MINUTES[1] OF MEETING NO. 152 OF

THE CENTRAL BANK COMMISSION

OF 7 NOVEMBER 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. 151

The minutes of the meeting of 19 September 2023 were approved, pending some agreed amends.

3. Matters Arising

The Secretary updated the Commission on correspondence received.

[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 5 and 10: Glenn Calverley (Director Strategy & Governance); Items 5 and 12: Connie Costello, (Financial Control Division); Item 5: Elizabeth Mahon (Strategy & Foresight Division), Annemarie Britz (Operations Business Manager); Items 6 and 7: Gerry Cross (Director of Policy & Risk); Item 6: Andrew Candland, (Financial Risks & Governance Policy Division), Item 7: Patrick Casey (Consumer Policy and Research Division); Item 8: Domhnall Cullinan (Director of Insurance); Item 10: Ray Farrelly (Communications Division); Item 11: Mark Cassidy (Director Financial Stability), Eoin O'Brien (Financial Stability Division).

Written Procedures

The Secretary noted that, since its meeting on 19 September, the Commission had approved the following items by written procedure: Approval of Appointment of Trustees – Pension Scheme; Delegation - European Union (Cross-Border Conversions Mergers and Divisions) Regulations.

The Commission noted the Action Log.

4. Reports from Sub Committee Chairs

John Trethowan, Chair of the Risk Committee, provided an update on the Risk Committee meetings of 29 September and 2 October 2023. The Head of Organisational Risk presented his report and the Integrated Risk Report; the Committee was satisfied that actions were in place to address red risks. There was a presentation on Incident Management, which demonstrated a good level of reporting within the Bank. The Data Protection Officer presented his twice-yearly report, which was also provided to the Commission for information. There was a report on the successful closure of the Campus Development Programme. The Committee also considered some stress scenarios in preparation for the Annual Accounts. The Committee was finalising its considerations on an investment proposal as part of the annual review of the Bank's Investment Portfolios. There had been detailed discussion and consideration of this item and it was anticipated the decision would be concluded by written procedure.

Patricia Byron, Chair of the Audit Committee provided an update on the Audit Committee meeting of 19 October. The Committee met with the external auditors - from the office of the Comptroller & Auditor General and the newly appointed audit team from Grant Thornton. Both sets of auditors set out their plans and approach for the 2023 audit, and the Committee was satisfied with the plans as presented. The Head of Internal Audit team presented the Internal Audit Plan for 2024 and the indicative plans for 2025 and 2026, which was supported by the Committee. The Committee approved the Fraud Risk Management Policy and agreed it be re-categorised as a Level 2 (management-approved) policy. The Committee was also presented with the annual review of Complaints received by the Bank and approved a revised Policy and enhanced framework for managing complaints.

Sarah Keane, Chair of the Major Projects Committee, provided an update on the Major Projects Committee meeting of 26 September. The Committee was presented with an Internal Audit Report on Project Management and was satisfied that any recommendations identified were being progressed. The Committee noted that the overall project portfolio was progressing but there remained some ongoing pressure and demand on projects. The Committee considered the

proposed new Investment Envelope and Capital policy that was before the Commission today for decision. Finally, the Committee was presented with two investment proposals on Cyber Security and on the implementation of the Individual Accountability Framework. In both cases, the Committee was recommending approval to the Commission and this would be done by written procedure.

The Governor noted that he was proposing Shay Cody to Chair the Audit Committee when Patricia Byron steps down as a member of the Commission at the conclusion of her term at the end of the year.

The Commission noted the Updates from Sub Committee Chairs.

5. Annual Business Plan & Budget 2024

Marcella Flood, Chief Operations Officer, and Vasileios Madouros, Deputy Governor Monetary and Financial Stability, introduced this item on behalf of the executive team. The Plan and Budget covered the work and resources that the Bank will need to deliver its mandate next year and to develop and build the capabilities to fulfil effectively the Bank's mandate in the future. It sought to reflect the Commission's previous discussions and feedback on the draft Plan and Budget discussed at its meeting on 19 September. It set out the executive's prioritisation decisions, and consideration of further investments that would be needed beyond 2024, for multi-year projects required to deliver the Strategy. Having assessed different options for operating and capital investment expenditure, the proposal was for a total budget of €449m, (an increase of 9.3 per cent compared with 2023 Budget). This was comprised of 85 per cent on operating expenses, 12 per cent on investment, and 4 per cent on transformation (rounded). While net losses were anticipated over the medium term, the Bank's core financial position was robust. Its sources of income were expected to cover the operating expenses and capital investment expenditure for the foreseeable future, and the approach to risk provisioning would mitigate the impact of the balance sheet losses. The executive therefore considered the Budget for 2024 to be affordable. The plan provided a view of the key priorities for the coming year. In addition to cost, there were three key factors considered when framing the plan - (i) the evolving macro environment, (ii) structural changes in the financial system and (iii) the maturation and expansion of existing policy frameworks, implementation of new mandates and organisational initiatives. It was important to note the Plan and Budget would be delivered based on existing headcount complement. The executive was confident in its ability to deliver but cognisant of risks; it remained critical to continue to monitor and adjust throughout delivery.

In the discussion, members thanked the executive for the presentation and noted that it addressed the key issues that were raised when the draft was discussed at the Commission meeting in September. It was helpful to get the collective executive view and it was noted that much in the budget was crystallising decisions already made. The inclusion of Transformation as a separate heading was important in order to keep track of that. Overall, it would be important to demonstrate progress through good measurements, presenting information at the right level and tracking movement over time. It was necessary to consider how to explain better the breadth of work that is undertaken to ensure there was a good understanding of that. There remained some concern that progress was not fully visible and there was a need to understand that better in terms of the overall scope of what was planned for the coming years of the Strategy, also in relation to efficiencies and value for money. In terms of the levy, it was always important to consider the impact the budget has on the levy and the implications for industry and ultimately their customers; there was also the wider context of the inflationary environment. While it was welcomed that the Bank would be delivering this on existing complement; that number should not necessarily be seen as a target. On specific issues, members requested updates on some of the key items such as Supervisory Workbench, Enterprise Resource Planning and Outsourcing.

In conclusion, the Commission approved the Plan and Budget, noting that it was important to set out the full context when engaging with the Minister for Finance on the Bank's budget. The executive noted the comments made and would revert on the various items and arrange the deeper dives on certain topics during 2024.

The Commission approved the Annual Business Plan & Budget 2024.
Action: Revert on issues raised and include specific items on 2024 forward agenda (Marcella Flood, Neil Whoriskey).

6. Individual Accountability Framework - Feedback Statement on Consultation

Derville Rowland, Deputy Governor Consumer and Investor Protection, introduced this item, which was to update the Commission on the Individual Accountability Framework (IAF) consultation process to date, to highlight the key issues arising to be covered in a proposed published Feedback Statement, and next steps. It was proposed to request delegation of authority to approve the relevant Regulations to give effect to the IAF Framework. A significant engagement exercise on the proposed implementation was carried out. As well as very significant direct stakeholder engagement and discussion, the Bank received 26 written responses on the proposals. A draft Feedback Statement had been prepared, summarising the

responses to each of the 18 questions posed in the consultation, other general feedback received, and the Bank's response to the most material and/or consistently raised aspects of the consultation responses. In particular, she noted the proposal to proceed with the inclusion of non-executive directors within the scope of the Senior Executive Accountability Framework (SEAR) but to defer that to July 2025, and to amend the Regulation and Guidance to remove the obligation to report disciplinary actions following breaches of the Conduct Standards.

In the discussion, members congratulated the team on the work and welcomed the approach. This was seen as a good example of positive, iterative policy-making in a measured and responsive way. Implementation was key, and it was important to utilise this as part of seeking to ensure that a wider positive governance and risk management culture is embedded in firms. There were queries on how best to ensure, when this goes live with non-executive directors, that it will be building on learnings, and also on the approach on reporting disciplinary actions. In response, on the non-executives it was noted that the deferred approach would enable both the Central Bank and regulated firms to learn from the introduction of the new framework to executives in the first instance as well as how the framework will be used, once implemented, to inform supervision. It was agreed that the Commission would be updated on this prior to its wider implementation to the non-executive cohort. In relation to reporting of disciplinary actions, it was noted that, where there is a material or potential material breach, there are pre-existing reporting requirements already in place, so there was nothing lost in taking this stance and it was overall a measured response.

The Commission noted the proposed approach to the IAF Feedback Statement, and approved the related Delegation of Powers as set out in Paper C23 182.

7. Consumer Protection Code Review

This minute is partially omitted as it references an item that remains under deliberation.

Derville Rowland, Deputy Governor Consumer and Investor Protection, introduced this item. The Bank had undertaken a wide-ranging review to modernise the Consumer Protection Code to reflect how financial services are provided to consumers today and to clarify the consumer protection obligations of firms, aligned to its regulatory approach. A Discussion Paper was published in October 2022, complemented by a six-month engagement programme with the public and stakeholders, to deepen the Bank's understanding of the challenges and risks facing consumers today. It was now planned to consult on a package of proposals. The proposals were in line with the Bank's Strategy and had been guided by international best practice and stakeholder feedback. They reflected the context of digital-led financial services

transformation, learnings from supervisory experience, and a desire to maintain the many important features of the existing Code. The plan was to modernise the Code. It will be updated to reflect significant developments of recent years and to enhance clarity and predictability.

In the discussion, members welcomed the planned focus on the effectiveness of consumer protection, making this about outcomes. It was noted that it would be key to ensure this was communicated effectively and in a way that people could understand the benefits that this was aimed at creating. Clarity was fundamental to this.

The Commission noted the update on the Consumer Protection Code Review.

8. Insurance Update

Sharon Donnery, Deputy Governor Financial Regulation, introduced this item, which provided the Commission with an overview of the insurance sector and the related supervisory issues arising. The insurance sector was growing in size and complexity and was largely internationally focused. The regulatory environment had evolved significantly in recent years and continued to change at both EU and domestic level. The macro economic environment remained uncertain and presented threats to the sector over the medium term. She set out the key supervisory challenges and priorities for 2024, which were in line with the Bank's risk assessment of the sector and its Strategic Plan, along with some broader policy considerations regarding insurance recovery and resolution, such as the Insurance Compensation Fund.

In the discussion, members welcomed the presentation, noting that that it provided a very good overview of the sector and the related supervisory issues. Members noted that, while the sector here had a very significant international dimension, it also remained an essential component of the domestic economy. Queries were raised as to what were currently the greatest challenges for the domestically focused industry here. It was also noted that there remained a level of complexity in particular in the health insurance market, and that was challenging for consumers when choosing the right product.

In response, protection gaps, particularly climate related, were identified as a significant issue. Recent examples of challenges with flood insurance were cited. Climate change was likely to result in Ireland facing more frequent and more severe flood events in the coming decades, which may in turn widen the protection gap between overall exposure and available insurance cover. Trade-offs emerge in the policy options to address this as, while insurers declining certain flood risks is a prudent response to an increased risk, this can be detrimental to consumers unable to obtain cover. The Bank was in discussions internationally on protection gaps. It was important that various stakeholders work collectively on this. The Bank was also engaging with

various parties on seeking to address data gaps on what is covered and what is available. On health insurance, it was noted that there was a proliferation of products but this was not something the Bank had any direct influence over. The Bank is legislatively prohibited from intervening on the design of insurance products however, effective notification and disclosure was key for consumers, as was the provision of professional advice from appropriately qualified staff.

The Commission noted the Insurance update.

9. Executive Report

This minute is partially omitted as it references an item that remains under deliberation and contains supervisory information.

Governor Makhlouf introduced this item.

Vasileios Madouros, Deputy Governor Monetary & Financial Stability, reported that the ECB Governing Council had approved the initiation of the preparation phase of the Digital Euro project. The preparation phase will lay the foundations for a potential Digital Euro, with work to include finalising the rulebook and selecting providers to develop a platform and infrastructure. He also updated the members on the recent Central Credit Register Incident.

Derville Rowland, Deputy Governor Consumer & Investor Protection, noted the provision to the Commission of the most recent data on mortgage arrears. The current supervisory strategy was focused on a thematic review of early arrears - there was a stated expectation that firms should have a wide suite of early warning indicators and the Bank will be looking at how core aspects of the regulatory framework are being used to deliver for mortgage borrowers.

Sharon Donnery, Deputy Governor Financial Regulation, noted that the Payment Institutions and E-Money Institutions (PI/EMI) sector continued to present a number of challenges from a supervisory and authorisations perspective.

Marcella Flood, Chief Operations Officer, provided an update on a FOI decision of the Information Commissioner that was currently before the High Court. She noted that the 2022 Industry Funding levy invoices were issued at the end of September totalling €198m. She updated on plans to bring the Cash Centre project forward.

The Commission noted the Executive Report.

10. Communications Strategy

Glenn Calverley, Director Strategy and Governance, introduced this item, which reviewed progress around the Bank's Communications Strategy that was adopted in January of this year, and sought feedback on its implementation to date, with a view to incorporating this into the approach for 2024. The strategy had sought to achieve a 'fewer, bigger, better' outcome via prioritisation and focus, which required a sophisticated approach to balancing different requirements across the Bank. A review of progress to date had identified some areas for continued focus - this included communications and engagement on consumer issues, macro and prudential issues, parliamentary affairs, social media channels and internal communications. He concluded by outlining, at a high-level, the planned focus areas for communications in the forthcoming period, into early 2024.

In the discussion, it was noted that the Strategy remained valid, but there were challenges. The Bank did have a strong presence on certain issues, such as the macro economy, and there were clear recent successes on consumer related campaign issues, such as on financial scams; however, it was proving more difficult to land on some issues, including some supervisory items. There was also room for more thought leadership on certain items. There was recognition that there was a significant level of activity, however there needed to be good metrics to measure the Bank's effectiveness with that. There were also considerations needed on timing and the importance of conditioning messages for the most impact. There was an opportunity to demonstrate how the Bank was making a tangible difference. There was a need to better link the Communications Strategy with the Transformation agenda and the review of the Bank's own Strategy might provide a timely opportunity to consider the overall approach to brand. In particular, members wanted to see the Communications Strategy and plan more closely integrated with the ongoing work on stakeholder engagement. For the coming year, it was requested that it would be good to see the key issues that were being targeted. In response, it was noted that the comments aligned with the management sense of where the Bank currently was in relation to the Communications Strategy. There were elements that were working well and some that required greater focus in order to build traction. This was an interim update on Strategy and there was more delivery planned. On metrics, there was a new public survey currently in train.

The Commission noted the Communications Strategy Update.

11. Financial Stability Update and Mortgage Measures

Vasileios Madouros, Deputy Governor Monetary and Financial Stability, introduced this item. He noted the forthcoming publication of the Bank's Financial Stability Review and set out some of the key messages it would contain. In terms of risks, global inflation was proving persistent, with financial markets now factoring in higher interest rates for longer. Globally, long-term bond yields had risen in recent months, increasing the risk of further bouts of volatility, while domestically, downside risks were manifesting most prominently in the Commercial Real Estate (CRE) market. However, domestic capacity constraints posed the risk of elevated medium term inflation and overheating. In terms of the resilience of the financial system, he noted that higher interest rates were leading to early signs of distress in pockets of the economy, notably tracker mortgage customers and CRE borrowers. In aggregate, Irish households and businesses continued to demonstrate resilience, owing to labour market strength, fixed interest rates, and healthy balance sheets, while domestic bank profits had risen sharply, driven by increases in interest margins. In terms of policies to safeguard financial stability, the Bank's Financial Stability Committee had considered the counter cyclical capital buffer (CCyB) at a meeting of its Financial Stability Committee (FSC). The set of banks covered by the other systemically important institutions (O-SII) buffer was changing, in line with the evolving banking landscape.

He provided an update on the mortgage measures, including initial insights on the refreshed framework that came into effect in January. He noted that the FSC had discussed the matter at a recent meeting. The FSC judged that the revised framework, to date, had been broadly operating as intended and, therefore, a calibration review does not need to be triggered at this time.

In the discussion, members welcomed the update. On the mortgage measures, it was noted that the assessment showed that the measures were working as assumed and this was validation of the decision. Queries arose in relation to lenders exposures to the CRE sector and in relation to first time buyers in the mortgage market, who appeared to be on the rise despite the interest rate environment.

In response, on CRE, it was noted that this sector was the most affected by tightening of conditions and that the downturn would continue, with lower quality and older commercial property particularly hard hit. A cohort of property funds was highly leveraged and that is why the Bank had introduced macroprudential measures for these entities, while banks had much lower exposures than in the past. Banks and the overall system were resilient to the risks but the adjustment was likely to continue in the sector. On first time buyers, overall, new mortgage

lending had remained robust and the Bank's mortgage measures would have had a level of influence, as would certain government supports.

The Commission noted the Financial Stability Update and Mortgage Measures

12. Investment Envelope and Capital Policy

Marcella Flood, Chief Operations Officer, introduced this item, which had previously been considered by the Major Projects Committee (MPC) at its meeting on 26 September 2023. A number of changes were recommended in the Investment Envelope and Capital Policy, including approval levels and proposed delegations, including from the Commission to the Major Projects Committee. It was important to note that, under this recommendation, the Major Projects Committee would continue to review and oversee the performance of all in-flight projects. Additionally, it was not proposed to alter current project and executive level governance, and oversight arrangements and actions were underway to ensure a strong control environment was in place. With the changes in approval limits, the expectation was that approximately 20 per cent of projects would be classified as Major Projects and therefore subject to MPC/Commission approval.

In the discussion, the Chair of the MPC, Sarah Keane, noted that the Committee had carefully considered the proposed policy change and was supportive of it. It would help the MPC and Commission focus on the bigger projects.

The Commission approved the Investment Envelope and Capital Policy.

13. Any Other Business

There was no other business.

The meeting closed.