MINUTES[1] OF MEETING NO. 151 OF

THE CENTRAL BANK COMMISSION

OF 19 September 2023

Venue: North Wall Quay and Video Conference

In attendance[2]: 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.

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

2. Minutes of Commission Meeting No. 150

The minutes of the meeting of 30 May 2023 were approved.

3. Matters Arising

It was agreed that arrears data would be provided in Executive Reports in future.

Written Procedures

[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); Items 4, 7 - 9: Glenn Calverley (Director Strategy and Governance); Item 4: Adrian Varley (Director Prudential Analysis and Inspections); Item 5: Bernard Sheridan (Director Currency, Workplace and Regulatory Services), Annemarie McKiernan (Director Financial Operations), Karen O' Leary, John Geelon (Payments and Settlements Systems); Items 6 and 10: Ray Farrelly (Head of Communications); Item 6: Mark Cassidy (Director Financial Stability), David Doran (Head of Organisational Risk), Brigid Lanigan (Central Credit Register); Item 7: Kirsten Connolly (Transformation Office); Item 8: Allan Kearns (Transformation Office); Item 9: Anne Marie Britz (Operations Directorate), Elizabeth Mahon (Head of Strategy & Foresight), Tom Galvin (Financial Control); Item 10: Thomas Conefrey (Irish Economic Analysis).

The Secretary noted that, since its meeting on 30 May, the Commission had approved the following items by written procedure - Delegation: European Union (Investment Firms) Amendment Regulations 2022; Delegation: Regulations of Certain Financial Vehicles Dedicated Levy Regulations 2023; Central Bank UCITS Amendment Regulations; Delegation: Triennial Review of the Superannuation Scheme of the Central Bank of Ireland; and, Major Projects Committee – Terms of Reference.

Correspondence

The Commission discussed and noted two items of correspondence that it had received and agreed as to how management would follow them up.

The Commission noted the Action Log.

4. Risk Tolerance Framework

Glenn Calverley, Director of Strategy and Governance, and Adrian Varley, Director of Prudential Analysis and Inspections, introduced this item, which provided the Commission with an update on the status of work currently underway to develop an overarching Risk Tolerance Framework (RTF), for implementation in 2024. The Bank had commenced a project that aims to establish an integrated and comprehensive RTF that will incorporate risks relating to the fulfilment of the Bank's entire mandate including economic, financial system and organisational risks. A key component of the framework is an enhanced role for the Commission in the setting of explicit tolerances for each of the material risks. Additionally, the RTF will support an enhanced approach to Bank-wide prioritisation, resource allocation and decision-making. The work on the RTF builds on existing practices including systemic risk analysis, the Supervisory Risk Appetite reporting framework, and the organisational risk appetite framework. It is intended that the first version of this framework will be operationalised in 2024.

The Chair of the Risk Committee, John Trethowan, added that he was supportive of this approach, it was a very important component of risk governance and it was good to see it developing in this way.

In the discussion, members queried how this would be utilised in practice and how it would come to life for management and staff. There were also queries around how it would deal with the challenge of relativity when comparing different dimensions of risk. In response, it was noted that a litmus test for this would be in terms of where difficult calls and trade-offs would have to be made. It was not mechanistic and would require qualitative judgement with different decisions needing different considerations. Its usability would be around assisting collective

decisions but also at local levels; it would be aligned with annual planning decisions, so would become a very important component for all parts of the organisation.

The Commission noted the Update on the Risk Tolerance Framework

5. Payments Update

Vasileios Madouros, Deputy Governor Monetary and Financial Stability, introduced this item, which provided an overview of strategic developments in the area of payments. The safe, resilient and efficient operation of payment systems is a core element of the infrastructure of the economy and essential to meet the economic needs of society. More broadly, the area of payments is at the heart of the Central Bank's mandate: it is critical for monetary stability, financial stability and ensuring the financial system works in the best interests of consumers. The Bank had a statutory objective to ensure that payment, settlement, and currency systems are safe, resilient and efficient and that access to such systems is not restricted. The payments landscape was undergoing a transformation, both globally and in Ireland, driven by technological innovation as well as the entry of new market players. The Central Bank's priorities relate both to the provision of payment services to the domestic economy as well as to the provision of payment services by entities in the Irish financial sector to the rest of Europe, given the growing internationally focused segment of the financial sector in Ireland. There were large volumes of legislative, regulatory and infrastructure initiatives in the years ahead. A multi-disciplinary approach was required, as issues range from fundamental topics, like the nature of money, to developing and implementing technological payment solutions. The payments area was one of significant strategic focus over the course of the Bank's current Strategy and beyond.

In the discussion, members welcomed the update and noted the significance and range of issues that were contained under this heading, including how this linked in with domestic and European policymaking. In relation to supervisory issues, members asked how the Bank was prioritising and managing risks there, including the need to understand the business models of some fintechs. The importance of meeting the challenges of the growing complexity of payments, including fraud in digital payments, as well as the capability implications for the organisation, were highlighted. The issue of access to cash was also noted as key, including in the context of public discourse.

In response, it was noted that a key area of focus from a supervisory perspective was on the fundamentals of the business models of payments firms and their sustainability. This was a very diverse sector and there was a range of important issues, including around customer

safeguarding processes and anti-money laundering. Given the increasingly international nature of payment service provision, the Bank needs to collaborate with other regulators and authorities in meeting some of the challenges. Seeking to combat fraud was a key aspect of the work to be carried out under the National Payments Strategy and the Bank was engaging with the Department of Finance on that (including two secondees to support the work), as it was on acceptance to cash, which emerged as a key issue arising from the Department's Banking Review. The Bank was also working closely with the ECB and other national central banks in the Eurosystem on access to cash issues, as well as the fast-growing Digital Euro agenda.

The Commission noted the update on Payments.

6. Central Credit Register

Vasileios Madouros, Deputy Governor Monetary and Financial Stability, introduced this item, which provided an update to Commission members on the recent Central Credit Register (CCR) incident. As outlined when the Commission had been informed of the incident shortly after it occurred, the incident arose when an archiving error was externally identified that affected the retention period of certain borrower information on the CCR. Because of this error, certain borrower information was retained on the CCR for up to an additional three months, and included in credit reports when it should not have been retained or included. This error constituted a data breach and the Data Protection Commissioner was informed. He provided an update on the management of the incident, the status of the ongoing impact assessment, engagement with lenders and borrowers, and the next steps, including communications and plans for a broader external review of the data protection and data management dimensions of the CCR.

In the discussion, members noted the management actions and supported the approach as set out. They noted the relevance of this issue to any affected borrowers and the importance of the Bank's communications to them and its wider communications on this issue. It was important the Bank 'owned' this issue, acted upon it and communicated that well to all stakeholders. The approach on such matters was also important to consider as part of the Bank's wider communications strategy. It was also noted that the Bank was carefully assessing each affected borrower and communicating directly with those assessed to be at particular risk of being impacted. The Bank's external review of this would examine relevant controls and the report of that examination would issue to Commission member, John Trethowan. The Commission would be kept updated as necessary on this.

The Commission noted the update on the Central Credit Register incident.

7. Transforming: How We Run the Bank

Marcella Flood, Chief Operations Officer, introduced this item. Under the Transformation Programme, Future State Priority 3 is designed to deliver the strategic commitment to transforming how the bank operates. There is a commitment in the Strategy to transforming how the organisation operates, with an emphasis on increased agility, effectiveness and building greater adaptability in how the Bank delivers its mandate in an increasingly complex operating environment. The related programme of work was grounded in the Strategy, informed by insights from the Resource Allocation Analysis (RAA) and enabled, to a large extent, through digitalisation. The key objectives are to (i) transform how the Bank prioritises and makes decisions; (ii) improve operational effectiveness to help deliver on the Value & Effectiveness Outcome Indicator; and (iii) make better use of talent and resources. These objectives are underpinned by a number of technology enablers that are being addressed through technology-focused initiatives. So far, in 2023, there has been significant progress on ongoing technology and recruitment for technology roles. The Bank's first Executive-led Directional Prioritisation exercise has been completed, and is now being used as part of the 2024 planning and budgeting cycle, and there has been engagement with the business on efficiency improvements based on RAA data.

In the discussion, members noted the link between this item and the next items - updating on the overall transformation programme and setting out the draft plan and budget for 2024 - and noted that some queries would arise under those items that were also linked to this. On this specific item, questions arose in relation to how the wider internal leadership capabilities were being progressed, particularly in the context of change, and what levels of feedback were coming through from the organisation. In response, it was noted that leadership development was being addressed through skills and capabilities and culture programmes, which were at initiation stage. On measurement, the Transformation programme was engaging directly with directorates across the Bank. This included tracking and monitoring sentiment, in addition to a new staff engagement survey tool, which was due to be rolled out in the coming month.

The Commission noted the update on Transforming: How We Run the Bank

8. Transformation Update

Marcella Flood, Chief Operations Officer, introduced this item. The Bank was at a pivotal point in its ambitious transformation journey, shifting from planning and mobilisation to sustainable delivery. The executive team was confident in the progress that has already been made this

year, with recruitment of new capabilities progressing the bulk of the assigned non-pay transformation budget. This resource has already delivered real outcomes, with several wins secured and momentum building into the rest of 2023. Looking to 2024, the Executive Leadership Team was aligned on its transformation focus areas, and was gaining increasing clarity on key requirements. There are 32 Bodies of Work proposed for progressing for 2024, the majority of which are already in flight. This includes major, multi-year projects that the team believe will have significant impact on the stated Outcome Indicators, and which are being phased to spread pressure and cost. The size and pace of transformation has generated some key risks, particularly around the capacity of Procurement and IT; the executive is working pragmatically through these challenges in partnership with the respective teams.

In the discussion, members noted the importance of Transformation and the requirement for investment, but cautioned that it needed to be viewed in the context of the wider financial picture. Members also commented that it was important the executive was mindful of the challenges as set out in terms of capacity. Members said it was important the tangible benefits of the Transformation programme were brought out more clearly.

The Commission noted the Transformation update.

9. Draft Annual Business Plan and Budget 2024

Marcella Flood, Chief Operations Officer, and Glenn Calverley, Director Strategy & Governance, introduced this item, which presented an initial draft of the key dimensions of the Annual Business Plan and Budget 2024 for discussion and feedback in order to inform the final proposal, which would be presented to the Commission at its meeting in November. The draft Plan and Budget were informed by the expected status of strategic and operational delivery at end 2023, alignment with the strategic outcomes, the new approach to Executive Guidance on Priorities for 2024 planning, and the approved stable headcount parameter. Steady progress on operational and strategic delivery was evident in 2023, including further maturing the capabilities and infrastructure needed to deliver on the transformational objectives. The 2024 Plan aimed to build on this momentum through enhanced delivery and investment in the agreed future state priorities as the Bank moves to the third phase of strategic delivery. The enhanced 2024 planning process had allowed for a clearer sense of the significant additional demand for project delivery being generated by the transformational objectives underpinning the Strategy alongside the Bank's normal project portfolio delivery requirements. A key consideration for the Executive was realising the ambition to be a more agile, dynamic and resilient organisation. The Governor noted that the profile of investment beyond one year was important for the

Commission, having a better sense of the spend that is planned and the income that is expected, so that the overall financial position over a longer time period would help with the decision making process.

In the discussion, members noted that it was difficult to gauge progress based on the detailed level of materials. When presenting the final proposal in November, it would be helpful to clarify the actual deliverables and tangible benefits of the investments in the strategic and transformation related work, including how these would be visible and beneficial to external stakeholders. Members sought a clearer assessment of the degree of confidence in the Bank's capacity and capability to fully utilise the Budget and deliver on the ambitious Plan in 2024. It would also be necessary to outline the choices considered in pursuing the proposed Plan, and to set out the rationale for any discretionary increases in year-on-year expenditure and the associated funding implications, including in relation to industry levies, and the Bank's medium term profitability. Members also asked for a multi-year forecast of the major investments being requested and how these relate to the 2024 Budget and Plan, out to end-2026 along with further financial information on the specific approach and long-run investment needed for the new Cash Centre.

The Governor thanked members for their input, which would now feed in to internal discussions and engagement as the Plan and Budget for 2024 was finalised and presented for decision at the November Commission meeting.

The Commission noted the draft Annual Business Plan and Budget 2024.

10. Economic Update

Vasileios Madouros, Deputy Governor Monetary and Financial Stability, introduced this item, which coincided with the publication of the latest Quarterly Bulletin. He noted that the outlook was shaped by a faster than previously estimated growth in the domestic economy, with implications for the Bank's assessment around capacity constraints, as well as the building impact of monetary policy, both domestically and globally. The transmission of tighter monetary policy was expected to play an increasing role in containing demand conditions and contributing to lower inflation as the forecast horizon proceeds. There was evidence of stronger interest rate pass-through to retail interest rates for businesses, but slower to new mortgage lending and household deposits. The labour market remained tight, with unemployment expected to remain close to 4 per cent, supporting real-wage catch-up, but there were early signs of moderation in excess labour demand. The high interest rate environment was set to weigh on the global outlook, affecting indigenous exports and contract-manufacturing exports undertaken abroad

on behalf of Irish resident multinational enterprises. Near-term macroeconomic stability required alignment between monetary and domestic policy.

In the discussion, members queried the relationship between income and loan arrears, how excess corporate tax was being treated in terms of fiscal commentary and if tax-free vouchers were being captured in wage data. In response, it was noted that key determinants of arrears are unemployment and incomes, and that the central outlook pointed to unemployment remaining relatively low, supporting household incomes. Nevertheless, the Bank is monitoring closely early indications of potential financial distress given the changing interest rate environment. On corporation tax, it was estimated that about half of the total current corporation tax rate was not explained by developments in the Irish economy; if that is stripped out, instead of a surplus there would be a Government deficit this year with the budgetary position only barely in balance in 2024. It was noted that the Department of Finance had moved to publishing a budget excluding excess corporation tax, which was very welcome in informing the broader public debate. On the wage data, an article in the Quarterly Bulletin on Earnings Growth under High Inflation discusses the role that non-wage sources of employee compensation, including broader Government fiscal supports may have had in moderating wage demands.

The Commission noted the Economic Update.

11. Executive Report

Governor Makhlouf introduced this item. He update the Commission on the recent ECB monetary policy decision and related commentary. He noted a forthcoming busy period of engagement, including a visit to Galway including a speech on labour market dynamics and the inflation outlook, the upcoming annual meetings of the IMF and World Bank in Marrakesh, a visit to the Central Bank of Cyprus, an ECB Governing Council meeting in Athens, and the Financial System Conference in November.

Marcella Flood noted that a series of staff engagement events were taking place in early October under the banner of 'One Bank Week'. There was a wide variety of events planned and it was very significant in terms of culture building in the organisation. She also reported that the Campus Development project was almost at a close and the Risk Committee would be updated on that.

Derville Rowland provided an update on some recent consumer related issues at regulated firms that had been the subject of public communication. The Central Bank was engaging with the

firms on these issues. She noted that the Bank had published its latest Mortgage Arrears statistics in recent days. The data was relatively static, with a continued decline in long-term mortgage arrears (a year or more) but some levelling off in the 90 day plus and in some of the earlier arrears categories. This, coupled with the Central Bank's roundtable engagements, leads to a need to ensure there is continued vigilance. Firms have been told to be very clear with customers, to continue stress testing their books, and to remain focused on early warning indicators. As interest rates increase, customers will be paying higher rates and it is necessary that a concerted effort be made for customers to avail of switching opportunities.

Vasileios Madouros noted the landmark final disposal from the Special Portfolio on 7 September of €534m. With this disposal, the nominal balance of the Floating Rate Notes has been reduced to zero.

Sharon Donnery updated on some firm specific items. She noted that the final set of account migration statistics relating to the departures of Ulster Bank and KBC was released on 11 July. Customers in Ulster Bank and KBC have closed 1,167,219 of 1,233,435 (95 per cent) accounts that were open at the beginning of 2022. Of this, 33,695 accounts were closed in the five weeks to end-June. This decreased rate reflects the small number of accounts that remain to be closed.

In the discussion, a member asked about the recent roundtable the Minister held with banks, and attended by Deputy Governor Rowland. Another member noted the positive outcome for the Bank arising from a recent European Investment and Occupational Pensions Authority peer review exercise. Derville Rowland noted that the roundtable discussed the measures lenders can take to assist their customers at this time of rising interest rates. The CEOs and senior representatives of the retail banks, retail credit firms and credit-servicing firms, the Banking and Payments Federation Ireland (BPFI), Citizens Information Bureau and the Insolvency Service of Ireland attended. She noted there was excellent cooperation with the Department on these issues. The roundtables are seeking to get system wide engagement and it is intended to continue on that pathway as it brings everyone together to commonly understand and address issues.

The Commission noted the Executive Report

12. Commission Away Day 2023

Neil Whoriskey, Secretary, introduced this item, which summarised the key outputs from the Commission Away Day that took place in July. The related paper (C23 137) proposed an action plan to address recommendations arising from the Away Day under five key areas: (i) Looking

Ahead; (ii) Stock Take on Delivering Our Strategy; (iii) Priorities and Areas of Focus 2023 - 2024; (iv) Achievements since last Away Day (including effectiveness review); and (v) Stakeholder Engagement. The items listed as actions will, as relevant, be considered as part of the consideration of the Commission's work programme for 2024.

The Commission noted the summary of the Away Day and agreed with the actions outlined.

13. Statement of Investment Policy Principles

Vasileios Madouros, Deputy Governor Monetary and Financial Stability, introduced this item, which was the triennial review of the Statement of Investment Policy Principles (SIPP), previously approved by the Commission in 2020. This reviewed the compliance of investment decisions with the SIPP over the past three years, and proposed some changes to the SIPP going forward, reflecting both the changing external environment and the Bank's commitment to sustainability. John Trethowan, chair of the Risk Committee, noted that this was considered by the Risk Committee at its meeting on 25 July 2023. The Committee had noted that the Bank complied with the objectives of the SIPP over the period under review. The Committee had approved for recommendation to the Commission the changes that were set out for the next version of the SIPP. The proposals mainly reflected a change in the hierarchy of objectives, developments in the external environment, the Bank's current investment strategy, as well as to changes in the financial risk management and governance frameworks. In light of the sharp rise in interest rates, it was agreed that it was not the objective of the investment assets to generate returns to cover potential losses that may arise from the Bank's monetary policy operations.

In the discussion, it was noted that this was a very important part of governance, and it was positive to see the level of rigour that was applied to it. Another member said there was a very deep discussion on this at the Risk Committee and the proposals were well thought through.

The Commission approved the Statement of Investment Policy and Principles

14. Any Other Business

There was no other business.

The meeting closed.