MINUTES[1] OF MEETING NO. 86 OF THE CENTRAL BANK COMMISSION OF 18 DECEMBER 2017

In attendance[2]: Governor, Alan Ahearne, Patricia Byron (via teleconference), Blanaid Clarke, Sharon Donnery, John FitzGerald, Des Geraghty, Derek Moran (Items 1 – 9), Ed Sibley, Michael Soden, Neil Whoriskey (Secretary).

1. Procedural Items

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

2. Minutes of Commission Meeting No. 85 (28 November 2017)

The minutes of the meeting held on 28 November 2017 (Meeting No. 85), were approved subject to an amendment.

3. Matters Arising

The follow up items from the meeting on 28 November 2017 were noted.

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[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: Eadaoin Rock (General Counsel), Derville Rowland (Director General (Financial Conduct) Items 4 - 20), Mark Cassidy (Head of Financial Stability Division – Item 5), Pat Sage (Head of Function, Consumer Protection Division – Item 5), Graham Cherry (Insurance Division – Item 5), Patrick Casey (Registrar of Credit Unions – Item 10), Elaine Byrne (Head of Function, Registry of Credit Unions – Item 10), David Kielty (Head of Function, Registry of Credit Unions – Item 10) Grainne McEvoy (Head of Securities and Markets Authorisations Division – Item 11), Patricia Dunne (Head of Head of Securities and Markets Supervision Division – Item 11), Rosemary Hanna (Head of Function, Securities and Markets Division – Item 11), Billy Clarke (Head of Function, Market Integrity – Item 11), Bernard Sheridan (Director – Corporate Affairs – Item 12), Justin Hayes (General Secretariat Division – Item 12), Wesley Murphy (Acting Head of Resolution Division – Item 18), Colm Lardner (Resolution Division – Item 18), Gillian Phelan (Head of Monetary Policy– Item 19), David Byrne (Monetary Policy Division – Item 19), Conor Parle (Monetary Policy Division – Item 19), Eoin Nugent (General Secretariat Division – Item 19).

4. Governor's Report

The Governor updated the Commission on some recent international meetings. He referred to the publication over the past week by the ECB of the Eurosystem staff macroeconomic projections for the euro area. Compared with the September 2017 projections, the outlook for real growth had been revised upwards.

The report of the European Systemic Risk Board (ESRB) High Level Task Force on Safe Assets, which the Governor was chairing, was due to be published in January 2018.

He informed the meeting that a new internal committee – the Financial Regulation Oversight Committee – had been established and held its first meetings. This Committee, chaired by the Governor, was tasked with ensuring effective coordination of regulatory work and related cross-Bank policy initiatives.

The Commission noted the Governor's Report.

5. Brexit Update

Mr Cassidy presented the sixth quarterly report of the Brexit Task Force (BTF). He noted the Report had been prepared before the final decision in recent days by the European Heads of State and Government to agree to move to Phase II of the negotiations. While these developments may have had favourable implications with regard to reducing the likelihood of a disorderly Brexit, there was still a lot of uncertainty regarding the nature of any final deal.

The Report pointed to further evidence that Brexit uncertainties were weighing on the UK economic outlook, with adverse demand and supply side effects highlighted by the Bank of England in its November inflation report. However, there was not yet any evidence of any adverse impact on Irish trade from weaker UK growth or the weaker sterling exchange rate and the pass through to inflation remained the only impact that is evident so far. However, the expectation remained that Brexit would have a negative effect on the Irish economy, the extent of which would depend upon the terms of new trading arrangements, which were yet to be negotiated.

With regard to banks, the impact primarily related to effects on loan portfolios and the subsequent business model, operational structure and profitability implications. From a regulatory perspective, the effects would include potential authorisation considerations, potential increases in capital and liquidity requirements as well as potential effects on the provision of intragroup services. In the insurance sector, while the majority of Irish regulated entities had little or no direct business with the UK, a number of entities did have significant business and, should a hard Brexit occur, there would be a material impact on their business models. An initial assessment of plans indicated that some at-risk businesses were still not as prepared as the Bank would expect. The impact on fund service providers of a hard Brexit included the ability to service UK funds and the ability of Irish management companies to delegate portfolio management to firms in the UK; as well as implications for passporting by Irish fund managers and implications for UK investors in Irish funds. Since the September report, engagement in relation to the establishment of an Irish central securities depository (CSD) had continued.

In addition to the main body of the report, there were also three special features on risks to the credit union sector, exposures of the Irish banking system to Brexit through commercial lending channels, and possible implications for Irish consumers arising from a cliff edge Brexit scenario.

In the discussion that followed, members welcome the report and noted the need to continue to plan for all potential outcomes. In addition, members requested some further detail on the progress of engagement in relation to the establishment of an Irish CSD; the issues that might arise in relation to cross-border insurance contracts; and the relevant work the Bank was involved in at the wider European level.

In relation to a CSD, Ms Donnery said the Bank remained actively engaged with potential providers and with all relevant stakeholders. There were many complex angles to this and the issue would be discussed further at the Bank's Financial Stability Committee; the Commission would be kept informed. Regarding insurance contracts, Mr Cherry said that contracts would remain valid post-Brexit although ultimately legislative change would be required. In relation to wider European engagement, Mr Sibley said the Bank was working very actively, particularly to reduce the risk of regulatory arbitrage.

The Commission noted the Brexit Update.

6. Chief Operations Officer's Report

The COO, Mr Quinn, was unable to attend the meeting. The Committee noted the report.

The Commission noted the Chief Operations Officer's Report.

7. Deputy Governor, Central Banking Report

Ms Donnery introduced this item. She informed members that disposals of the Floating Rate Notes from the Special Portfolio to the National Treasury Management Agency (NTMA) for the year to date amounted to €4bn, the most recent disposal having taken place the previous week.

On 1 December 2017, the Bank hosted a Roundtable discussion with civil society representatives to discuss economic issues and the challenges facing Ireland together with selected topics within the Bank's policy remit. She noted the usefulness of this structured engagement. An account of the Roundtable would be published.

The second Macro-Financial Review (MFR) for 2017 was published on 12 December 2017. The MFR noted the continued reduction in domestic vulnerabilities, whilst the risks emanating from global factors, such as an abrupt re-pricing of risk premia and Brexit, remain significant and of relevance to domestic financial stability.

The Financial Stability Group (FSG) financial crisis management simulation exercise was held in the Bank on 29 November 2017. The purpose of the exercise was to examine the updated FSG crisis management arrangements.

The Commission noted the Deputy Governor, Central Banking Report.

8. Director General, Financial Conduct Report

Ms Rowland introduced this item. She noted that since the last Commission update, intensive engagement with lenders had continued around the Tracker Mortgage Examination, which had resulted in much progress. The Bank was due to publish its next update on 20 December 2017. Through continued Bank challenge with lenders a further approximate 13,600 customers had been identified for inclusion, bringing the total number to in excess of 33,000. Close to €300m in redress and compensation had been paid to date and more would follow.

The Governor added it was clear the numbers would rise but the Bank had to exert considerable pressure on the banks to accept this. The outcome was due to the work of the Tracker Mortgage Examination team and the public spotlight that had been shone on the issue over recent months. It demonstrated the Bank was delivering on its mandate for consumers. He noted that that there would be statements from the Minister for Finance, the Bank and the banks in the coming days.

Members welcomed the progress that had been shown. One member asked for an update on the enforcement element to this. Ms Rowland said that enforcement investigations were underway and it was expected that all of the five main lenders would face such investigations. This would be pursued with great rigour; there was a huge amount involved in such investigation work and the Commission would be kept updated. Another queried the plans for the Culture Review. Ms Rowland said progress was being made in refining the scope of the Culture Review. The Bank would be supported by experts in this field from the Dutch Central Bank - De Nederlandsche Bank. Fieldwork was expected to begin in Q1, 2018. A summary of the key findings would then be included in a thematic report for presentation to the Minister for Finance.

Separate from the Tracker Mortgage Examination, Ms Rowland noted the recent enforcement case against Merrion Stockbrokers Limited, which concluded in the past week. The case pertained to Merrion's failure to meet its Fitness and Probity requirements under Section 21 of the Central Bank Reform Act 2010. The Firm admitted the contravention alleged against it and accepted a reprimand and a €200,000 penalty.

The Commission noted the Director General, Financial Conduct Report

9. **Deputy Governor, Prudential Regulation Report**

Mr Sibley introduced this item. He noted that workload remained high across the Prudential Regulation Pillar. This had required re-planning and re-prioritising to free up resources to support the Tracker Mortgage Examination. Nonetheless, staff were focused on completion of work plans for 2017, covering risk assessments and governance panels, inspections and policy implementation, etc. The Pillar was also engaged in advanced planning and prioritising for 2018.

Authorisation activity was considerable as also detailed in the Brexit Task Force report, and was expected to remain so well into 2018. For the domestic banks, work on Non-Performing Loans (NPLs) was continuing with feedback due on their strategies to reduce further the level of NPLs.

MiFID II preparations were progressing well, to tight deadlines, and focus was on driving the industry to be prepared also. In credit unions, it was planned to issue guidance on longer term lending as well as finalising the updated investment regulations.

He updated the meeting on some firm specific issues, which were also detailed in the accompanying paper.

The Commission noted Deputy Governor, Prudential Regulation Report.

10. **Credit Union Update**

The Governor welcomed Mr Patrick Casey who was recently appointed as Registrar of Credit Unions, and was appearing before the Commission in that new capacity for the first time. Mr Casey began by outlining the strategic priorities for the Registry of Credit Unions, which were to support the ongoing change that was occurring within the sector, whilst ensuring appropriate management and mitigation of risks from a prudential perspective. He noted that, for the credit union sector, business model transformation was central to addressing viability challenges and in ultimately providing choice, competition and access to members. In order to meet these challenges, the credit unions needed to convert more existing and new members to borrowers by being the lender of choice; modernise their service delivery capability; find their own product/service mix to compete with what banks and others were offering; and collaborate through on a shared service approach; among other initiatives.

The Registry was refining its focus to address some of the challenges facing the sector. The timing for this was appropriate, given the increase in the challenge of sector sustainability due to the low interest rate environment and the recent outpacing of savings over loans. There was also continuing evidence of poor regulatory and governance standards, while considerable sector restructuring had increased concentration of risk with the envisaged benefits of restructuring not yet being fully realised. In order to address this, the supervisory strategy was being refined to prioritise resources to areas of greatest impact and risk; to work on strengthening larger credit unions, particularly around business model development and to facilitate further transfers; to ensure all credit unions comply with minimum prudential standards; and to continue to address unviable credit unions on a structured basis. This would also necessitate some changes in internal structures, in order to enable the Registry deliver on its strategic priorities.

In the discussion that followed, one member raised concerns about the ongoing governance issues, which were persisting, and whether enforcement actions needed to follow. Other members referenced the demographic challenges that were facing credit unions and the impact that would have; the need to ensure the resolution path for credit unions was smooth and efficient; while another member queried the emergence of larger credit unions and noted the continuing prevalence of moneylenders that were occupying a space that credit unions could target.

On the latter point, Mr Casey said that size was not a pointer to quality, and it was governance, financial and operational capability that affected a credit union's risk profile. In relation to the lending market, credit unions had failed to grow their share of such lending, while savings were growing; this was not a sustainable model. In terms of resolution, he said that there was already experience gained from previous cases; the cooperation of the failed entity board was important to ensure a smooth resolution process and there was a need to focus on the capacity to deliver on the resolution of a larger entity. As regards demographics, Ms Byrne added that current data available to the Bank indicated that in general long term credit union members tended towards being 'savers' rather than 'borrowers' and that savings were on the increase again. She noted for the younger demographic these usually had both banking and credit unions relationships. Mr Casey noted that there was some small evidence of certain credit unions now marketing on social media and developing digital card capabilities. In terms of governance, he said the new governance framework was not yet fully embedded and that this would be a key focus under the supervisory strategy for 2018.

The Commission noted the Credit Union Update

11. Securities and Markets Supervision

Ms Patricia Dunne and Ms Grainne McEvoy introduced this item, which provided an update of the work of the Securities Markets Supervision Directorate (SMS), which sits within the recently established Financial Conduct Pillar, and on its key priorities for 2018. SMS is responsible for a range of regulatory functions related to Ireland's primary and secondary capital markets. Its focus in carrying out these functions is investor protection and market integrity. This was achieved by granting or withdrawing approval for market activities, monitoring and supervising securities markets, and taking action quickly and decisively to prevent market disruption. Transparency was a key feature of this regime. This included reviewing and approving fund and security prospectuses to ensure that investors can make informed decisions based on a clear understanding of the risks associated with these products. SMS also received large volumes of daily trade reports from banks and investment firms, regulatory disclosures from issuers of listed securities and reports from entities engaged in short selling. Over the past year, 727 new investment funds were authorised, 4,100 securities were offered to the public, more than 216m daily transaction reports were received and there was currently in excess of 2.3m live derivative trade reports received daily.

The key priorities were identified as: developing and implementing the wholesale conduct and market supervisory strategy; improving supervisory effectiveness through greater use of data; monitoring and managing the impact of Brexit; focusing on developments around Fintech and Regtech in markets; implementing and operationalising new legislation; and influencing proposals for the European Securities and Markets Authority (ESMA) to assume responsibility for market supervision functions.

In relation to the potential future role of ESMA, one member queried the resourcing requirements and noted that this would remove certain existing competencies from Member States. Ms Dunne responded that the Bank was closely engaged at the European level on this. There would be certain benefits to this, such as a more complete view of trading activity in European markets, consistency in the application of EU law, and opportunities for efficiencies if properly implemented; but there were also some concerns. These included the potential for further cost and complexity for market participants, additional supervisory risk where roles are split, the possibility of driving products to unregulated/offshore markets, and a loss of jurisdictional and product expertise. The resourcing requirements at the national and European level were not known at this time. Ms McEvoy emphasised the key role already played by the Bank as a gatekeeper with a focus on investor protection and a pan-European perspective.

Another member asked about the approach to Fintech and Regtech. Ms Dunne said that it was intended to work closely with colleagues across the Bank in order to develop a Bank-wide strategy on these themes. In addition, it was intended to provide a communication forum for industry and to work with European colleagues, building on local expertise.

The Commission noted the Securities and Markets Supervision update.

12. Annual Review of Strategic Plan 2016 – 2018

Mr Bernard Sheridan and Mr Justin Hayes introduced this item. This was the second annual review of the Bank's Strategic Plan for 2016-2018. While it was noted the scope of the Plan remained valid, there were some developments, and associated risks, that required enhanced focus in the final year of this strategic planning period. These included the need to continue to engage in a coordinated and strategic way with Europe; the Bank's technology investment programme; and an enhanced focus on financial conduct regulation. It was also noted as important that the Bank's own culture and strategy were fully aligned to ensure that governance and risk management arrangements set the example intended for those entities that the Bank regulated. In response to a query from one member, it was confirmed that the management of reputational risk would also be highlighted.

The Commission approved the Annual Review of Strategic Plan 2016 - 2018.

13. Superannuation Fund Performance Report Q3 2017

The Commission noted the Superannuation Fund Performance Report Q3 2017.

14. Update on the Risk Exposures on the Central Bank of Ireland Balance Sheet

It was noted that this item had been discussed at the Risk Committee meeting on 27 November 2017.

The Commission noted the Update on the Risk Exposures on the Central Bank of Ireland Balance Sheet.

15. 2017 Project Management Review

The accompanying paper provided an update on project and programme management in the Bank. The 12 months to end October 2017 followed previous annual growth trends. Of significance in 2017 was the growth in the number of risk remediation projects, which reflected an increased focus on risk management and remediation, particularly within the Operations Pillar. More than 90 per cent of completed projects required technology development and the scale of demand continued to place pressure on IT development capacity requiring effective capacity planning and prioritisation processes and governance, both of which were under review. Benefit realisation from completed projects, while strong against defined targets, was largely based on achievement of pay/non-pay cost avoidance. While such financial benefits might be regarded as secondary, project business case disciplines remained very important. Overall, the Bank had maintained effective management and governance of the project portfolio.

The Commission noted the 2017 Project Management Review.

16. Freedom of Information – Annual Report

The accompanying paper reviewed the operation of Freedom of Information (FOI) in the Bank from 1 November 2016 to 30 November 2017. In this period, 105 requests were received, of which 96 had been fully processed to date. Of those, access to records was granted/part-granted in respect of 34 requests and of requests that were refused, 40 were refused based on exclusions and/or specific exemptions under the Act. The main source of requests was from the media. For the most part requests sought records on specific financial service providers, Bank expenditure, particularly relating to the new Bank headquarters, the Governor's correspondence, and records relating to Brexit. In the review period, seven internal reviews were completed, six of which were affirmed and one of which was varied. Two requests were appealed to the Office of the Information Commissioner (OIC), one of which was affirmed and one of which was varied, albeit with only minor modifications to the original decision set out.

The Commission noted the Freedom of Information - Annual Report

17. Corporate Social Responsibility

The accompanying paper provided the 2017 annual update to the Commission on activities related to Corporate Social Responsibility (CSR) across the organisation. The paper noted the CSR activities during the past 12 months under the key pillars of 'Community, Environment, Workplace and CSR Management'. It also set out the planned next steps for 2018, including the intention to apply for the Business in the Community's 'Business Working Responsibly' mark. As part of the preparation for the mark, the Bank's CSR policy and policy statement would be reviewed.

The Commission noted the Corporate Social Responsibility update.

18. EU Resolution Framework Update

This minute is partially omitted as it contains supervisory information.

Mr Wesley Murphy provided the Commission with an overview of the EU resolution regime, which was a new and evolving regulatory framework. The Single Resolution Mechanism (SRM), which had been in effect for three years, was a work-in-progress. The Single Resolution Board (SRB) was still building its resources and operational capacity, while the Single Resolution Fund (SRF) now stood at €17bn and was five years away from reaching its target level of €55bn.

The resolution of Banco Popular Español in June was the first real test of the new EU resolution framework. This case, coupled with the liquidation of two Italian banks, provided an opportunity to learn practical lessons from the experience and highlighted a need to strengthen and enhance the EU resolution framework.

Brexit was an issue that presented a wide-ranging set of challenges and uncertainty across almost all sectors and resolution was no exception. The current resolution arrangements would be subject to some uncertainty in the absence of an agreement between the UK and the EU, and there were a number of implications for resolution planning in Ireland and elsewhere in the EU that will need to be addressed in the coming months and years.

It would be a number of years before the Irish retail banks would be deemed resolvable under their preferred resolution strategies of single point of entry bail-in, although resolution planning for these banks had seen significant progress in 2017 with the establishment of holding companies, which greatly enhanced their resolvability.

The Commission noted the EU Resolution Framework update.

19. Central Bank Digital Currencies

Ms Gillian Phelan presented a paper that outlined the contemporary issues regarding Central Bank Digital Currencies (CBDCs). It provided some background information on decentralised cryptocurrencies, such as Bitcoin, and discussed challenges facing them from a monetary policy perspective. The paper elaborated on the future of CBDCs from a monetary policy perspective, and discussed how standard and non-standard monetary policy may react to the implementation of a CBDC.

The Commission noted the Central Bank Digital Currencies paper.

20. Minutes of Sub Committees

The Commission noted the Minutes of the meetingof the Audit Committee of 17 October 2017.

21. Record of Decisions

The Commission considered and finalised its decision on item 12. The decisions is recorded under the relevant item.

22. Any Other Business

There was no other business.

The meeting concluded.