MINUTES[1] OF MEETING NO. 75 OF THE CENTRAL BANK COMMISSION OF 12 DECEMBER 2016

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

Apologies: Derek Moran.

Also present[2]: Paschal Finn (Deputy Head of Legal Division), Gerry Quinn (Chief Operations Officer – Items 7, 11, 13 – 18), Anne Marie McKiernan (Registrar of Credit Unions – Item 9), Ed Sibley (Director of Credit Institutions Supervision – Item 9), Derville Rowland (Director of Enforcement – Item 10), Domhnall Cullinan (Head of Anti-Money Laundering – Item 10), Brenda O'Neill (Head of Enforcement: Investigations – Item 10), Seana Cunningham (Head of Enforcement: Advisory – Item 10), Paul Molumby (Director of Currency and Facilities Management – Items 11 and 15), Raymond Hanniffy, (Markets Policy Division – Item 12), Paul Woods (Deputy Head of Organisational Risk Division – Items 14 and 17), David Doran (Deputy Head of Organisational Risk Division – Items 14 and 17), Liz Joyce (Director of Human Resources – Item 16), Jennifer Blake (Programme Manager, Organisation Review – Item 16).

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 Meeting of 23 November 2016

The minutes of the meeting of 23 November 2016 (Meeting No. 74) were agreed with a proposed amendment included.

3. Matters Arising

The Governor updated the Commission on the 2017 budget and the allocation of resources. Of the 170 additional full time equivalents (FTEs), as approved at the meeting on 23 November, 38 staff would be allocated to work relating to Brexit, Risk Management and other work identified by the Governor; and 132 to the pillar heads who had discretion to allocate the FTEs based on their own requirements.

4. Governor's Report

The Governor introduced this item. He noted the recent decision by the ECB Governing Council to continue its purchases under the asset purchase programme (APP) at the current monthly pace of €80bn until the end of March 2017. From April 2017, the net asset purchases were intended to continue at a monthly pace of €60bn until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council saw a sustained adjustment in the path of inflation consistent with its inflation aim.

He informed the Commission that he was due to appear before the Oireachtas Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach on 20 December 2016 to update the Committee on conditions in the Irish banking sector.

He advised the Commission of forthcoming appointments at Director level. Michael Hodson was due to be appointed as Director of Asset Management Supervision from January 2017; Mary O'Dea as Director of Securities and Markets Supervision from September 2017; and Maurice McGuire as Director of Financial Stability from July 2017. The role currently filled by Mr McGuire, that of Director of Financial Operations, would be advertised in January 2017.

One member noted that the process for appointments on a lateral basis was not included in the paper before the Commission at this meeting under the item, 'Non-Executive Involvement in

the Recruitment of Key Staff'. Following discussion, it was agreed that the paper would be revised to explicitly set out a proposed process and would be considered at the next meeting.

The Commission noted the Governor's Report.

5. Deputy Governor's Report (Central Banking)

Ms Donnery introduced this item. She noted the detailed update was contained in the accompanying paper (Paper No. 270 of 2016) and did not propose to go through the various items but rather to take any questions. One member requested some further information on central securities depositories and on Target 2 Securities. It was agreed that an information note would be provided to the Commission on these items.

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

6. Deputy Governor's Report (Financial Regulation)

This minute is partially omitted as it contains supervisory information.

Mr Roux introduced this item. He updated the Commission on a number of items, including developments around the Italian banking sector. He also noted that he was due to hold a bi-annual meeting with heads of industry bodies in the coming week; this was likely to have a focus on Brexit-related issues.

The Governor noted that addressing NPLs remained a priority and much progress had been made. Across the Irish banking sector, NPLs overall had declined from 57 per cent at their peak in 2013 to 17.3 per cent of all loans. While clearly a significant improvement, it remained a high level.

Another member noted the work the Bank was doing on special purpose vehicle (SPV) data collection and a recent Quarterly Bulletin article on same and asked if similar data and analysis was being undertaken elsewhere in Europe. The same member also asked if planning for 2017 in the Insurance Directorate needed to be amended in any way in order to prioritise Brexit-

related applications should they materialise in greater numbers. Mr Roux responded that the Bank was a leader in its analysis of SPVs, including recently presenting to the European Securities and Markets Authority. As regards Brexit-arrangements in Insurance, prioritisation would be examined in Quarter 1 based on the pipeline of potential applicants; it may be necessary to expand the resources applied.

Another member referenced the recently published Report of the Oireachtas Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach on the Rising Costs of Motor Insurance, and the references to the Bank in that report. It was also noted that the Cost of Insurance Working Group, chaired by Minister of State Murphy, was also due to publish its report in the coming period. Mr Roux noted the Bank's Macro Financial Review, due for publication in the coming days, contained a section on non-life insurance.

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

7. Chief Operations Officer's Report

Mr Quinn introduced this item. He updated members on a number of items. The headcount number at the end of the year was expected to be close to 1,620. Recruitment continued at a pace with 154 roles in the 'active' stage at end-November 2016. He noted that the HR Directorate was currently carrying out a directorate-wide risk review with the Organisational Risk Division and preparing remediation plans for issues recently raised in audit reports. The first phase of the Bank's technical training programme had commenced delivery on 2 November 2016. In the IT space, a number of initiatives were underway as part of the data strategy. In line with some other areas in the Operations pillar, the Information Management and Technology Directorate (IMTD) was prioritising a process and control review of the key IT functions in 2017. In relation to Financial Control, preparation of initial budgets for the cost of financial regulation in 2017 had been prepared for sign-off and issued to the Department of Finance.

The Commission noted the Chief Operations Officer's Report.

8. Brexit Update

The Governor introduced this item. He noted some Brexit-related items had already been included in the reports of the Deputy Governors. In relation to some recent media reporting, he noted the Bank continued to clearly communicate the transparent process for authorisations that was operated.

The Commission noted the Brexit Update.

9. Credit Unions

Ms McKiernan introduced this item. She noted that while there had been significant improvements in the sector in recent years, it still faced major structural challenges. The sector had changed shape, with an increase in the number of large credit unions and fewer smaller entities, but this mainly reflected mergers, rather than organic growth or structured development. The financial improvements included the earlier stabilisation and a recent small increase in net lending, and the generally strong level of reserves, liquidity and provisioning. But other longer term financial trends remained of concern, principally the declining loan-to-asset ratio, while credit union savings were growing faster than net lending and impacting on future viability.

Supervisory standards were showing signs of improving, helped by intensive onsite engagement work over the past two years, but significant gaps remained. The overall assessment was that the sector was not likely to recover significantly further, without more transformation. The biggest concern was the future viability of credit unions, especially under stress scenarios. In this context, the Registry was retaining its four strategic priorities – Supervisory Engagement; Restructuring & Resolution; Policy Development & Implementation, and Business Model Development - but slightly amending its stance under

each. On Restructuring, it was moving to realising the benefits from mergers undertaken already. While all supervisory engagements were prioritised by risk and impact, in 2017 a significant focus would be on strengthening transferees, to realise benefits of mergers already undertaken and to enable stronger entities to undertake viable business model development. The Registry was also transitioning from the regulatory framework development phase, to the phase of embedding and adjusting rules where necessary, and increasing its focus on business model development analysis.

In the discussion that followed members welcomed the presentation and raised a number of points and questions, including whether the need to focus on business model development was due to concerns at a lack of capability in the sector or for other reasons and what more could be done to promote good governance in credit unions. Another member raised some concerns about individual credit unions moving into large scale lending such as mortgages.

In relation to business models, Ms McKiernan said there was a gap between the Bank's expectations and those of some credit unions, regarding the capability and skills needed to significantly change business model and balance sheet management. The key objective should be to turn members into borrowers as that was the only way for long term viability. The demographic of members was also an issue. In relation to governance, the standards expected had been clearly set out. The recent fitness and probity thematic review had highlighted differences in approach as between large and small credit unions. While some had embraced these standards, changes in governance culture were taking too long to embed in other credit unions. As regards longer term lending, including mortgage lending, it had been made clear that there would be a requirement to fully understand the impact on balance sheets, and the standards expected were wider than the credit union regulatory framework alone, with a range of additional EU and domestic legislative and regulatory compliance challenges.

The Commission noted the update on Credit Unions.

10. Enforcement

Ms Rowland introduced this item. She first set out the Bank's role and strategy in relation to anti-money laundering (AML), which was aimed at supporting the development and communication of AML and counter financing of terrorism (CFT) legislation, rules, guidance and supervision. The AML division also worked closely with the other supervisory divisions to ensure an effective approach was taken in relation to risk-based supervision commensurate with the risk posed in this regard, and to promote preventative and detection measures by industry.

A significant item during 2016 was the Bank's engagement with the Financial Action Task Force (FATF) which was undertaking a Mutual Evaluation Report (MER). While the Department of Finance was the lead on this, the Bank provided a significant amount of information and detailed submissions. On-site engagement by FATF took place in November 2016. The MER would be published in the second half of 2017. Another key item was the transposition of the 4th Anti-Money Laundering Directive. The Bank was providing input in relation to the draft Heads of a Bill that had been prepared by the Department of Justice.

In relation to Enforcement, Ms Rowland noted that the past year had been a very challenging period with an increasing volume, diversity and complexity of work undertaken. The Bank had issued its largest annual amount of fines – €12m – over the past year. She highlighted the importance of Enforcement's integration into regulation and supervision and the benefits to be accrued from early involvement in relevant supervisory issues that arise. The Bank would continue to take an intrusive approach to enforcement where that was warranted. The Bank would continue to use its increased powers and it could expect further referrals to inquiry and challenges along the way. While there had been an increase in staff numbers in the second half of 2016, resourcing remained a challenge. In 2017 the Enforcement function would be organised over two separate divisions – Enforcement Advisory, with a focus on strategy, policy and legal advice; and Enforcement Investigations, focusing on the Administrative Sanctions Procedures, Fitness and Probity investigations, and litigation.

The Commission welcomed the presentation. In the discussion that followed one member commended the various cases brought to conclusion in the past year and referenced the importance of bringing the case in relation to breaches. The same member asked if, under the

4th Anti-Money Laundering Directive, the requirement for entities to identify individuals holding beneficial ownership would be in public or otherwise and if oversight of this would be a responsibility of the Bank or the Companies Registration Office to oversee. Ms Rowland said that the information would be made available to competent authorities, but no decision had yet been taken as to whether this would be extended to the wider public. Responsibility for oversight would largely rest with the Companies Registration Office. Another member noted a recent audit on Anti- Money Laundering and the need to document and close out the relevant items.

The Commission noted the update on Enforcement.

11. Print Strategy

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

The Commission noted the Print Strategy update.

12. Investment Firms' Regulations 2016

Mr Hanniffy introduced this item. Investment firms were typically authorised in Ireland under the European Communities (Markets in Financial Instruments) Regulations 2007 (the MiFID Regulations). The MiFID Regulations implemented the MiFID Directive into Irish law. Where the nature of the activities of an investment firm did not bring the firm within the scope of the MiFID Regulations, they may be authorised under the Investment Intermediaries Act 1995 (the IIA) as investment business firms. The proposed Regulations would apply to MiFID firms and certain IIA firms.

In terms of the substance of the Regulations, they consisted mainly of a re-papering of existing regulatory requirements in the format of Regulations. They also reflect some limited policy changes introduced following public consultation in Consultation Papers CP97/CP100 and approval by the Central Bank Policy Committee. The Regulations were intended to be the first stage in introducing a single rulebook for non-retail investment

firms. In the future, as additional or revised requirements were introduced, it would generally be by way of amendment of the Regulations. In this way, it was intended that the Regulations would be a

single living document, amended over time, in the interests of the transparency and enforceability of the regulatory rules applied to these firms.

The Commission:

- **approved the policy position as outlined in Paper No. 292 of 2016 and reflected in the draft Regulations attached at the Appendix to the Paper which are to be made under section 48 of the Central Bank (Supervision and Enforcement) Act 2013; and,**
- **pursuant to section 18F of the Central Bank Act 1942, delegated to the Deputy Governor (Financial Regulation) the authority to: approve any final changes to the draft Regulations in advance of being made, and make and commence the draft Regulations, with any such final changes, for and on behalf of the Bank.**

13. Non-Executive Involvement in the Recruitment of Key Staff

The Commission decided to defer a decision on this item until the January 2017 meeting.

14. Fraud Management Policy

Mr Woods introduced this item. The proposed policy outlined divisional accountabilities for managing fraud risk, and set out how the Organisational Risk Division (ORD) would support higher risk divisions in completing analysis to identify and mitigate such exposures. It had been informed by benchmarking 27 national central bank (NCB) respondents, as well as a domestic comparator.

To prioritise risk management focus, a decision tree was utilised to determine the

probable materiality of fraud exposures across divisions. This identified seven higher risk divisions, where ORD would provide additional support, including workshops and scenario planning if required. For all other divisions, fraud risks would be identified using the Risk and Control Self-Assessments. All divisional management were responsible for ensuring they had reviewed any potential fraud exposures, considered the efficacy of the controls to decrease such

exposures, and, where necessary, determined additional initiatives to further mitigate such risks. The proposed policy also outlined the responsibility of divisions with non-exhaustive examples of the key accountabilities that arose to ensure focused attention on safeguarding the Bank against the risk of fraud.

This item was previously considered by the Risk Committee at its meeting on 22 November 2016. The Committee Chair noted the Committee had agreed to the recommendation to the Commission.

The Commission approved the Fraud Management Policy.

15. Fusion Update

Mr Molumby introduced this item. He noted that a key milestone had been met today as the first 30 staff members had moved in to the North Wall Quay (NWQ) building. This week's move was designed to allow testing of the operations programme and IT infrastructure; all city centre staff were scheduled for relocation to NWQ and Spencer Dock (SD) buildings in Q1 2017. There was ongoing staff engagement across divisions to prepare for the move and the transition to new facilities and technology that would follow.

The sales process for the Dame Street complex was progressing and, while not without risk, the intent remained to complete contracts before year end. Programme risks continued to be actively managed with a level of risk acceptance as the Programme neared completion. The Programme costs were forecast to remain within the overall budget

envelope, and the Governor had approved drawdown of the agreed contingency.

The Commission noted the Fusion Update.

16. Organisation Review Update

Ms Joyce introduced this item which was a status update on the Organisation Review Programme as the Bank progressed towards an orderly closure of the formal programme.

The accompanying paper (Paper No. 296 of 2016) provided an update under each programme work-stream and included key outcomes, immediate benefits and expected future benefits. In addition, in instances where the timeline for a deliverable was post programme closure, the follow-up and future management of this deliverable was also included. In line with the Bank's Programme Management Process, there would be an objective assessment of the performance of the programme in a Closure Report, with particular focus on programme objectives, deliverables, benefits realisation, budget performance and 'lessons learnt'. It was expected that this Closure Report would be approved by the Organisation Review SPE at its final Programme meeting over the coming weeks.

The Commission noted the Organisation Review Update.

17. Update on the Risk Exposures on the Balance Sheet

The Commission noted the Update on the Risk Exposures on the Balance Sheet.

18. Any Other Business

There was no other business.

The meeting concluded.