MINUTES[1] OF MEETING NO. 81 OF
THE CENTRAL BANK COMMISSION
OF 23 JUNE 2017

In attendance: Governor (by video conference – items 1-4, 9-12), Alan Ahearne, Patricia Byron, Blanaid Clarke, Sharon Donnery, John FitzGerald, Des Geraghty, Derek Moran, Michael Soden, Neil Whoriskey (Secretary).

Apologies: Bernard Sheridan

Also present[2]: Gerry Quinn (Chief Operations Officer), Paschal Finn (Head of Function, Legal Division), Maurice McGuire (Director Financial Stability – Item 5), Patrick Casey (Head of Resolution – Item 5), Ellen Ryan (Financial Stability Division – Item 5), Derville Rowland (Director Enforcement – Item 7), Kevin Garland (Chief Information Officer – Item 9), Karina McArdle (Head of Customer Engagement Item 9), Bernie Mooney (Head of Function Consumer Protection: Policy and Authorisations – Items 10 and 11), Deirdre Norris (Consumer Protection: Policy and Authorisations Division – Items 10 and 11), Sharleen Foody (Consumer Protection: Policy and Authorisations Division – Items 10 and 11), Consumer Protection: Policy and Authorisations Division – Items 10 and 11), Fergal Power (Head of Financial Control – Item 13), Susan Eaton (HR Directorate – Item 14), Paul O'Brien (Head of Function, Communications Division – Item 15).

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. As the Governor was only available to attend for part of the meeting, due to international meetings, he proposed Deputy Governor Donnery as Chair for items 5-8 and 13-16. This was agreed.

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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] 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 Commission Meeting No. 80 (30 May 2017)

The Commission approved the minutes of its meeting held on 30 May 2017 (Meeting No. 80), subject to some minor amendments.

3. Matters Arising

It was planned to hold a seminar on the subject of Macro Prudential Measures and related financial stability matters in advance of the next meeting on 25 July.

4. Governor's Report

The Governor introduced this item. On international matters, he noted the recent ECB monetary policy considerations and the communication that followed the meeting of the Governing Council. He also referred to the resolution of Banco Popular in Spain and the role played by the relevant European authorities, which he said demonstrated how such events, when handled well, could protect stability. He said a paper on resolution at the European level would be brought to a future meeting of the Commission.

He informed the Commission that the competitions to fill the roles of Deputy Governor Prudential Regulation and Director General Financial Conduct were in progress with a conclusion anticipated in mid-July.

He noted that the Bank's North Wall Quay building had been placed second in the Royal Institute of Architects in Ireland (RIAI) People's Choice awards. He also congratulated Deputy Governor Donnery on her recent Public Sector Leaders' Award from the Women's Executive Network.

The Commission noted the Governor's Report.

5. Brexit Update

This minute is partially omitted as it contains supervisory information.

Ms Ryan presented the fourth quarterly report of the Brexit Task Force (BTF), which provided updated information regarding political, economic and financial market developments,

alongside an examination of risks arising for firms supervised by the Bank and issues arising for the Bank itself, in particular with respect to authorisations.

Despite increased political uncertainty in the UK in recent times, and a number of significant Brexit-related events, financial markets were not adversely affected. However, the period had seen a number of moderate developments in the sterling-euro exchange rate, with sterling weakening by about 2 per cent following the UK election and since then being driven largely by market expectations surrounding UK monetary policy. The Bank of England's May Inflation Report contained a broadly unchanged outlook for the near term, although there were some signs of output growth and consumer spending and stronger inflationary pressures during 2017. Spillovers to the Irish economy seemed reasonably contained so far.

Immediate Brexit effects in most parts of the Irish financial sector had been limited to date. The report provided updates on the impact of Brexit developments thus far on Irish banks, on preparations by large cross border insurance firms with substantial UK exposure and on issues relating to settlements of equities.

The report also provided detailed examination of three special topics; examining the impact of Brexit on resolution planning and execution; examining the impact of Brexit on the Dublin commercial real estate market; and assessing the impact of a range of Brexit scenarios on Irish banks' UK mortgage portfolios.

The discussion that followed focussed on the consistency of standards across Europe regarding authorisation applications; the implications for securities settlements; and the potential impact of the outcome of the UK election on Brexit. In relation to authorisations, Ms Ryan noted the Bank was an active participant in the Brexit-related work at European regulatory and supervisory fora. The European Insurance and Occupational Pensions Authority (EIOPA) had recently visited the Bank as part of a wider peer review on authorisation approaches in this sector. In a written submission, the Bank focused on the areas of substance, outsourcing and reinsurance and initial feedback from EIOPA had been positive about the Bank's approach. Discussions around the need to find a solution to settle Irish equities post-Brexit were ongoing. As regards the impact of the election, Mr McGuire said the Bank would continue to prepare for a range of Brexit outcomes.

The Commission noted the Brexit Update.

6. Deputy Governor's Report (Central Banking)

Ms Donnery introduced this item. There was a further disposal of €500m of the Floating Rate Notes (FRNs) from the Special Portfolio to the NTMA on 15 June, the fourth disposal in 2017.

The Financial Stability Group - comprising the Bank, Department of Finance and the National Treasury Management Agency– had recently discussed the need to find a solution to settle Irish securities post-Brexit. There was general agreement on the desirability of an Irish Central Securities Depository (CSD) being set up and for this process to begin as soon as possible. The Department of Finance was to prepare a draft statement to the effect that the setting up of a CSD was seen as a desirable outcome. Also in relation to Brexit, the Seanad Select Committee on Brexit had recently written to the Governor concerning a possible promotional role for the Bank in relation to foreign direct investment. The Governor had responded, noting the potential conflict between a promotional and regulatory function.

Mr Whoriskey provided an update on a FOI appeal to the Office of the Information Commissioner.

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

7. Financial Regulation Report

This minute is partially omitted as it contains supervisory information.

Ms Rowland introduced this item. She updated members on a number of matters and noted the Acting Registrar of Credit Unions was due to appear before the Joint Oireachtas Committee on Housing, Planning, Community and Local Government on 5 July

The Commission noted the Financial Regulation Report.

8. Chief Operations Officer's Report

This minute is partially omitted as it contains commercially sensitive information.

Mr Quinn introduced this item. Headcount at the end of May was 1,618 full time equivalents (FTEs), representing a month on month increase of 21 and a year to date increase of 19. A number of recruitment competitions were underway, including the first targeted recruitment campaign for authorisation, supervision and inspection roles across the financial regulation pillar, which had attracted about 600 applications. Initial analysis of how the new public sector pay agreement would impact the Bank was underway. He noted the Commission would be updated on pension fund matters under a separate item at the meeting.

The Bank received permission from the Minister for Finance that the proceeds of the 2017 Annual Mint Set, which pays tribute to the work carried out by the Irish Coast Guard and Irish Lighthouses, would go to the Royal National Lifeboat Institute (RNLI) to mark the recent tragic events involving the Irish Coast Guard.

He also updated the meeting on premises matters; on Regulatory Transactions developments; and on finance matters, including taxation issues.

In response to a query around recruitment and retention issues, Mr Quinn noted the Bank had recently rolled out its Employee Value Proposition to staff. In relation to the recent tragic fire in the UK, Mr Quinn confirmed that there were no similar issues on cladding in the Bank's premises. A fire drill had recently taken place in the new North Wall Quay building, and 90 per cent of staff had completed fire safety instruction in recent weeks.

The Commission noted the Chief Operations Officer's Report.

9. IT Strategy

This minute is partially omitted as it contains security-related and commercially sensitive information.

Mr Garland introduced this item. He summarised the key points from the presentation that had circulated. He noted that over the next two to three years the Bank was facing an intense workload involving large projects with inherent risk. A number of the projects would significantly mitigate operational and information security risks but bring with them significant business resource and engagement demands. In turn, they would drive significant resource, capability and cost increases from the Information Management and Technology Directorate

(IMTD). During the forthcoming period, demand was likely to exceed capacity and a strategic prioritisation process would be required

While significant progress had been made over the past couple of years, including around the Fusion programme, there was a need for further enhancement in the coming period. Among the items he highlighted were the following: the need to ensure appropriate upgrades of hardware; an increase in demand from the business in relation to system and software requirements and greater support around mobility; while on the data side, there was a growing demand for more analytics capability. In order to further develop its ability to deliver on these demands there had been some re-structuring of the IMTD directorate with further capability introduced, including external resources.

In the discussion that followed, one member asked if there was a common IT standard across the Eurosystem that would serve as a useful benchmark. Mr Garland noted that there were a number of common systems in use but the mandate of each national central bank (NCB) was somewhat different, with the Bank having an exceptionally wide mandate. Mr Quinn noted that issues across Europe were relatively common and he had recently attended a meeting of Chief Operations Officers from national central banks, where investment in data and IT security were the main topics.

The Commission noted the IT Strategy Update.

10. Review of Minimum Competency Code 2011

Ms Mooney introduced this item. The Minimum Competency Requirements were first introduced by the Bank on 1 January 2007 and established minimum professional standards for staff of financial service providers with particular emphasis on staff dealing with consumers in relation to retail financial products. Following a review of the Requirements in 2011, they were replaced by the Minimum Competency Code, which came into effect on 1 December 2011.

A further review of the Minimum Competency Code had been undertaken to consider the implications of recent EU developments, including their implications in a wider context in the area of professional knowledge and competence requirements. In November 2016, a consultation paper on the Review of the Minimum Competency Code 2011 (CP106) was

published which included a draft revised Minimum Competency Code and draft Minimum Competency Regulations. The proposed final Minimum Competency Code and Minimum Competency Regulations were presented for consideration.

In the discussion that followed, in relation to the requirement that at least one person with material influence on the final decision regarding product design be required to meet the relevant standards, it was noted that it would be necessary to ensure there was full clarity on this for firms. The importance of having suitably qualified people at the front line of firms was also referenced. Ms Mooney said there were EU guidelines in place in relation to product oversight and governance and that the consultation feedback document that will be published would make reference to the required governance.

It was agreed that if any substantive changes were made to the revised Code and Regulations under the delegation to the Deputy Governor (Financial Regulation) or to the Director of Consumer Protection, that the Commission be informed of same.

The Commission approved the issuance of the revised Minimum Competency Code and the Minimum Competency Regulations 2017 that will both replace the current Minimum Competency Code 2011, and the various delegations as set out in Paper No. 170 of 2017.

11. Consumer Protection Code – MiFID II

Ms Mooney introduced this item which set out proposed amendments to the Consumer Protection Code 2012 arising from the transposition of Directive 2014/65/EU (MiFID II) into Irish law. The amendments to the Code were primarily required in order to apply additional requirements to retail investment intermediaries that avail of an exemption from authorisation under MiFID and were instead authorised and regulated under a domestic regime, including being subject to the requirements of the Code.

MiFID currently permitted firms that performed limited activities to be exempt from MiFID, subject to certain conditions. These existing conditions would continue under MiFID II and, in addition, Article 3(2) of MiFID II imposed a new condition that such exempt firms must be subject to requirements that are ‘at least analogous’ to specified requirements in MiFID II, including organisational and conduct requirements.

As part of its transposition of MiFID II, the Department of Finance had identified, with technical assistance from the Bank, specific requirements of MIFID II that must be added to the Code in order that retail investment intermediaries currently availing of the Article 3 exemption could continue to avail of this exemption. As the Department had specified that these changes were necessary in order to continue the Article 3 exemption under MiFID II, the requisite amendments were being made to the Code without a pubic consultation process. The necessary amendments would be made through a proposed Addendum to the Code. MiFID II must be transposed into Irish law by 3 July 2017. The Code Addendum would be published as soon as possible after the publication of the MiFID II transposing regulations, with an effective date of 3 January 2018. It was proposed that legislative references in the Code Addendum would be inserted once the MiFID II transposing regulations had been finalised.

It was agreed that if any non-substantive changes were made to the revised Code and Regulations under the delegation to the Deputy Governor, that the Commission be informed of same.

The Commission approved the proposed amendments to the Consumer Protection Code 2012 as set out in the Addendum to the Consumer Protection Code 2012 to be issued under Section 117 of the Central Bank Act 1989; and delegated to the Deputy Governor (Financial Regulation) the authority to approve any non-substantive changes to the Addendum to the Consumer Protection Code 2012 and issue these for and on behalf of the Central Bank.

12. Resourcing

This minute is partially omitted as it contains supervisory information.

Mr Ahearne confirmed that the Budget and Remuneration Committee, at its meeting on 29 May 2017, had considered, and agreed to recommend to the Commission, the approval of additional resources in the Credit Institutions Directorate and the Resolution Division.

The Credit Institutions Directorate additional resource requirements reflected its increased workload post the Brexit referendum. Although there remained a high level of ambiguity regarding the final level of Brexit bank applications, there was sufficient clarity and a pipeline of applications that warranted the necessity to proceed to resource in order to address to meet

the increased demand. Consideration had also been given to the additional demands that were being placed on existing teams because of regulatory developments, including those within the SSM, particularly in relation to changes to the supervision of less significant institutions.

In relation to the Resolution Division, additional resources were required to deal with the expected Brexit-related institutional changes and due to a broadening of the scope of the EU resolution framework.

The Commission approved the creation of 26 new positions for the Credit Institutions Directorate; and the creation of 10 new positions in the Resolution Division.

13. Pension Fund Contributions

This item was previously considered by the Budget and Remuneration Committee at its meeting on 29 May. A triennial valuation of the Scheme was currently being carried out by the Scheme Actuary. A further update would be provided at the July meeting.

The Commission noted the update on Pension Fund Contributions

14. Charity Committee Annual Report

Ms Eaton introduced this item which was update on the work of the Bank's Charity Committee in discharging its role in 2016 and in relation to the dispersion of the fund's annual budget of €200,000 during the year. The Commission commended the Committee's work during the year and noted the strong contribution of its outgoing Chairman, Daragh Cronin.

The Commission noted the Charity Committee Annual Report

15. Curatorial Policy

Mr O'Brien introduced this item. The Bank's new head office at North Wall Quay had been designed with a purpose-built visitor space enabling the Bank to comply with the planning permission which required that an extended area be reserved exclusively for the purposes of an exhibition space or other use to which the general public would have regular access. In order

to assist in developing a vision for the facility, a Curatorial Policy was developed and would be lodged with Dublin City Council as part of the planning permission requirements.

In the discussion that followed, members requested information be collated on the usage of the visitor space over time. It was also suggested the consideration be given to allowing appropriate external parties utilise the space. The Commission requested that a report on the visitor space be presented to it annually.

The Commission noted the Curatorial Policy and the Draft Budget Projections.

16. Any Other Business

Ms Donnery noted that correspondence between the Bank and a TD concerning moneylenders would be provided to Commission members.

It was noted that Rita Flaherty, a member of the General Secretariat Division team, who provided support to the Commission over a number of years, had recently moved to another role in the Bank; the Commission members expressed their thanks for her contribution.

The meeting concluded.