points in place for such matters and a clearly stated customer charter for such services. Ms Donnery said she would return with an update in due course.

She noted that information notes regarding Central Securities Depositories and Target 2 Securities had circulated and that the Bank could organise seminars on these should there be interest in that from members.

The Commission noted the Deputy Governor's Report (Central Banking).

6. Deputy Governor's Report (Financial Regulation)

Mr Roux introduced this item. On 15 December 2016 he had chaired a roundtable discussion with Irish financial sector stakeholders on topics including Brexit. There had been significant levels of interest in authorisations sought for new businesses looking to relocate from the UK. The levels of interest were larger than had been initially anticipated. At the roundtable, the Bank outlined its approach to authorisations based on openness, transparency, engagement and rigour in ensuring that financial stability and consumers continued to be safeguarded and protected. This was further reiterated in public communications.

The Governor noted the Bank had consistently set out its position regarding the consideration of applications for authorisation. In relation to banking, all applicants were informed of the consistent approach to licensing across Europe as part of the Single Supervisory Mechanism (SSM). Across all relevant sectors the Bank followed clear, published rules and processes derived from EU law. In general, the Bank's approach was that there was a need for robust local governance and risk management arrangements in any firms authorised here; the mind and management of the entity should be located in Ireland, with all decisions taken here. The Bank needed to be fully satisfied that the risks associated with the business of the entity were governed, remunerated, managed and mitigated in, and by, that entity. The Commission agreed with this approach as set out.

One member noted that, while the potential for the wider economic implications of an increase in authorisations was one for other policy makers, it would be important the Bank alerted the relevant authorities were it, for example, to see the likelihood of a significant growth in activity. The Governor noted there were good institutional arrangements in place for such issues, including the Financial Stability Group, formerly the Principals Group, which comprised the Bank, the Department of Finance and the National Treasury Management Agency (NTMA).

Another member said that it was the responsibility of the Bank to ensure it had the necessary resources in place, both to deal with the authorisations and to ultimately supervise the entities should they become authorised. This member noted the discussions the Commission had at the end of last year when considering resourcing, and the need identified at the time to return to the issue of recruitment and retention. The Governor said it was planned to have further discussions on this at an early stage.

Mr Roux also updated the Commission on a recent application for a non-executive director position at a regulated entity.

The accompanying paper (Paper No. 9 of 2017) also noted that the Deputy Governor must notify the Commission in respect of all approvals granted by the Authorisation Committee. There was no requirement for Authorisation Committee meetings held in 2016 and therefore no approvals made for Category 1 firms in 2016.

The Commission noted the Deputy Governor's Report (Financial Regulation).

7. Chief Operations Officer's Report

Mr Quinn introduced this item. Total headcount at end-December 2016 was 1,599 full time equivalents (FTEs), against an approved complement of 1,695. An earlier projection of 1,630 FTEs by year-end had been impacted by the timing of new joiners in December 2016, although it was expected to increase in January 2017.

The Bank's Data Strategy Investment Plan was progressing while the tender for Enterprise Document Management was nearing completion. There had been an improvement in IT service availability in 2016 with an overall rate of 99.8 per cent availability.

The Fusion programme was progressing, with all city centre staff due to migrate to the North Wall Quay and Spencer Dock buildings by end-March 2017. The sale process for the Dame Street and College Green buildings had completed.

On the Finance side, 4,888 funding levy notices with a value of €78.9m had issued in October 2016 with €76.5m collected by end-December 2016, a rate of 96.8 per cent.

Mr Quinn also updated the Commission on collector coin, payroll operations, and ongoing engagement with the Comptroller and Auditor General in relation to the annual audit.

The Commission noted the Chief Operations Officer's Report.

8. Brexit Update

Mr Cassidy introduced this item which updated the Commission on the work of the Bank's Brexit Taskforce. While the report covered the period to end-December 2016, he provided some relevant updates. The main development since then had been Prime Minister May's speech on 17 January 2017 outlining her vision for Brexit. In the run up to Prime Minister May's speech, sterling weakened in foreign exchange markets, although it strengthened in the immediate aftermath of the speech. However, the latest rate was some 21 per cent lower than pre-referendum. The FTSE 100 had rallied strongly in recent weeks, rising more than 9 per cent on the weaker sterling and on more positive global sentiment generally, before paring some of these gains slightly following the speech to sit around 7 per cent higher. The index

had risen by 23 per cent since its post-referendum trough on 27 June 2016. Gilt yields remained relatively range-bound since 2 December 2016, having risen by up to 70bps at the longer end following the US election, which sparked a global sell-off in yields. The 10-year Gilt was around 6bps lower at 1.31 per cent. At an appearance before a Treasury Select Committee on 10 January 2017, Bank of England Governor Carney indicated that some slight upward revisions to UK growth forecasts may be included in the February 2017 inflation report.

The Bank's Quarterly Bulletin, which had been published in recent days, had identified Brexit as the main risk to the economy, with modest downward revisions to growth forecasts in the coming year. To date the effects had been relatively benign on the domestic banking system, with no significant liquidity, funding or credit quality issues reported. As previously noted, the Bank continued to see increased levels of engagement regarding potential authorisations, notifications and licence applications from international financial institutions.

In the discussion that followed one member noted recent ESRI research, including a paper on foreign direct investment (FDI). He also noted that the potential Brexit impact on the wider economy could have a wider range of possibilities than currently considered. Another member said the current hallmark remained uncertainty on all sides.

The Commission noted the Brexit Update.

9. Credit Institutions

This item is partially omitted as it contains supervisory information.

Mr Sibley introduced this item. The slow recovery of the domestic banking system continued, but legacy risks remained, including the large volume of non-performing loans (NPLs) and low yielding tracker books. Consequently, business model risk and credit risk remained key areas of supervisory focus into 2017 for the domestic banks. For the international banks, Brexit-related new authorisations and significant expansion and change in existing business models looked set to be a big feature of 2017 and 2018. This presented critical resourcing challenges from the likely step-change in the volume and nature of authorisations, supervision and, consequently, specialised analytics and inspections activity. The risks to meeting the Bank's own objectives in this space reflected the internal challenges facing the banking divisions in

2017, the most pressing of which was the resourcing and retention risk of skilled supervisors, analysts and inspectors.

One member asked about the level of interest in new authorisations and if there was any push back on the approach the Bank was taking in terms of the robustness of its approach, and what implications were emerging from a resourcing perspective. Mr Sibley said that the banks understood there was very little room for any regulatory arbitrage under SSM, and banking supervision was actively working with other areas of the Bank, as well as directly with the ECB, to ensure to the extent possible there was a good understanding and consistency of approach across the euro area. In relation to resourcing, he said that any potential new applications would have significant resource implications and challenges; there would be a requirement for additional staff with diverse skill sets to robustly evaluate any applications, review new business models and to ensure the continuation of effective ongoing supervision at a time when existing banking supervision staff, and those the Bank would be seeking to attract, are likely to be in high demand from incoming and existing firms. The significant resourcing challenges that banking supervision had experienced over the last two to three years was likely to continue. The directorate was taking a strategic view on long-term resourcing and training as part of its efforts to mitigate this issue to the extent possible.

The Commission noted the update on Credit Institutions.

10. UCITS Regulations 2017

Mr Lawlor introduced this item. The Central Bank Undertakings for Collective Investment in Transferable Securities (UCITS) Regulations were published in October 2015 and came into effect on 1 November 2015. Amendments were required following implementation of the UCITS V Directive which came into force on 18 March 2016. Those amendments were approved by the Commission on 28 April 2016.

A second set of amendments to the Central Bank UCITS Regulations is now required due to consequential amendments arising from the publication of the UCITS V Level 2 Regulations which came into effect on 13 October 2016; and, to address issues arising from a housekeeping exercise carried out to meet our commitment to keep the Central Bank UCITS Regulations under review. A public Consultation Paper (CP105) outlining those proposed amendments was

issued on 2 June 2016 and closed for comment on 25 August 2016. Three responses were received. The Policy Committee, held on 16 December 2016, approved the issue of a public feedback statement on CP105 and the presentation of the draft amending regulations to the Commission.

The Commission approved the proposed amendments to the Central Bank UCITS Regulations; delegated to the Deputy Governor (Financial Regulation) the authority to make the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) (Undertakings for Collective Investment in Transferable Securities) (Amendment) Regulations 2017 (“the draft Regulations”); and delegated to the Deputy Governor (Financial Regulation) the capacity to make any transitional arrangements that he considers appropriate with individual firms or with industry sectors in respect of the amended Central Bank UCITS Regulations.

11. Balanced Scorecard 2017

Ms Keppel introduced this item. The Strategic Plan 2016-2018 was approved by the Commission at its meeting on 25 September 2015 and published on 23 November 2015. The Plan set out the Bank’s eight Strategic Responsibilities and three Strategic Enablers and had a clear focus on the outcomes the Bank wished to achieve rather than setting out detailed tasks and activities.

Since 2010, the Bank had used a bespoke Balanced Scorecard (BSC) methodology to monitor the implementation of the Strategic Plan. The methodology had evolved over time to suit the needs of the organisation. The Budget and Remuneration Committee (BRC) monitored progress on the BSC and reported to the Commission on the overall outcome which was linked to the Performance Management Development Process (PMDP) for staff. At its meeting on 11 December 2015, the Commission noted that the BSC, with changes to its format and content to reflect the current Strategic Plan, would continue to be used as a means of measuring progress towards achieving the strategic objectives of the Bank.

Following a series of engagements with the Senior Leadership Committee (SLC), the 2017 BSC had been compiled in a format similar to 2016, consistent with the format of the Strategic Plan, and was set out in detail in the accompanying paper (Paper No. 16 of 2017).

At its meeting on 26 May 2011 (Paper No. 67 of 2011) the Commission approved the use of the BSC process as meeting the legislative requirement in Section 32A of the Central Bank Act 1942 (as amended) to establish a framework for the assignment of responsibilities. Lead owners had been identified for each of the Strategic Responsibilities and Enablers in the BSC and it was therefore proposed that the process would continue to serve to meet that requirement for 2017.

The Governor noted the Organisational BSC was a high level document; there were much more detailed plans at the directorate and divisional levels.

The Commission approved the 2017 Balanced Scorecard, as set out in Paper No. 16 of 2017, and the resulting Framework for the Assignment of Responsibilities.

12. Commission involvement in the Recruitment of Key Staff

Ms McDonagh introduced this item. The Code of Practice for the Governance of State Bodies stated that non-executive directors should bring an independent judgement to bear on issues, including that of key appointments.

While non-executive directors (i.e. non-executive Commission members) currently played a role in the recruitment of senior personnel for certain positions, this practice had not been formally accounted for in the Bank's Recruitment Policy. It was now proposed to extend the involvement of non-executive Commission members to other key appointments throughout the Bank. Furthermore, it was intended to formally and consistently implement the involvement of the two Deputy Governors in the selection process for all such key appointments.

It was proposed that the following roles in the Bank would be considered as 'key appointments': Deputy Governors; Chief Operations Officer; all executive Director roles; Head of Internal Audit; Head of Organisational Risk; Head of Financial Control; Registrar of Credit Unions; General Counsel; and, Secretary of the Bank.

The non-executive member that would be requested to assist with the process would be chosen by the Governor based on their area of expertise. In the case of appointments made on a lateral basis, and where the full selection process as outlined was not considered necessary, such decisions would be made by the Governor, in consultation with a relevant non-executive Commission member and the relevant members of the Governor's Committee.

One member requested that the policy include an explanation of who would be responsible for determining whether a full selection process was necessary. It was agreed that the Governor would make this determination himself, and thereafter consult with a non-executive member of the Commission and relevant members of the Governor's Committee before his final decision on an appointment. This amendment was agreed.

The Commission approved the process around Commission involvement in the recruitment of key staff.

13. Surplus Income Appropriation 2016

This item was previously considered by the Joint Audit and Risk Committees at their meeting on 23 January 2017. The Committee Chairs noted the Committees had agreed to the recommendation to the Commission.

The Commission approved the recommendation to appropriate 20 per cent of net profits to the Bank's General Reserve.

14. General Risk Provisioning Policy

This item was previously considered by the Joint Audit and Risk Committees at their meeting on 23 January 2017. The Committee Chairs noted the Committees had agreed to the recommendation to the Commission.

The Commission approved the General Risk Provisioning policy for use by the Bank in preparing its Annual Statement of Accounts.

15. General Risk Provision 2015 and 2016 Annual Accounts

This item is omitted as it relates to a matter under deliberation

16. Annual Impairment Review

This item is omitted as it relates to a matter under deliberation

17. Floating Rate Notes Valuation 2016

This item is omitted as it relates to a matter under deliberation

18. Governor's Quarterly Report on Expenses

The Commission noted the Governor's Quarterly Report on Expenses.

19. Scenario Analysis

Mr Flynn introduced this item. The accompanying document (Paper No. 24 of 2017) examined the impact of higher residential housing demand and output on key macroeconomic variables, using a model of the domestic economy. The implications on how this would be financed by the Irish banking system were also explored.

The Commission noted the Scenario Analysis.

20. Minutes of Sub Committee

The Commission noted the minutes of the Budget and Remuneration Committee meeting of 14 November 2016.

21. Any Other Business

Mr Whoriskey said that the Commission would be provided with a self-assessment review questionnaire in the coming weeks. This was consistent with the Commission's practice of reviewing its own effectiveness and with a new provision in the Code of Practice for the Governance of State Bodies.

The meeting concluded.