

**MINUTES¹ OF MEETING NO. 149 OF
THE CENTRAL BANK COMMISSION**

OF 18 April 2023

Venue: North Wall Quay

In attendance²: Governor Gabriel Makhlouf, Patricia Byron, Shay Cody, Sharon Donnery, John Hogan, Sarah Keane, David Miles, Vasileios Madouros, Niamh Moloney, John Trethowan, Neil Whoriskey (Secretary).

1. Opening of Meeting and Procedural Items

Governor Makhlouf opened the meeting.

Sharon Donnery informed the meeting that she had been invited to become an Ambassador for Bloomberg's EU Women in Finance initiative, which formed part of Bloomberg's corporate philanthropy programme and has a strong educational focus. She was consulting also with the ECB's Ethics Committee on the invitation. She did not envisage any conflicts arising. Commission members congratulated her on the nomination. The Commission agreed that there were no conflicts arising.

The Governor asked if there were any other interests to declare outside of those declared at previous meetings. There were none.

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 Also present (all items): Derville Rowland, (Deputy Governor Consumer and Investor Protection), Marcella Flood (Chief Operations Officer), Eadaoin Rock, (General Counsel), Deirdre McKenna, (Internal Governance Division); Item 5: Patricia Dunne (Director of Securities and Market Supervision), Mark Cassidy Director of Financial Stability Directorate); Items 6-8: Ray Farrelly, (Head of Communications); Item 6: Glenn Calverley, (Director Strategy & Governance), Paul O'Brien, (FSP4 Business Lead); Item 7: Colm Kincaid (Director of Consumer Protection), Aisling Menton (Consumer Protection, Credit & Lending); Item 8: Gerry Cross (Director Policy & Risk), Gina Fitzgerald, (Financial Risks and Governance Policy, Denise Delaney (Policy & Risk), Patrick Casey (Policy & Risk); Item 10: Breege Timoney (Director Finance and Business Performance); Annemarie Britz, Susan Falkner (Financial Control); Item 13: Theodor Kockelkoren (Chair, Consumer Advisory Group); Patrick Casey (Policy & Risk).

2. Minutes of Commission Meetings No. 147 and No. 148

The minutes of the meetings of 7 March 2023 and of 22 March 2023 were approved with one minor addition to the minutes of 7 March.

3. Matters Arising

The Secretary noted that, since the meeting on 7 March, the Commission had approved the following items by written procedure: the Investigative eDiscovery Platform Project, the Market Surveillance Project (both previously considered by the Major Projects Committee), the Central Bank's Climate Action Roadmap, and the Risk Committee's updated Terms of Reference and Delegations to the Risk Committee. Comments and responses to queries raised in relation to the written procedures had provided to Commission members. The updated Action Log had also circulated.

The Commission noted the Action Log.

4. Updates from Sub Committee Chairs

Audit Committee

Patricia Byron, Chair of the Audit Committee, updated the Commission on the meeting of the Audit Committee of 28 March. She noted that the main issue before the Committee was the 2022 Annual Accounts, which were also before the Commission today. She informed the meeting that the European Council had now approved the appointment of Grant Thornton as the Bank's external auditor, commencing the financial year ending 2023. There was a handover process underway between the outgoing auditors Mazars, whom she thanked on behalf of the Audit Committee, and the Comptroller & Auditor General was engaging with the incoming auditors. The Committee also considered an independent external review of the Internal Audit function, which aimed to assess conformance with professional standards codes. The report was very positive and concluded full compliance with the professional standards. There were some recommendations arising that the Audit Committee will be kept updated on. The Committee also considered the regular update by the Head of Internal Audit and approved an updated Internal Audit Charter. The Committee considered the report on the Bank's application of the Code of Practice for the Governance of State Bodies. The Committee also agreed its own forward agenda and some items that it will be proposing to the Commission for delegation. The Audit function had also been nominated for an external award. The Commission congratulated the function on its achievements.

Risk Committee

John Trethowan, Chair of the Risk Committee, noted that there was a forthcoming meeting of the Risk Committee due on 9 May. In the meantime, he had engaged with the Data Protection Officer on the introduction of a new risk-based DP Report. He noted that a seminar for the Risk Committee on the Bank's Investment Assets was due to be held in the coming months and all Commission members would be invited to attend.

The Commission noted the update from Sub Committee Chairs.

5. Funds Sector

Derville Rowland, Deputy Governor Consumer & Investor Protection, introduced this item, which provided an overview of the Funds Sector in Ireland, including how the Central Bank exercises its supervisory mandate for the sector. She set out the growth in the funds sector in Ireland since 2010, making it the third largest funds jurisdiction in the world with 5.9 per cent of total global assets, and the second largest in Europe with 8.5 per cent of total European assets. The investment funds sector is playing an increasingly important role in the global financial system. The pace of growth in Ireland was outstripping others internationally. She noted the importance of the Central Bank's engagement internationally on this; due to the global nature of the funds industry, such collective engagement was critical. Vasileios Madouros added that, at the recent IMF meetings, there had been a high degree of focus on potential vulnerabilities in segments of the non-bank sector. Influencing at global fora was a critical element of the Central Bank's approach in this area, given the global nature of capital markets; there was a strong effort on the part of the Bank to influence and shape the international debate to seek to ensure a more effective overall regulatory and supervisory framework. He noted that the Central Bank had significantly increased its focus on the financial stability dimensions of the sector, but there was further to go, both domestically and internationally. The Bank aimed to be at the forefront of efforts to identify and, where needed, take action to mitigate, financial vulnerabilities in segments of the sector such as the recently announced macroprudential measures for Irish property funds. There was a plan for the Bank to publish a Discussion Paper on developing a macroprudential framework for the funds sector to seek to influence international policy development in this area.

In the discussion, there was a focus on the scale of the sector, its growth and the risks arising, including how the Bank was calibrating its approach and assigning its resources in the context of wider supervisory considerations and in relation to future trends in the sector. In response,

it was noted that the supervisory team had a good handle on the risks, with an increasing focus on ensuring supervisory framework, data and resources were deployed accordingly, to better deal with those risks. The Supervisory Step Change work under the strategic Future State Priority 1 would help with that, including in ensuring an integrated view across the organisation on risk across all supervisory sectors. The Bank had finite supervisory resources to deploy and these were currently largely focused on the gatekeeper role; this was a risk-based system of supervision and resources will follow the greatest risks. On future trends, growth was expected to continue. There were also queries on international regulatory developments and the Bank's input to those. In response, it was noted that there was strong coordination across the Bank on its engagement with the relevant international bodies and having a single One Bank approach was advantageous, given the relatively unique breadth of the Bank's mandate. The Bank's current strategy was to seek to strengthen international standards while ensuring its own discretion was utilised where that was considered appropriate, for example in the recent application of macroprudential rules to property funds.

John Hogan provided an update on the recently announced Funds Review that was initiated by the Minister for Finance. He noted that much of what had been set out in this discussion dovetailed with that. The review would cover key aspects, including taxation, regulatory, legal and policy issues. The review should aid greater understanding of this sector and the involvement of Bank was very important to all of this, as it was with the recent banking review.

The Governor noted that the Commission would return to this issue later in the year.

The Commission noted the Funds Sector update.

6. Transforming: Engagement with our Stakeholders

Derville Rowland introduced this item, which provided an overview of Future State Priority 4 – Open and Engaged – that forms part of the Central Bank's Transformation Programme. The objective was to build trust and demonstrate effectiveness by engaging openly and plainly with stakeholders, strengthening the public's understanding of the Bank, engaging effectively internationally and, by listening and making decisions that are informed by stakeholder perspectives. To achieve this, it was intended to: design a transparent, prioritised and impactful Stakeholder Engagement Strategy & Framework; build an accompanying Measurement Framework; ensure the Stakeholder Engagement Strategy & Framework was embedded across the Bank; build out European and international engagement strategy and approach; and embed the Open and Engaged principles in the Bank's culture and ways of working. The focus in 2023 was on: developing the Stakeholder Engagement Strategy & Framework; developing the

accompanying Measurement Framework, with Trust as the key outcome indicator; and, embedding the EU & International Function, establishing Central Bank representation in Brussels & deepening engagement across the European system.

In the discussion, members acknowledged the work that was going in to this. It was noted that it would be important to provide more of a focus in the initial work on stakeholder mapping and on tone. It was necessary to have a clear understanding of the Bank's stakeholders, including what they were expecting of the Bank and how best to engage with them. In relation to tone, it was agreed that there was a need to link this in to the stakeholder mapping, in particular in terms of what tone the Bank needed to adopt when engaging with different sets of stakeholders. Members also queried the issue of measurement, in particular around trust, noting that this was challenging, particularly as it could be linked with trust around the wider financial system. It would be helpful to have a better understanding of the relevant metrics that should be utilised, which could include listening exercises. It was noted as important that stakeholders understood the Bank's motivation around the decisions it makes, this was more about trust than popularity. There was a need to examine metrics in a deeper way. It was also noted in the discussion that it was important to ensure there was a strong link between this work and the Communications Strategy that was recently presented at Commission.

The Governor confirmed that an item on Stakeholder Mapping and Tone would be tabled for Commission engagement in the coming period.

The Commission noted the update on Transforming: Engagement with our Stakeholders.

7. Rising Mortgage Interest Rates

This minute is partially omitted as it contains supervisory information.

Derville Rowland introduced this item. Since 2017, the Bank had taken a range of measures over and above the EU framework to ensure the system supports borrowers facing financial difficulty and/or looking to switch. Through this work, as the system has entered into this rising interest rate cycle, it should be capable of dealing with arrears and increased levels of switching, both operationally and in terms of the protections that are there. The focus of the Bank's work is system-wide because borrowers across the system will be facing challenges depending on their individual circumstances. This work is organised in phases. Phase 1 is complete: to ensure the system is operationally ready to deal with the evolving situation in accordance with the framework the Central Bank is charged with supervising. In Phase 2, the focus is on ensuring that, as interest rate increases begin to impact on affected consumers, the framework is delivering for consumers in line with expectations as well as going deeper into some of the

assurances taken from the earlier work. Throughout, the Bank remains vigilant on compliance with the relevant rules and mortgage terms and conditions. She noted that the Central Bank does not have a mandate to restrict rates charged by lenders or to require a firm to provide a particular product. Rather, the focus is on ensuring: (i) borrowers who seek to switch mortgage product or provider are supported to do so; and, (ii) any borrower in, or facing, a difficulty in meeting their repayments is supported to find an alternative repayment arrangement they can afford. She noted there were plans to communicate on this work externally.

In the discussion, members recognised the work that was already done and the progress made to date on this and noted the challenges that arose, in particular communicating the Bank's role. There was agreement that it would be helpful to set out publicly, as part of a communications exercise, the data that existed, which identifies the various cohorts of borrowers with banks / non-banks and those that had performing and non-performing loans. The data on the number of customers that were affected by interest rates of more than 5 per cent in non-banks was relevant in that respect as, without in any way diminishing the challenges each borrower might face, it contextualised the scale of that particular issue. In relation to a query on whether there were levels of switching taking place from non-banks to banks, it was noted that there was more capacity for people to switch, including those who may have had historical non-performance but who had performing loans now and this would be examined further under phase 2 of the work. It was important to work with all the relevant strands of this and to continue to be solution focused. It was noted that supervision was an ongoing process and that if people end up with affordability challenges or go in to arrears, there is a strong framework in place. It was also recognised that this might get more challenging due to the prevailing cost of living and interest rate climate. It was important to stress that the Bank was focused on protecting every consumer (recognising that consumers across the system will face challenges by reference to their individual circumstances), was receptive to stakeholders' views, responsive to the emerging situation and working for everyone in the system. The Bank is also working to support the Department of Finance and to inform the public discussion on wider policy considerations.

In conclusion the Governor thanked the team for the presentation and the set of information presented, which was a very good foundation for the ongoing work, the phasing of which would be examined further. The Commission would be kept updated on this.

The Commission noted the update on Rising Mortgage Interest Rates.

8. Domestic and EU Policy Pipeline

Derville Rowland introduced this item. The volume of policy files was growing year on year; this trend was expected to continue with resource implications for the Central Bank throughout the policy life cycle. The range of issues being addressed via EU, rather than national policy, was also increasing, and EU policies were increasingly cross-sectoral, e.g. Climate Change, Operational Resilience (DORA), Technological Innovation (MiCA). The pace, complexity and volume of these policy files were driven by a wide range of factors and participants. As a member of both the Eurosystem and the European System of Financial Supervision, the Central Bank was uniquely placed to effectively contribute and influence policy development. Through impactful engagement, the approach was to seek to influence policy as it is developed while recognising that compromise is an inherent feature of the policy making process.

In the discussion, members noted the volume and nature of the policy files and the risks of future unknowns that could potentially move the Bank off track in terms of its overall Strategy; it was important therefore to keep a focus on this, to prioritise efforts as necessary and to understand where choices might lie, while recognising the importance of the need for regulation to evolve with the changing world. It was also considered important to map some of this against stakeholder engagement, as much of this would also have an impact on industry. It was noted that the Bank did have a focus on seeking to influence some of this at an early stage, as referenced in the earlier discussion on Funds. The Bank had a particular opportunity to influence, given the breadth of its mandate, and it was important to be ahead of the curve on many of these items. It was agreed to consider this on at least an annual basis and to seek to link that with broader considerations on planning and prioritisation.

The Commission noted the update on the Domestic and EU Policy Pipeline.

9. Executive Report

Governor Makhoul introduced this item. He provided a high-level summary of the recent IMF Spring Meetings, noting there were good varied discussions, including on non-banks and on the recent global financial turbulence.

Sharon Donnery provided an update on some firm specific supervisory matters. She noted that the ECB had just published the results of an external assessment of the Supervisory Review and Evaluation Process (SREP), which includes recommendations to become more efficient and effective. The Supervisory Board of the ECB (SSM) will evaluate the report's input as part of a review of supervisory processes planned for 2024.

Vasileios Madouros provided an update on global banking sector developments. He noted overall, market conditions had stabilised; the Central Bank would continue to monitor developments and work with the Financial Stability Group on these. He reported a further sale from the special portfolio of floating rate notes (FRNs), the second of this year; there was a total €1,534mn outstanding in the FRN maturing in 2053. He reported that the new T2T2S consolidated platform successfully went live on 20 March 2023, replacing the previous TARGET2 system.

Derville Rowland noted that a Task Force of IOSCO, that she co-chaired, had recently published its report on Retail Market Conduct. The report had identified trends in the retail trading environment, market practices and related conduct implications. It also identified the way forward for IOSCO to work on addressing these trends, and she would take up a new role as chair of a board oversight committee on this work. She also provided an update on a recent fitness and probity case that had been heard in the High Court.

Marcella Flood provided an update on some project delivery items, including the successful go-live of the T2TS consolidated platform, the deployment of the Ireland Safe-Deposit Box, Bank & Payment Account Register (ISBAR) technical solution, and the ongoing enhancements of the process for submitting fitness and probity applications. She provided an update on the Cash Centre strategy, which was at the stage of identifying candidate sites for a new Cash Centre in the Greater Dublin area, and on the Mayor Street building, which had a small number of outstanding works underway.

In the discussion, members welcomed the progress shown on the various projects including the Fitness & Probity portal. Queries arose in relation to some matters contained in the Report, including around the transmission of monetary policy, in particular to deposit accounts and how Europe compared to the US in that regard, the establishment of the Bank's Transformation Office, and the guidance for the insurance sector on Climate Change Risk and whether other risks should also be highlighted at this time.

On the monetary policy item, Vasileios Madouros noted that the Bank analysed closely the ongoing transmission of monetary policy, including in relation to both deposit and lending rates. In the euro area as a whole, deposit rates had increased by less than lending rates since the start of the tightening cycle. In Ireland, the increase in deposit rates had generally been lower than in the euro area as a whole. The US had seen greater movement of deposits, as it was easier to transfer funds from banks to money market funds. In relation to insurance, Sharon Donnery noted that there a consolidated review of insurance due at the Commission in the coming months and this would cover all the relevant risks. In relation to Transformation, Marcella Flood

noted the current focus was on establishing the Transformation Office, developing the prioritisation framework, and risk tolerance; an update would be provided to the Major Projects Committee.

The Commission noted the Executive Report

10. Annual Accounts 2022

Patricia Byron, Chair of the Audit Committee introduced this item. She confirmed that the Audit Committee, at its meeting on 28 March 2023, had considered and reviewed the Bank's Financial Accounts and associated documents that were a matter for decision by the Commission today. The Committee had engaged with the external auditors and she noted that there was nothing of concern to report and that the Committee endorsed the Accounts and were proposing that they be approved by the Commission. It was also noted that the Governance Statement, Commission Members' Report and the Annual Review of the System of Internal Controls had been reviewed and endorsed by the Committee for approval by the Commission.

Annemarie Britz, Head of Financial Control, noted that a small number of minor changes had been made to the final Statement of Accounts versus what was provided to Audit Committee for its meeting. These were not considered material. Both external auditors had subsequently given clearance for the Statement of Accounts to be signed. She noted that it was requested that the Commission delegate the final approval of the Statement of Accounts and the signing of the Letters of Representation to a combination of the Governor, the Deputy Governor Monetary & Financial Stability and the Chair of the Audit Committee. Following approval, the Annual Report (which incorporates the Statement of Accounts) will be submitted to the Minister for Finance by 30 April 2023, with anticipated publication at end-May 2022.

The Governor thanked the Financial Control team and the other functions in the Bank that contributed to the significant work concerning the Annual Accounts and related items. He thanked the Audit Committee for their scrutiny of these items.

The Commission approved the Annual Accounts 2022 and related items as set out in Paper No. C23 072 and delegated final approval and sign off to the Governor, Deputy Governor Monetary Policy & Financial Stability and Chair of the Audit Committee.

11. Delegation: Certain Regulatory Powers & Functions arising from the Central Bank Individual Accountability Framework Act 2023

The Commission approved the Delegation of Certain Regulatory Powers & Functions arising from the Central Bank Individual Accountability Framework Act 2023 as set out in Paper No. C23 075

12. Delegation: Procedures Governing the Conduct of Investigations Regulations 2012

The Commission approved the Delegation of Procedures Governing the Conduct of Investigations Regulations 2012 as set out in Paper No. C23 077

13. Consumer Advisory Group Annual Report 2022

Derville Rowland introduced this item, which formed the annual report on the activities of the Consumer Advisory Group (CAG), setting out the focus in 2022 and priorities for 2023. She introduced the Chair of the CAG, Theodor Kockelkoren. He noted the commitment of his fellow CAG members over the year. Preparation and meeting practice had continued to prioritise dialogue rather than presentation, while the CAG had engaged with Central Bank management and staff to ensure significant time was taken to explore topics in an early stage of policy development. The Cash Strategy as it is being developed is a good example. In order to further explore ways to ensure CAG contributes fully, he said that in 2023 it would engage bilaterally with consumer stakeholders, this being the first time it will have done so, yet sees this as an appropriate step fitting with its legal mandate. It also fits with the wider Central Bank agenda to bolster stakeholder engagement, especially with consumers. The CAG will continue to engage significantly with the ongoing Consumer Protection Code review, and will seek to ensure an appropriate balance of topics with long-term relevance, such as financial education and literacy, with critical topics in the existing environment, such as account migration and mortgage arrears. Among other priority topics for this year are unregulated products and entities, unsecured debt, the Individual Accountability Framework as well as how to engage with, and incorporate views of, stakeholders.

In the discussion, members thanked the Chair and the CAG for their work, noting that much of it chimed with considerations also at Commission level. A query was raised in terms of succession planning to ensure the CAG maintained its strong and diverse membership. Mr. Kockelkoren said while it was not easy to do so, increasingly the CAG had a strong mix among its members and had widened the scope to attract and retain people who have a deep expertise from various perspectives. Another query concerned how topics were chosen for consideration.

In response, it was noted that the CAG has a practice of once a year meeting without Bank management or staff present to reflect on the potential priority areas, seeking to balance emerging risks with the more current issues to ensure input is relevant.

Derville Rowland noted that many of the issues identified by CAG had broadened the Bank's perspective and helped shape its thinking. Members noted that the report indicated a richness of engagement and the Bank was very fortunate to have a stakeholder group like this that feeds directly to Strategy. The Governor concluded by thanking the CAG Chair and members for all their important work over the past year.

The Commission noted the Consumer Advisory Group Annual Report 2022

14. Any Other Business

Major Projects Committee

The Governor noted the intention of Gerry Quinn, Chief Transformation Officer, to step down from the Major Projects Committee pending his retirement from the Central Bank. He noted the recent appointment of Marcella Flood as Chief Operations Officer. He proposed that the membership of the Major Projects Committee be revised to include the new COO and to record that the CTO would no longer be a member. This had been agreed with the Chair of the Major Projects Committee.

The Commission approved the revised membership of the Major Projects Committee.

The meeting concluded.